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American Institute of Accountants

United States. Treasury Department

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United States. Bureau of the Budget

Proceedings

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THE CONFERENCE ON FEDERAL GOVERNMENT ACCOUNTING

Sponsored by the

AMERICAN INSTITUTE OF ACCOUNTANTS

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UNITED STATES TREASURY DEPARTMENT
GENERAL ACCOUNTING OFFICE
BUREAU OF THE BUDGET

NEW YORK
DECEMBER 2 AND 3, 1943

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FEDERAL GOVERNMENT ACCOUNTING

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Opening Remarks

By George P. Ellis, Chicago, Ill.

General Chairman of the Conference; Chairman, Committee on Governmental Accounting, American Institute of Accountants

The American Institute of Accountants for many years has been interested in the field of governmental accounting. For a large part of this time, emphasis was placed primarily on the municipal side of governmental accounting. We were one of the organizations which coöperated with educators and various representatives of governmental groups in organizing the National Committee on Municipal Accounting. In my judgment, it has done one of the finest pieces of research work that has been done in the entire field of accounting.

The approach to the subject by that group was not to prescribe forms merely on the mechanical side of accounting, but rather to lay down definite fundamentals which might form the basis for adaptation by groups operating under various state laws, even to the point of eventually leading to changes in legislation, where that was necessary to place the accounting of municipalities on a sound and proper basis. The National Committee on Municipal Accounting has since developed the fundamental principles on which municipal accounting should be based.

The American Institute committee on governmental accounting several years ago held a two-day conference in Chicago, primarily on municipal accounting. We felt then, however, that the time had come for us to get into the field of federal accounting. On this basis, we succeeded in having E. F. Bartelt of the Treasury Department present at the Chicago conference a paper which was an excellent contribution to the literature of governmental accounting. We thus introduced into our committee work for the first time the federal level of accounting.

Since that time, succeeding committees have interested themselves in this subject as various attempts have been made, legislatively and by executive orders, to study those various programs from the standpoint of the accountant, as one with no axe to grind. It has been our feeling that the profession of accounting should as a public service give leadership to this whole matter of accounting in government, as the medical man gives leadership to the health and sanitation laws, and the lawyer to the various types of legal activities of the country.

It is from this professional viewpoint that we undertake at this time to call together representatives of various agencies and departments of the government. The purpose is to see if we can at least get started on a program which will result ultimately in some very definite basic concepts and principles on which perhaps even legislation could be based.

I think it would be a great mistake if we attempted at this time to justify what has been, rather than to face with an open mind what should be. The government has grown considerably; we find that even local governments are now carrying on more functions for their citizens, and have added more functions within the last twenty years than they had previously added in more than three-quarters of a century.

We all know of the expanded activities of the federal government, even before the war. They are world-wide in scope. The procedures that were adequate when the country was young and its activities not so far-flung will not meet the requirements now. You cannot go into the same detail. It is necessary to make tests. We found this to be necessary in commercial accounting.

The amount and extent of the detail we checked even in my earlier experience would be impossible today. On any other basis, we just fool ourselves in trying to do the impossible, because the result usually is that we accomplish nothing.

The conviction that is growing upon many of us in the matter of auditing is that it is a question of judgment, and that it is necessary to study an organization and its functions and the internal checks and internal safeguards provided by that organization. From the auditing standpoint, one of the most important things is to determine how intelligently this internal organization is functioning in carrying out its activities.

We must delegate authority and then, by means of proper audit and check, satisfy ourselves that it has been properly used.

I hope that in these two days we will look at the problems facing our government frankly, and with an open mind, and with the idea that, if there is a better way of doing the accounting for the government to accomplish the desired result, then that should be our basis for a program, even if all the laws eventually have to be changed to attain it. In other words, let us attempt to define what we should have rather than to justify what we already have.

We are not here just to criticize. Many of you are bound by certain laws. We realize that is true, even in the field of local government. Many times we have to accept certain provisions that we would not accept on the basis of sound accounting but, if the law says it must be done in such a way, then that is the way it must be done at the time. We should not rest on that, however, but attempt to have a law changed if it is contrary to sound accounting and sound business management.

The American Institute of Accountants in sponsoring this conference does so with the idea that out of it will come a real contribution to better accounting and better reporting for our federal government.

Federal Accounting

An Overview and Some Questions

BY LLOYD MOREY, CHICAGO, ILL.

Controller, University of Illinois, and past chairman, Committee on Governmental Accounting, American Institute of Accountants

As the title of this paper suggests, its purpose is to make a quick survey of the subject of this conference, and to raise some questions which seem appropriate for consideration at this time.

Broadly speaking, the purposes of accounting, reporting, and auditing in the federal government are similar to those of any undertaking: (1) to produce *information* concerning past operations and present condition; (2) to provide a *basis for planning* future activities. Because of the public nature of government business, however, and the deep interest of the taxpayer in it, the requirements of federal accounting go beyond these basic needs. They include (3) the necessity for *control* and *verification* of the acts of officers and agencies, and (4) suitable means of *reporting* to Congress and to the public on the results achieved. Furthermore, the limitless diversity and world-wide distribution of federal operations necessitate systems specially adapted to these conditions.

The interest in federal accounting is not confined to those who are immediately responsible for it. Department and agency heads must depend on the accounts and reports for information on the condition of their appropriations and operations. The President, the Budget Bureau, and other executives must rely on them to plan and control the financial operations of the government as a whole. Congress must have the information supplied by them to show what has been accomplished under its authorizations and to provide for future undertakings. The public which furnishes the money is entitled to reliable information concerning past and proposed activities. Lastly, the accounting profession is properly concerned that sound principles are followed and consistently reliable results secured.

The past decade has witnessed extensive discussion of this subject. In this discussion many divergent views have arisen. For this reason it has been difficult to form a truly conclusive judgment, and even more difficult to secure progress and improvement.

Persons outside the government who criticize the latter's accounting practices must rely primarily on two sources as a basis for their judgments: (1) results being secured by the system as indicated by the information it produces and other evidences of its accomplishments; (2) opinions of government officials and agencies which the system must serve, and of others who have studied it.

On the first point, when judged by the material produced and which is available for study, the deficiencies are many. In spite of the large amount of financial data published by the government about itself, some of which admittedly is of high quality, there is no consolidated summation of its financial operations or position which is either accurate, complete, or independently verified.[1] While a number of individual departments and agencies have excellent reports, there is nothing for the government as a whole which approaches the completeness or comprehensiveness of the reports of many states and large cities, and of most large corporations. Until recently at

[1] See *Accounting Review*, April 1942.

least, and perhaps yet, the information needed for both budget control and budget preparation was seriously inadequate. The taxpayer is left largely in the dark as to answers to his fundamental questions, and even accounting experts must dig deeply for information and may still find it inadequate or of doubtful accuracy.

On the second point, in spite of certain support for present organization and methods, the weight of opinion shows a decided lack of satisfaction. Expressions from both legislative and executive branches of government extending over a considerable period of years, indicate that both of these divisions have failed to receive adequate aid or information. Dissatisfaction with present methods, particularly those relating to audit procedures, have been expressed frequently by government officials, employees, and outside parties doing business with the government. The conclusions reached by the experts and Congressional committees who studied the situation in 1937 were predominantly critical of both organization and procedure. Much confusion exists in the minds of the public as to the issues involved and the best solution for them.[2]

Much has been done in recent years to improve the situation. Discussion of the problem in connection with the reorganization plan of 1936 produced a body of reference material of no small value, and brought to light many pressing difficulties. The reorganization of the Treasury Department and Budget Bureau in 1939 gave those divisions a much better opportunity to render the services expected of them. Senate Resolution 150 in 1939 brought together an important body of material relating to government corporations, and Executive Order No. 8512 in 1940 made possible the improvement of certain phases of departmental accounting and reporting. Lastly, the procedures established by the General Accounting Office during the past year for test checks in audits of concerns having war contracts may have set a new and improved pattern for the operations of that office.

In spite of these developments, solutions have not been found for many fundamental deficiencies, and a broad consideration of them is still appropriate. The problem is not one of an intent to increase or decrease the power or prestige of any office or individual. It must be approached solely on the basis of principle. Personal or departmental jealousies are not admissible in objective study, and if they are to persist we may as well go home and make the best of the situation, since a sound solution will be impossible. The aim must be to determine a proper division of responsibility, combined with full accountability, and then to provide for a truly independent check on the method and completeness of that accounting.

There is no lack of fundamental principles on which sound procedures can be built. Such principles have been agreed upon and definitely established in private business enterprises. They have also been developed with respect to public undertakings, and have been widely applied in government fields other than federal. All that is needed is the selection of such of these principles as are appropriate in the federal government, and the development of suitable methods of adaptation. The accounting profession should be able to render some service in this respect. Already it has aided numerous federal departments and agencies, especially some of the independent corporations, in the development of sound and effective accounting systems.

Even though we hold up the accounting and reporting of the best managed private business enterprises as being superior to what is now being achieved in much of the federal government, there is no intention to suggest that the accounting principles and procedures

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[2] See *The Journal of Accountancy*, March 1940.

followed in private business should necessarily be followed in full in government. In many ways, the accounts of governmental bodies are similar to those maintained for private business. The essentials of double-entry bookkeeping are to be followed here the same as elsewhere. Many items of terminology and many features of reporting are the same in both instances. However, governmental accounts and reports do differ in certain fundamental respects from those suitable for private concerns. Governmental accounting is a distinct field of accounting, which must be developed and studied with full regard for the conditions governing the agencies and operations with which it deals.

The accountants of the country, speaking through the American Institute of Accountants, have a right to speak as expert critics, as citizens, and on behalf of a large body of taxpayers whom they serve. What the accounting profession may reasonably ask of the government is that the principles of internal check and independent audit, of full and complete disclosure, of continuity, clarity, and reasonable uniformity, now widely established and followed in private business and in many state and municipal governments, be applied in federal accounting and reporting, taking due account of the special conditions and features of the latter's organization and requirements.

Turning to a more specific analysis of the problem in hand, I am presenting for discussion some observations on the subjects of accounts, receipts and disbursements, audits, and reports. From these observations I am posing certain questions which seem to me pertinent, and which I hope may stimulate discussion. I believe answers for these questions must be found, upon which there can be reasonably complete agreement if satisfactory progress is to be achieved.

One of the first problems to be solved is as to where accounts shall be kept and who shall be responsible for keeping them. Most administrative departments and all independent agencies now keep accounts, many of them quite complete. Central accounts are also kept by the Treasury, and the General Accounting Office. These various records, although dealing in the main with the same transactions, differ from each other and in many respects are not fully coördinated or reconciled.

Surely it must be admitted that the primary responsibility for management and expenditures should rest on the departments and agencies. If this is the case, must not accounts be maintained by these divisions in most instances? Is not the management of a department made more effective by a well-functioning accounting system as a part of its own organization? Are not such records essential for budget administration? If these points are accepted, may not such accounts be accepted as official and fundamental accounts of the government, and used as the primary basis for financial reports?

To make such accounts reliable, there must be means of assurance as to their adequacy and correctness. There is need of a general unity as to principles, standards, and terminology. Uniform classifications are essential for budget purposes. Furthermore, information supplied by departmental records needs to be brought together and coördinated into a comprehensive and over-all financial picture.

To these ends, should there not be a central accounting division to establish the principles, standards, and classifications to be followed in departmental accounts? Should not this division aid the departments with their accounting systems, appraise the results, and report any deficiencies which are observed and not corrected within a reasonable time? Since budgeting and expending are executive functions, should not this central accounting division be in the executive division of the government? Should not the records of that central accounting agency avoid duplication of departmental records, except to the extent necessary to expedite the preparation of consolidated financial statements?

The General Accounting Office now requires that departments submit to it for examination and permanent filing, original documents supporting financial transactions. From these documents it builds up an independent set of accounts, which it uses among other things to compile its own financial report. As far as this writer is informed, the General Accounting Office does not make a general practice of auditing the accounts of departments, does not reconcile its records with those of departments, and does not provide for any verification of its own accounts. It does not, I believe, take steps to determine the extent to which the systems "prescribed" by it are followed, except as to classification of material in documents submitted to it for examination.

Since this procedure runs so counter to the generally accepted principles of allocation of responsibility for and separation of accounting, reporting, and auditing, a number of questions seem appropriate:

(1) Can the Comptroller General properly carry the roles of both accountant and independent auditor? Since the latter function is the one for which Congress holds him especially responsible, should not the function of accounting be left to those responsible for management?
(2) Is it appropriate for the Comptroller General to "prescribe" accounting systems? Should he not be free to pass independent judgment on those systems, and can he really do this if he has prescribed them?
(3) Should not the audit by the Comptroller General include a verification of the records and reports of the departments including the Treasury, instead of merely an examination of documents submitted by them?
(4) Should not the examination by the Comptroller General include a survey of the accounting system and the methods of internal check in each department?
(5) Instead of compiling a financial report, should he not examine and verify the reports prepared by the departments reponsible for financial operations?

Receipts and Disbursements

Departments and agencies are responsible for the collection and deposit of money arising out of their operations, and for the certification of vouchers upon the basis of which disbursements are made. In most instances, disbursements are made through disbursing officers responsible to the Treasury. Both certifying and disbursing officers are now held personally liable for the legality and correctness of all disbursements.

Should not the laws be modified so that only *certifying* officers are responsible for the legality of transactions and compliance with all applicable regulations? Should not the liability of *disbursing* officers be limited to the validity of certifications and for proper accounting of funds placed at their disposal?

A question of importance also arises with respect to the relation of the Treasury to disbursing. Should all disbursements be made under its direction, or should departments and agencies assume part or all of the responsibility for field disbursements?

Audits

More discussion has centered around the question of the scope and responsibility of audits than any other one subject. The public is properly interested in a sound determination of this problem, but has found itself confused by conflicting views and claims concerning its disposition. Although principles and basic procedures for audits have been outlined with reasonable clarity and completeness in private business and accepted by the numerous groups and agencies concerned, there is still much confusion concerning them in federal operations. The distinction between preaudit and postaudit, and the line between executive and legislative responsibility, are still far from being definite.

Certain fundamental conditions seem clear. Congress is the appropriating body; the departments and agencies are the spending units. The latter, acting in most cases under Presidential supervision, are responsible for carrying on activities and for expending appropriations. They must provide in their own organizations the means of internal check, including suitable methods of examination of financial transactions prior to conclusion. Both they and the Congress, as well as the taxpayer, must also have the benefit of an independent certification of their actions.

The present laws place the responsibility for "audit and final settlement" upon the Comptroller General. A distinction is not drawn between "preaudit" or administrative examination before the transaction is completed, and "postaudit" or independent verification after the transaction is completed. The Comptroller General has endeavored to assume the function of preaudit with respect to all transactions, although actually this procedure has been extended only to a very small proportion of the total volume of business. As already indicated, the General Accounting Office has required that original documents be transmitted to it for verification and retained permanently in its possession. In general, it has not concerned itself with the records of departments beyond recommending systems for their use, and has not undertaken to verify these records or the reports prepared by the departments.

Since these procedures are so definitely contrary to those found in business, the general question seems appropriate as to whether they are either necessary or desirable in the federal government. In view of the responsibility placed on the various divisions of the executive branch, which include the chief certifying officers, should not the responsibility for correctness of a transaction be placed squarely on the certifying officer of the spending department, without release of liability, until completion of an independent postaudit and subsequent report to Congress?

As the Comptroller General is appointed by and is responsible directly to Congress, he is the appropriate officer to carry out such an independent audit. Can that audit be truly independent, however, if made before the transaction is fully completed and recorded? If the Comptroller General passes on the transaction before it is completed, is he not placed in a position of determining how the money is to be spent, thus passing judgment on the actions of the President or of his department heads, instead of reporting independently to Congress thereon?

Should not the independent postaudit be the basis for "final settlement" and release of liability of certifying officers, unless evidence of fraud or illegal acts is disclosed? How can such a release be effected if made as the result of a "preaudit," before the transaction is finally completed?

Can the Comptroller General carry out fully the role of an independent auditor and still serve as an accountant, prescribing systems for others, keeping accounts of his own, and preparing financial statements therefrom? Would it not be more practicable and more efficient, as well as more thorough, for him to make his audits in the offices of the departments and agencies, leaving the original documents and records in those places until transferred to the Archives? Should not these audits include the verification of accounting records and financial reports of the departments, at least the annual reports? Should they not extend to all divisions and agencies of every kind, including the Treasury and the government corporations? Should they not be expedited so that, if irregularities exist, they may be brought to light promptly and accounts closed without material delay?

Would not such changes make of the Comptroller General an independent auditor in the fully accepted meaning of that term? Is not this role the most appropriate and desirable for him, in which he can render the largest and most effective public service, and be the greatest protection to Congress and the public?

Judging by past experience, it is evidently a practical impossibility for the Comptroller General to maintain a staff sufficient to provide a prompt examination of all departments in detail by the methods followed. In certain instances, in connection with the war program, the work has been expedited through field units and test checks. In view of the tremendous scope of governmental operations and the necessity of adequate and responsible departmental management, could not the Comptroller General extend such methods generally to his entire audit program? Could not the procedures of test check, followed by public accountants generally, be adopted, thus greatly expediting the service of that office? Would not this enable him to render other important services such as appraisal of departmental organization, records, and procedure and the certification of annual financial statements?

The Comptroller General is properly required to report to Congress, to which he is directly accountable. No regular machinery exists, however, for receiving and considering his reports. Should there not be a joint standing committee of the two houses to receive such reports and act promptly and continuously on them? By such an arrangement, would not the time now required to clear certifying and disbursing officers be greatly reduced, and better attention given to constructive criticisms?

No feature of the accounting process is more important than regular and informative financial reports. They are essential to administrators, executives, Congress, and the public. To be useful they must be rendered promptly, and must be comprehensive, accurate, and intelligible.

Probably no public agency issues more financial reports than the federal government. Many are of excellent character, conforming to the best principles. In general, however, these reports are lacking in completeness and especially in coördination. In some instances, reports concerning the same operations are different and are unreconciled. Except in the case of some of the corporations, the reports generally are not independently certified.

The departments and the President are responsible for financial operations. They must make an accounting to Congress. Should not the responsibility for financial reports be centered in all instances in the departments, as it now is in certain cases? Should not means be provided for a consolidated report to be issued periodically by the administration and in a form suitable for the President's annual budget report to Congress and in lieu of many separate reports now issued? Should not the objectives of Executive Order No. 8512 be carried out more fully?

To increase public confidence in such reports and give greater assurance as to their accuracy, consistency, and uniformity, they should be independently verified. Should not at least the annual financial reports be checked and certified by the Comptroller General? Should not such reports replace entirely the financial reports now compiled by him from his own records?

Legislation

It is recognized that a number of the changes suggested herein may require legislative action. The fact that some desirable things cannot now be done because of contrary provisions of existing laws should not be used as a defense against revision or as a deterrent to effort toward progress. If substantial agreement on needed legislation can be reached by competent and interested parties such as represented here, I for one have little doubt that such changes can be brought about. Certainly they are worth the attempt.

Any changes which are considered, however, in either laws or regulations, should be based on coöperative discussion and agreement on the part of the various departments of the government which are concerned. The problems of accounting, auditing, and reporting in the federal government can only be solved by a willingness on the part of government officials and employees to approach the matter coöperatively and constructively and seek solutions based on sound principles of governmental accounting and public finance. Regretfully it must be said that such coöperation and mutual confidence have not always prevailed in the past. Authority has seemingly been used as a shield and cloak for arbitrary action rather than as an opportunity for coöperative service. A conference like this should do much to eliminate such ideas and methods, and, unless that result can be brought about, the best results are impossible.

Neither I nor other members of the American Institute of Accountants have any desire or intent to criticize unjustly. Our sole thought is to be constructively helpful to those who bear the daily responsibility and to the public. A complete picture of the problem can be secured only from you who participate in its daily workings. You are best able to judge and describe the practical conditions which must be satisfied, and to indicate the advantages of present methods—and doubtless many of the weaknesses. We on the outside may be able to criticize from a standpoint of general principles, but you are the ones who must make the system work. Only by working together and by frank discussion can we get at the heart of the problem and develop a practical solution. We stand ready to do our part in such an undertaking.

Accounting and Reporting from the Standpoint of Administration and Executive Budget Control

By J. Weldon Jones, Washington, D. C.

Assistant Director in Charge of the Fiscal Division, Bureau of the Budget

I. The Executive Budget and Budget Execution

Mr. Ellis, the sponsor of this conference on federal government accounting, deserves high commendation. He has fully sensed the importance of improved government reports. He has embarked on a crusade to stir up the interest of top officials in demanding and using better reports. This meeting is proof that he has succeeded in stimulating a proper concern of the professional men in the fields of accounting, reporting, and auditing. Indeed, it appears logical for the professional men as such and as citizens to take the initiative in setting new standards in government accounting—standards which are adequate to the discharge of proper administration and control of public funds. I am grateful for the opportunity to coöperate with you in this undertaking.

1. *Accounting and Reporting for Administrative and Legislative Controls*

Accounting and reporting in government as in business are tools for effective management and for effective control. No corporation and no government agency can be effectively managed without proper accounting and recording. And no board of directors, or congress, or administrators, or general accounting office can discharge allotted functions without proper accounts and reports. Both internal management and external control aspects of accounts and reports are of equal importance; both must be kept in mind as ends to be served by the accounting and reporting system.

I shall confine myself in this paper exclusively to the management or internal-control aspect of government accounting and reporting. The fact that I limit my paper to this one aspect should not be interpreted, however, as implying that I underestimate the importance of legislative controls. I have served as auditor general of the Philippines and shall listen with great interest to the speakers who discuss that phase of our work.

2. *Government Management and Efficiency*

The objective of management or of internal control has always been related to "efficiency"—a much overused term in governmental as well as in business circles, and yet a concept which is indispensable. In using the terms management and efficiency we must keep in mind, however, that the scope of government management and the standards of efficiency in government administration have been undergoing an almost revolutionary change in recent decades. At the presidential level, management includes not only the relationship between objective and performance, between assignment and accomplishment, but also the formulation of the policy recommendations which, in turn, determine agency operations.

Government accounting and reporting must keep pace with the development of the purposes of government management and the standards of efficient administration. Adequate tools must be developed to serve that end.

What, then, is the development of government management which sets new standards and requires a new set of accounting and reporting tools?

II. Accounts and Reports to Facilitate Executive Budget Preparation

The function of government management which I have in mind is epitomized by the concepts "executive budget" and "budget execution." The executive budget and its execution cover the two most important recent developments in the administrative aspects of improved financial control.

We used to think of efficient management in terms of the administrative organization of a particular agency or, more narrowly, of a particular administrative unit in a government agency. The development of a federal executive budget, which began with the Budget and Accounting Act of 1921, necessitated the adoption of a broader concept of management. Advisedly, I refer to the development of an executive budget which *began* with the adoption of the Budget and Accounting Act; we are still in an evolutionary process and have not yet fully realized the management functions which result therefrom.

1. *On the Agency Level*

The President transmits to Congress each January the budget for the next fiscal year. That budget includes recommendations for appropriations and estimates of expenditures for almost 200 government agencies. All these agencies have submitted to the Bureau of the Budget their own requests. The Bureau of the Budget has scrutinized these requests and submitted them to the President after thorough examination and screening. By cutting down unjustified requests, the Bureau of the Budget reduces waste and promotes administrative efficiency.

Accounts and reports covering past performance and future plans are needed for the examination of agency requests. Such data must include not only financial statements but also statistical reports, especially those which present personnel and performance figures. Such reports were, of course, used by business management long before there was an executive budget. Our problem is to tie these statistical analyses into the system of financial reporting so that they will assist in interpreting accomplishments and proposals.

There can be no doubt that the adoption of the executive budget and the requirement that administrators must justify their requests before a central administrative agency greatly stimulated the development of adequate reports—and helped to promote administrative efficiency. The greatest progress has been made by those agencies which took the initiative in the improvement of their own records, with the Bureau of the Budget acting mainly as a consulting agency. In spite of much progress accomplished, more remains to be done, especially with respect to cost accounting and performance records.

2. *On the Program Level*

The greatest contribution which the executive budget can make toward efficient government management is on the program level. The budget is, as the President has said, "a preview of our work plan." Administrative efficiency requires not only efficiency within each unit of the administration but also a coördinated planning of the activities of all agencies. This requires program reports which very often cut across the areas served by several administrative units and agencies.

Just here, I digress to indicate what the above statement means with respect to the classification of operating data. First of all, we have need for the time-honored "object classification." I need not defend its usefulness. But when we come to the program level we deal with projects and functions and require a classification of data on a project as well as a functional basis. I like to think that "projects" or "activities" make up "programs" and that the latter is the broadest of all government classifications.

Public works planning may serve as an illustration for program reporting. All agencies are obliged by Executive Order No. 9384 (October 4, 1943) to submit to the Bureau of the Budget their plans for public works and improvement projects for the years to come. The Bureau of the Budget, on the basis of these reports, submits to the President at least once a year "consolidated estimates and advance programs in the form of an over-all advance program for the executive branch of the government."

Another example of a project at what I call the program level is included in the recent Congressional request for reports on all federal cash expenditures abroad, as distinguished from expenditures within the boundaries of the United States. Such reporting on expenditures abroad again cuts across many agencies and requires a new breakdown of agency as well as project records.

3. *On the Level of National Fiscal Policy*

The need for administrative efficiency on the program level pushes us still further. Our federal programs, whether for war or for peace, must be related to the national economy as a whole. Government accounts and reports must enable the chief executive to appraise government programs in the light of general economic developments. "Fiscal policy is," as Harold D. Smith, director of the Bureau of the Budget, recently said, "public finance guided by consideration of the economic implications of public expenditures, revenue, and borrowing."

Let me illustrate what I have in mind by a few examples. The planning of the war program requires, on the one hand, knowledge of the military requirements of planes, ships, guns, and tanks; on the other hand, knowledge of our existing and potential capacity to produce these things. The form in which requests for appropriations are submitted does not lend itself to an analysis of the feasibility of these programs in terms of national capacity to produce. It has to be translated, so to speak, into the language of the economist; it has to be expressed in terms of manpower, raw materials, industrial facilities, and the like. Incidentally, a special system of statistical schedules was developed by the War Production Board to express military programs in terms which facilitated their economic appraisal.

During wartime, as all of us know, some phases of fiscal planning have been delegated to special administrators. However, fiscal planning, in terms of the Budget and Accounting Act, over the long run, includes the planning of expenditures as well as of taxation and borrowing. In order to appraise the need for taxation and borrowing, the economic impact of expenditures must be analyzed.

For example, war expenditures create inflationary pressures, as all of us have learned only too well, because of excess purchasing power. Measurement of this excess purchasing power requires estimates of the inflationary gap (a term which economists use when they try to frighten the accountants). In estimating the inflationary gap, economists must base their computation on accounting records; thus they must estimate individual incomes and corporate profits which flow from huge war expenditures. Such analyses again require accounts and reports different from those used at the agency and program levels.

Similar problems will arise in the reconversion of the war economy to a peace economy after we have polished off Hitler and Tojo, and when government programs to maintain postwar prosperity are under consideration. For intelligent budgeting on the national level, the relationship of federal expenditures, receipts, and borrowing to state and local operations and to private business operations must be properly appraised. The federal budget, in other words, must be viewed in its relationship to the nation's budget.

III. Accounts and Reports to Facilitate Executive Budget Controls

The executive budget, as I said, is designed to facilitate legislative action. The President plans and recommends; Congress acts. The management function of the executive, however, is not ended with the transmission of a budget. After Congressional action has been taken, budget execution follows as a management responsibility. There are those who say that Congress, by an appropriation act, gives the green light to an agency to obligate and spend the money up to the limit set by the appropriation. There are agencies who regard their appropriations, so to speak, as their "property." If that were the full interpretation of the appropriation concept, there would be little function left for the chief executive as the general manager of the government.

I believe that Congress by its action expresses the intention that a certain function is to be performed by the government and that not more than the appropriated amount of money is to be spent for the specified purpose. The chief executive, on the other hand, has the duty to perform the function in the most economical and efficient manner. Budget execution is the main instrument for enforcing efficiency and economy in the performance of administrative functions.

The Bureau of the Budget is the President's arm not only in budget preparation but also in budget execution. As the Budget and Accounting Act is the basis for the executive budget, Executive Order No. 8512 provides the opportunity for great improvement in budget execution.

Under Executive Order No. 8512, the President prescribes the "regulations with respect to the compilation and reporting of information on the financial condition and operations of the government and with respect to the budgetary control of expenditures. . . ." Obviously, the Order can be used to provide data at all three of the levels of execution mentioned above. And the Order envisions those accounts and reports which will reflect the financial condition of the government.

Budget-Treasury Regulations No. 1 and No. 2 have been issued under Executive Order No. 8512. Regulation No. 1 relates to "apportionments and reports on the status of appropriations." Regulations No. 2 and No. 3—issue of the latter is pending—relate to reports from government corporations and are designed to furnish reports on both operations and financial condition.

When Congress has appropriated an amount of money, the agency submits its plan for distributing its use over the year, quarter by quarter. The Bureau of the Budget, after reviewing the agency plan, apportions the appropriation and at the start of each succeeding quarter authorizes the incurring of obligations for that three-month period. The individual apportionments are determined not by a mathematical formula but by existing conditions. If, in the light of changed conditions, the director of the Bureau of the Budget believes that it is possible for an agency to perform the statutory function with less than the appropriated amount, he establishes a reserve, usually with the approval of the department head.

Such extraordinary reserves were established, for instance, for WPA and NYA when the defense effort absorbed so many unemployed persons that there was less need for work relief than was anticipated at the time of the Congressional appropriations. Another more recent example is the much discussed $13 billion reserve which was established for the War Department when the war program was revised, due largely to changes in the strategic situation.

It is obvious that the Bureau of the Budget can perform this function for the chief executive only on the basis of reports which show the current rate of obligations and expenditures and the unobligated balances. The current reports submitted at the present time under the regulations issued pursuant to Executive Order No. 8512 show, with a few exceptions, only the status of appropriation items. This classification is much too broad to serve as an effective tool for budgetary control. A breakdown below the appropriation level according to major projects would be a desirable development. Needed also are current reports showing the progress made with respect to various programs and projects.

I said with respect to the executive budget that we are still far from fully living up to the Budget and Accounting Act in all its implications; with respect to budget execution I must say that we are still in the very first stages of development. I have no doubt, however, that we must move in the direction of *current* executive budget control.

Executive budget control, as well as executive budget preparation, must be related to the three levels of efficiency which I outlined above—to agency efficiency, program efficiency, and the efficiency of national fiscal policy. That threefold level of budgeting—and correspondingly of accounting, classification, and reporting—is, I admit, still a remote objective. It challenges some of our traditional concepts of accounting, reporting, and auditing. I know that the development of adequate accounting and reporting methods will require considerable time. Nevertheless, it is useful, I believe, to keep before our eyes even a remote objective in order to make sure that the development, gradual as it may be, moves in the right direction.

IV. Conclusion

Within the framework of our democratic institutions, the federal budget tends to crystallize the desires of the people. The people must finally pass judgment on the implications and the execution of the budgetary programs. Do I exaggerate if I say that the question of budgetary control and execution is one of the most critical issues in the struggle between democratic and totalitarian institutions? We give daily evidence of the vitality for meeting a supreme test. But still we may lose our way of life if we do not succeed in adapting our democratic institutions to the necessities of a highly complex and unstable world.

Efficient administration is, I believe, one of the conditions *sine qua non* for the survival of democracy. Administration influences the content of broad national policies. The efficiency of administration influences the degree to which we achieve our ideals far more than most people ever dream. Success or failure in this respect may well be decisive for the future of democratic institutions. The formulation of an executive budget and its execution are the two legs of efficient government administration; accounting and reporting, in turn, serve as the two eyes of budget control. Let us all help to make sure that government administration will be neither lame nor blind but rather will walk straight ahead, guided by a clear view of the relevant facts.

Financial Control, Its Nature and Purposes

By E. F. Bartelt, Washington, D. C.

Commissioner of Accounts, U. S. Treasury Department

In coming here today, I bring with me the greetings and best wishes of the Secretary of the Treasury. I want also to take this opportunity to express my personal appreciation for the help and encouragement which I have received on many occasions during the past few years from the members of your organization.

The Treasury is greatly impressed with the purposes of this conference as expressed in the letter of your chairman, namely, that you are moved by a desire to render a public service and to coöperate with the various departments, establishments, and corporations of the government in their accounting problems.

The government of the United States is the largest and most difficult task undertaken by the American people, and at the same time it is the noblest and the most important. Our government does more for more men, women, and children than any other institution on earth. It employs more persons in its work than any other enterprise; it covers a wider range of activities than any other enterprise; it sustains the frame of our national and our community life, our economic system, our individual rights and liberties. Moreover, it is a government of, by, and for the people, a democracy that has survived for a century and a half and flourished among competing forms of government of many different times and colors, old and new.

Facing one of the most troubled periods in all the troubled history of mankind, we must set our affairs in the very best possible order to make the best use of our national resources and to make good our democratic aims. If America fails, the hopes and dreams of democracy all over the world go down.

We seek modern types of management in national government, best fitted for the situations we are bound to meet, both at home and elsewhere. As to ways and means of improvement, there are naturally sincere differences of judgment and opinion, but only selfish interests and treasonable design would oppose the adoption of the best and soundest practices of government available for the American people in the conduct of their heavy responsibilities.

Fortunately, the principles of effective management of public affairs, no less than private, are well known. They have emerged universally wherever men have worked together for a common purpose, whether through the state, the church, private association, or commercial enterprise. They have been written into constitutions, charters, and articles of incorporation. They exist as habits of work in the daily life of all civilized peoples.

Stated in simple terms, the canons of efficiency require a responsible and effective executive as a center of energy, direction, and administrative management, and a systematic organization of all activities in the hands of qualified personnel under the direction of the executive.

To aid him in this, there must be maintained appropriate managerial and staff agencies. There must also be provision for planning, a complete fiscal system, and the means for holding the executive and administrative officers accountable for their actions.

Sound financial management is a prime requisite of good administration. The responsibility of the executive for the preparation of a fiscal program in the form of a budget for submission to the Congress and for the direction and control of expenditures under the appropriation acts must be carried on faithfully, effectively, and under clear-cut authority. To establish strict accountability of executive officers for the faithful execution of the laws enacted by the Congress, there must be an independent audit of financial transactions by an independent officer reporting directly to the Congress who does not exercise authority over the executive agencies.

In 1908, the Secretary of the Treasury, becoming alarmed about the growing expenditures of the government, recommended the enactment of a budget system. He repeated that recommendation in his annual report to the Congress every year for a number of years. He related how our expenditures had increased from $135 million in 1878 to $638 million in 1908. The federal government was then collecting about $250 million from the people in taxes. Our debt was a little over a billion dollars.

In urging the adoption of a budget system, the Secretary said, "Such immense sums raised by taxation should be subjected to scrutiny, classification, and coördination."

During the past ten years, we spent $178 billion. Our debt has increased to $166 billion. In this fiscal year alone, according to the President's most recent estimates, we will spend about $104 billion. Our taxes this year will amount to $38 billion, and our debt at the end of the year is estimated at $206 billion.

Finding myself unable at the moment to deal adequately with the subject of financial control as I had in mind when I accepted your chairman's invitation, I have decided to direct my remarks more generally to the accounting system of the government and the agencies established for controlling the finances. I hope at some other time I may have an opportunity to deal adequately with the other subject.

Nature of Accounting System

The government's accounting system falls into two broad classifications. The one relates to the fiscal accounting in the Treasury Department. It has to do with the financing of all activities of the government, and is peculiar to the Treasury Department. It involves the assessment and collection of the taxes, customs, and internal revenue, the safekeeping and disbursement of the public funds, the management of the public debt, the production of paper currency and coin, the operation of a centralized procurement system, and the maintenance of the central revenue and appropriation accounts relating to the several departments and establishments.

The second classification embraces the administrative accounting in the various spending departments. That falls into three further classifications, the appropriation and fund accounting, property accounting, and cost accounting. Generally speaking, these systems are operated as separate systems although in some instances the cost accounts are reconciled with the appropriation accounts.

When one speaks of the accounting system of the federal government, he speaks not of a single system, but of many systems. There are several hundred bureaus, divisions, and offices, each of which maintains its own system of accounts. Nowhere in the government are the revenues, expenditures, assets, and liabilities of the several agencies brought together, either in a master set of summary financial accounts or in a consolidated financial statement. In fact, the government does not know the total amount of either its assets or its liabilities, to say nothing of the classification of the things it owns and the debts it owes. It is of interest to note, however, that under an executive order issued by the President on August 13, 1940, steps have been taken to correct this situation.

Control Agencies

Of interest in our study of the federal fiscal system is the fact that there are in the government three different agencies which exercise financial and accounting control functions. You have heard a lot about them. One is the Bureau of the Budget. In reviewing the estimates of the various departments, it exercises greater control over expenditures than any other agency. If you don't get an estimate approved by the Bureau of the Budget, you usually don't get an appropriation; and if you don't get an appropriation, you don't spend any money. The Bureau of the Budget also exercises a continuing control over expenditures after the appropriations have been made. This is accomplished through its power of apportionment. J. Weldon Jones referred to that briefly. Under the 1906 Antideficiency Act, it was the duty of every department so to apportion its funds at the beginning of the year that large expenditures in the earlier part of the year would not result in a deficiency in the latter part of the year. The President, by virtue of his reorganization powers, transferred that function to the director of the Bureau of the Budget in an executive order dated June 10, 1933.

The second control organization in the federal government is the Treasury Department. Under the law, all accounts relating to the receipts and expenditures of the government, except postal, are required to be kept upon the books of the Treasury Department. No acknowledgment of the receipt of money into the public treasury is valid unless and until it is endorsed upon a warrant issued by the Secretary of the Treasury. No money may be drawn from the Treasury except upon a warrant issued by the Secretary of the Treasury, and these warrants, of course, must be drawn pursuant to appropriations made by the Congress.

The third agency which exercises the control function is the General Accounting Office, headed by the Comptroller General of the United States. It will be recalled that the Budget and Accounting Act of 1921, in addition to setting up a budget system directly under the President of the United States, created a new office, independent of the executive branch of the government, known as the General Accounting Office. It transferred to that office the functions theretofore performed by the Comptroller of the Treasury and the six Treasury auditors.

The Comptroller General exercises control functions in several different ways. First, he examines the departmental requisitions submitted to the Secretary of the Treasury for advances of funds to disbursing officers. Second, he countersigns the warrants issued by the Treasury. Third, he settles the accounts of collecting and disbursing officers; and probably his greatest control weapon is his power of settlement; that is, determining how much, if anything, shall be paid.

His findings with respect to any payment or proposed payment are final and conclusive. I hope we might have opportunity to discuss that a little later on in the conference, to see whether that is properly an executive function or a legislative function, and whether the power of settlement should be divorced from the function of independent audit.

In addition, the Comptroller General renders advance decisions concerning the use of appropriated funds, investigates at the seat of government and elsewhere the receipt and application of funds, and prescribes accounting systems in the various departments.

The Central Accounts

The central accounts of the government are maintained in the Treasury Department; in fact, there are in the Treasury Department two central books of accounts. One is in the division of bookkeeping and warrants. Under the Act of 1894, all accounts relating to the receipts and expenditures of the government must be kept on the books of this division. It issues the warrants acknowledging receipts and authorizing payments, and transmits an annual report to the Congress at the beginning of each regular session, the receipts being classified as nearly as practicable according to districts, states, and ports of collection, and the expenditures under each separate head appropriation. Those accounts, however, are kept upon a warrant basis, and as to showing the current operations of the government, or its financial condition, they are subject to serious limitations.

The other set of central accounts in the Treasury is maintained in the office of the Treasurer of the United States. The results of all financial transactions ultimately center in the Treasurer, because he is the official custodian of the public money, and he is the man who ultimately pays all of the government's obligations.

The accounts in the division of bookkeeping and warrants are materially different from those in the office of the Treasurer. The accounts in the division of bookkeeping and warrants are summary accounts of the revenues and appropriations of the government, while those in the Treasurer's office relate to the assets and liabilities in the Treasurer's account. They consist largely of accounts with the Mints and Assay offices, the Federal Reserve Banks, and several hundred other depositaries which hold government deposits.

Another major class of accounts on the Treasurer's books are the checking accounts of the various disbursing officers of the government. The general procedure with respect to the operation of these accounts and the receipt and disbursement of money may be of interest inasmuch as it has an important bearing upon the problems which you are to consider.

When an act of Congress has been signed by the President, it is sent to the Department of State for preservation, certified copies being furnished the Treasury Department and the General Accounting Office. On the basis of the Act, the Treasury Department issues what is called an appropriation warrant. This warrant contains a listing of the appropriations in the Act, appropriately coded in accordance with the scheme of symbolization adopted jointly by the Treasury and the General Accounting Office. This warrant goes to the Comptroller General, who examines it carefully against the act. If he agrees that the items contained in the warrant conform to the Act of Congress, he countersigns the warrant and returns it to the Treasury. Thereupon it is posted to the books of the Treasury and the General Accounting Office.

The Treasury Department sends to the administrative agency concerned a certified copy of the appropriation warrant. Using the certified warrant as a basis, the agency opens up an appropriation account for each item in the warrant.

Before the funds are obligated, the administrative agency submits to the director of the Bureau of the Budget a proposed expenditure program under each appropriation showing the amount apportioned for obligation during each quarter of the year. After the apportionments are approved by the Budget, they constitute the limits within which the administrative agency may incur obligations.

The payment of the obligations is effected by bonded disbursing officers who receive advances from the Treasury on warrants. These warrants are charged against the appropriation accounts on the books of the division of bookkeeping and warrants and the proceeds are credited to the checking account of the disbursing officer on the books of the Treasurer. The disbursing officer makes payments only on authority of vouchers certified by authorized certifying officers attached to the administrative agencies.

As was indicated this morning, the disbursing functions of the government, except the military of the Army and the Navy, the Panama Canal, Rivers and Harbors, the Post Office Department, clerks of court, U. S. marshals, and the legislative branch are now performed by a division of disbursement in the Treasury Department. This division was created by an executive order of June 10, 1933, which transferred to the Treasury the disbursing functions formerly performed by disbursing officers employed in the various administrative agencies of the government.

There has been some discussion at this Conference on that point, the question being raised as to whether that was done in order to enable the Treasury Department to provide an independent check on the administrative agencies or whether it was for economy reasons. I think it was done for economy reasons, the President incidentally endeavoring to place upon the shoulders of administrative officers responsibility for improper certification of disbursement vouchers. It is of interest to note in that connection that the President, in that order, sought to accomplish what the certifying officer law of December 29, 1941, has done, except that the President had no power, I take it, to require an indemnity bond. The Act of 1941 requires the filing of a bond by each certifying officer, and incidentally that Act also provides that the liability of the certifying officers shall be enforced in the same manner as the liability of disbursing officers. When the President attempted in 1933 to straighten out the anomalous accountability situation between administrative and disbursing officers, a question arose as to whether he had the power to impose a responsibility of that kind. I talked to a number of lawyers, and good ones, and they disagreed on the matter. Some lawyers (good ones) said that the President did have that power, it was inherent with his power to reorganize the government; but the General Accounting Office apparently felt that it was required to still hold the disbursing officer, even for the mistakes of someone else. At any rate, the idea did not work out in practice. The thing seemed to be pretty much muddled until Congress passed the act defining the respective responsibilities of disbursing officers and certifying officers. When that Act was under consideration, I took the very position expressed by Mr. Kohler this morning, namely, that the accountability ought to be on the person who incurs the obligation, and not on some clerk, perhaps several hundred miles away, who may be required to certify the vouchers for payment.

I recall a case in point, involving a WPA project in Louisiana. That was before the certifying officers' bill was passed, but the principle is the same. After the relief workers had been paid for pick and shovel work for the government, the Comptroller General raised a question as to the legality of the projects and suspended the payments in the disbursing officer's accounts. Neither the certifying officer nor the disbursing officer had anything to do with the operation of the project or the employment of the workers.

So much for that. Now, let's see how money gets into and out of the Treasury. Under the law, public officers are required to deposit all moneys received by them with the Treasurer of the United States, or in a designated government depositary for credit of the Treasurer's account. Any bank accepting deposits without authority is guilty of embezzlement. The Treasury transacts its business largely through the Federal Reserve Banks, which act as depositaries and fiscal agents. Each bank has a large amount of government deposits as a working balance. In cities where there is no Federal Reserve Bank, and where the essential business of the government requires depositary facilities, the Secretary of the Treasury designates commercial banks as depositaries of public money. These deposits, of course, are secured by pledge of collateral.

The largest depositors are the collectors of internal revenue, who make daily deposits of their receipts with the Federal Reserve Banks, and other designated depositaries. In the current fiscal year these deposits will amount to $39 billion. Customs collectors also make daily deposits, their revenue collections this year amounting to about $334 million. The various administrative officers of the government receive miscellaneous collections in connection with the sale of government property, fees, fines, penalties, and services of various kinds. Administrative officers are required to turn their remittances over to a bonded Treasury disbursing officer.

Promptly at the close of each month collecting officers are required to send a formal account current to the General Accounting Office for audit and settlement. In these accounts they charge themselves for all money coming into their possession and take credit for Treasury deposits.

At the close of each day's business, each Federal Reserve Bank and branch and each general depositary of the government sends to the Treasurer of the United States a transcript of its account, showing all of the debits and credits. The credits to the account are supported by original certificates of deposit issued in favor of the depositing officers—collectors of customs and internal revenue, disbursing officers, et al. The disbursements are supported by the original paid checks, bond coupons, and any securities that may have been redeemed and charged to the account.

The certificates of deposit first come to the accounting division in the Treasurer's Office, and are used as a basis for reporting the revenues of the government in the daily statement of the United States Treasury. The paid checks are also sent to the accounting division of the Treasurer's Office, and are used as a basis for posting the disbursing officers' checking accounts and reporting expenditures of the government in daily Treasury statements.

As contrasted with total revenue of

$40 billion to be received by the Treasurer this year from internal revenue, customs duties, and miscellaneous sources, the Treasurer will disburse upwards of $100 billion for the financing of war activities. The difference must be made up from borrowing on the public credit.

The major part of the Treasury's financing operations is conducted through the Federal Reserve Banks and incorporated banks who receive designations by the Secretary as special war-loan depositaries. Banks so designated may subscribe for government securities either for their own account or for account of their customers, paying for the securities by credit in the Treasurer's account. The proceeds are left on deposit with the banks until the money is needed at the Federal Reserve Banks for the payment of government obligations.

When the Treasurer's balances in the Federal Reserve Banks become depleted as a result of payments in excess of revenue, the Treasury calls in from the special depositaries so much of the bond money as is needed to replenish the accounts. Each Federal Reserve Bank and branch advises the Treasury by telegraph every morning concerning the Treasurer's balance at the close of business on the preceding day. Based upon previous experience and other current information at hand, an estimate is made of the amount of the day's receipts and expenditures to pass through the Treasurer's account at the bank. If it is found that the balances in some banks are running low, and there are sufficient balances in other banks, transfers between banks are made through the Federal Reserve Gold Certificate Fund. For instance, if the Treasury should transfer money from the New York Reserve Bank to San Francisco, the transfer would be effected by wire through this certificate fund without involving an actual physical transfer of money. The San Francisco Bank would credit the Treasurer's account, receiving as payment a credit in the Gold Certificate Fund; conversely, New York would charge the Treasurer's account as a transfer of funds, the transfer being effected by a charge against New York's gold certificate account with the Federal Reserve Board.

Twice a week the Treasury prepares a forecast of its cash position for the ensuing five days. This is necessary to determine whether the Reserve Banks, in the aggregate, will have enough money in the Treasurer's account to pay all obligations to be presented during the week. From these estimates, a call sheet is made for the amount of money to be called into the Reserve Banks from the special depositaries.

On the Reserve Bank's books this is usually accomplished by a charge against its member-banks' reserve accounts and a credit in the Treasurer's account. On the Treasurer's books the transactions appear as a charge against the respective accounts of the Reserve Banks and a credit in the account entitled "Special Depositaries—Account of sales of government securities." [1]

This procedure enables the Treasury to perform its huge financing operations without upsetting the money market, the money being drawn in from special depositaries as it is paid out by the Reserve Banks.

After the close of each month the Treasurer renders to the General Accounting Office for audit and settlement an account current covering his receipts and disbursements. This account current is supported by an analysis of the Treasurer's balance showing the nature and location of the various types and classes of assets.

Before closing, I would like to say that I was greatly impressed by the remarks made by Mr. Morey this morn-

[1] The Federal Reserve Banks, as fiscal agents of the United States, maintain a separate account for each special depositary in their respective districts. The Treasurer maintains a single account showing the total amount of deposits in all special depositaries combined.

ing concerning the accounting system of the government, and, with the minor exception noted by Mr. Slaughter concerning the certifying officers, I believe he has made a very fair appraisal of the government's accounting system.

Audit Responsibilities of the General Accounting Office

By R. H. Slaughter, Washington, D. C.
Assistant Chief of Investigations, General Accounting Office

I appreciate very much your inviting me to join you in the discussions on the broader aspects of federal government accounting. I do not join in these discussions as the representative of the Comptroller General, but rather in my individual capacity as an employee of the federal government with thirty years experience in the atmosphere of governmental accounting. It should, therefore, be understood that any comments I may make, any conclusions I express on my own, are not to be construed as the views of the Comptroller General. Of course, if he should subscribe to what I have to say, I should be much happier than if he did not.

The subject I have is one that has been the topic of lengthy discussions, and is probably the one least understood by the accounting profession and the public at large, and probably also by some governmental agencies. The topic is the audit responsibilities of the General Accounting Office. It is intended to be a discussion of the scope of the audits performed, and the necessity for uniformity in the forms, systems, and procedures in governmental accounting.

On June 10, 1921, the President of the United States approved the Budget and Accounting Act, by which there were created two component agencies of the government—the Bureau of the Budget in the executive branch of the government, under the control and direction of the President of the United States; and the General Accounting Office, under the control and direction of the Comptroller General of the United States, who shall be independent of the executive branch of the government and responsible directly to the Congress.

It has been said that in the spring of 1921 the Congress labored and gave birth to twins, one of which it gave away; the other it kept for itself.

The Act of June 10, 1921, creating the General Accounting Office not only transferred the auditing functions and authority to prescribe accounting procedures from the Treasury Department to the General Accounting Office, but it imposed additional duties upon the new office.

While the act of July 31, 1894, provided for the audit of the "public accounts," the act of 1921 broadened the field to "government accounts," which would include all accounts for moneys received by any agency of the government, or by any employee of the government in his official capacity, or as the result of regulations issued by the head of a government agency.

The scope of the audit of government accounts as now made by the General Accounting Office is limited to a voucher audit of the payments made by the government's accountable officers and is based on definite statutory requirements, ten of which I have selected for the purpose of showing the framework and guides which are required to be observed.

There are many other statutes which supplement other statutes supplement-ing these, and which impose additional restrictions upon the expenditure of the public funds. The emphasis here is placed upon the expenditure of the funds and has no connection with the purposes for which the expenditures were made.

The rules defining the scope of audit by the General Accounting Office are set forth in the following statutes:

I. *Withdrawal of Money*

"No money shall be drawn from the Treasury, but in consequence of appropriations made by law." (Article I, Section 9, of the Constitution of the United States of America.)

II. *Appropriation of Money*

"No act of Congress shall be construed to make an appropriation out of the Treasury of the United States unless such act shall in specific terms declare an appropriation to be made for the purpose or purposes specified in the act." [As distinguished from "authorizing an appropriation to be made."] (Act of July 1, 1902, 32 Stat. 560.) Hence the language ("That the following sums are appropriated out of any money in the Treasury not otherwise appropriated.") found in all appropriation acts. [Classifications—fiscal year, multiple year, unlimited, and indefinite (as to amount).]

III. *Use of Appropriations*

"Except as otherwise provided by law, sums appropriated for the various branches of expenditure in the public service shall be applied solely to the objects for which they are respectively made and for no others." (Section 3678, Revised Statutes—U.S.C. 31: 628.)

IV. *Control over Sums Appropriated*

"No executive department or other government establishment of the United States shall expend, in any one fiscal year, any sum in excess of appropriations made by Congress for that fiscal year, or involve the government in any contract or other obligation for the future payment of money in excess of such appropriations unless such contract or obligation is authorized by law. . . . All appropriations made for contingent expenses or other general purposes . . . shall on or before the beginning of each fiscal year, be so apportioned by monthly or other allotments as to prevent expenditures in one portion of the year which may necessitate deficiency or additional appropriations to complete the service of the fiscal year for which said appropriations are made." (Section 3679–Revised Statutes, as amended—U.S.C. 31:665.)

V. *Deposit of Collections*

"The gross amount of all money received from whatever source for the use of the United States . . . shall be paid by the officer or agent receiving the same into the Treasury at as early a day as practicable. . . ." (Section 3617, Revised Statutes, U.S.C. 31: 484.) [Classification—General Funds, Special Funds, Trust Funds. 14 Comp. Dec. 361.]

VI. *Accounting for Disbursing Funds*

"All officers, agents, or other persons receiving public moneys shall render distinct accounts of the application thereof, according to the appropriation under which the same may have been advanced to them." (Section 3623, Revised Statutes—U.S.C. 31:498.)

VII. *Duty and Responsibility*

". . . it shall be the duty of every disbursing officer having any public money entrusted to him for disbursement, to deposit the same with the Treasurer [of the United States] . . . and to draw for the same only as it may be required for payments to be made by him in pursuance of law and draw for the same only in favor of the persons to whom payment is made. . . ." (Section 3626, Revised Statutes—U.S.C. 31: 492.)

VIII. *Rendition of Accounts*

". . . every officer or agent of the United States who receives public money, which he is not authorized to retain as salary, pay or emolument, shall render his accounts monthly. Such accounts, with the vouchers necessary to the correct and prompt settlement thereof shall be sent by mail or otherwise, to the bureau to which they pertain, within ten days after the expiration of each successive month, and after examination there, shall be passed to the General Accounting Office for settlement. . . ." (Section 3622, Revised Statutes—U.S.C. 31:496.) Also act of July 31, 1894, 28 Stat. 209, as amended (U.S.C. 31:78.)

IX. *Receiving and Auditing Accounts*

". . . the General Accounting Office shall receive and examine all accounts of salaries and incidental expenses of the [bureaus and offices of the several departments and of all establishments, commissions and boards] and shall certify the balances arising thereon to the Secretary of the Department [or the chief officer of the establishment, commission, or board concerned.]" Act of July 31, 1894, 28 Stat. 206, as amended (U.S.C. 31:72.)

X. *Prescribing Forms, Systems, Procedures*

"The Comptroller General shall prescribe the forms, systems and procedure for administrative appropriation and fund accounting in the several departments and establishments, and for the administrative examination of fiscal officers' accounts and claims against the United States." Act of June 16, 1921, 42 Stat. 24 (U.S.C. 31:49).

Under these rules laid down by the Congress, the fund accounting requirements of the government are reduced to the simplest terms.

First, no moneys may be withdrawn from the Treasury except pursuant to an appropriation made by the Congress.

Second, all moneys received for the government are required to be deposited into the Treasury.

Third, the administrative (executive) branch of the government for which the appropriation is made must so apportion its appropriations as not to create a deficiency or overexpenditure.

Fourth, money credits are made available to individual accountable officers for the payment of vouchers submitted by the administrative offices and chargeable to their appropriations. Payment may be made only to the payee entitled to receive payment—that is, the person who rendered the service or furnished the materials and supplies to the government for which payment is made. There are a few exceptions to that in recent acts authorizing assignments.

Fifth, after the vouchers have been paid they must be returned by the paying officer, together with his accounting reports, to the administrative offices whose appropriations have been charged, in order that the correctness of the payments may be reviewed and the balance reported by the disbursing officer verified.

Sixth, the administratively examined vouchers and accounts are thereupon transmitted to the General Accounting Office for examination (audit) and settlement of the disbursing officer's accounts effected.

This all contemplates that *individual* accountable officers will handle and report all of the transactions in their accounts, and that such accounts shall be rendered according to appropriations. The simplicity of the plan lies in the decentralization of administrative organization--that is, departments, establishments, commissions, and agencies of the government—and the decentralization of the disbursing and collection functions with individual accountable officers. However, the advantages of decentralization can be lost if "old man volume" is permitted to concentrate in any one place.

The simplicity of the plan may be complicated, and often is, by the Congress enacting statutes which deviate from the simple plan, as described. Congress, in its constitutional right, will direct that certain classes of moneys handled by certain types of organizations shall be accounted for in a special way. I refer particularly to the handling of corporation funds. For instance, Congress authorized the creation of corporation "X" with a capital stock of $150 million. It thereupon authorized an appropriation of $150 million from the general fund of the Treasury for the purchase of that stock. That same $150 million all the way through came from the general fund of the Treasury; it was appropriated for the purpose of furnishing operating capital to corporation "X," but, by going through this gyration of buying stock, the corporation assumes peculiarities which have involved considerable controversy as to the extent to which its accounts may or may not be examined by the General Accounting Office.

The examination and audit of the accounts by the General Accounting Office is based on vouchers duly signed by the payees, and certified as to correctness and legality by designated certifying officers, which are submitted by the accountable officers with their accounting reports. When paid, these vouchers are submitted in due course to the General Accounting Office.

The individual vouchers are examined, theoretically, although I will say that, due to "old man volume," the examination of each individual voucher is not possible, so that the auditors have to make spot-checks. That is, they will examine a bunch of vouchers—each voucher of a particular group in one instance, then skip to another type, of which they may examine only one or two. If they find any irregularities or questionable matters in these vouchers, they will examine all the vouchers of that particular classification; otherwise, the test check is considered the fair check.

Each individual voucher is examined to ascertain that the expenditure as reflected therein is properly chargeable to the indicated appropriation; that the vouchered amounts are in accord with basic price agreements; that the computations and totals are correct; that all applicable laws and regulations have been observed in the employment of persons, the procurement of supplies, the authorization to travel and to ship goods; and that proper contracts have been executed and filed with the General Accounting Office in all instances where the operation of purchase and delivery cannot be accomplished simultaneously.

There are approximately 4,000 individual disbursing (accountable) officers rendering their accounts to the General Accounting Office.

Practically all of these accounts are audited in Washington. However, in order to decentralize the volume of transactions in the accounts of the Army disbursing officers, their accounts are audited in four regional offices, designated as Army Audit Branches of the General Accounting Office, located in New York City, Chicago, Los Angeles, and Atlanta. It is contemplated that all the Navy accounts submitted by some two thousand Navy disbursing officers will be audited at Cleveland, Ohio, shortly after January 1, 1944.

In addition to the regular audit of Army and Navy accounts as submitted by Army and Navy disbursing officers, the Comptroller General has directed that a "field" audit be made at contractors' plants located at 212 points throughout the United States, and in Canada, Alaska, and the Virgin Islands, of payments under cost-plus-a-fixed-fee contracts, and similar contracts. These audits involve an examination of the contractor's records.

Reimbursement is made to the contractor on the basis of the costs which he has incurred, and based upon the contractor's records. However, the Comptroller General could not very well require the contractor to send his books to Washington for audit. So, when the mountain will not come to Mohammed, Mohammed goes to the mountain.

Other field audits are made of the collection accounts of accountable officers in those cases where it is not practicable to submit to the General Accounting Office in Washington the detailed information upon which collections are predicated.

So-called crop-benefit payments to farmers are audited in the field, as well as agricultural loans and payments of losses covered by federal crop insurance. We have there a special situation of coöperating with county agents in the payments made to farmers, and it is not practicable to bring their data to Washington to examine. As I said before, when it is physically impossible for Mohammed to require the mountain to come to Washington, Mohammed goes to the mountain.

Only in a very few instances has the Congress directed the Comptroller General to audit the accounts and records of an agency either in the field or in Washington. (Tennessee Valley Authority is one outstanding example.) There is no general direction that the Comptroller General should go over and audit the administrative accounting records of the Department of Agriculture, or any other department in Washington. The emphasis on the audits by the General Accounting Office is the accounting for funds, and that accounting is a personal operation which must be expressed by an individual under his bonded responsibility.

However, the Congress in several instances has authorized, with respect to a particular agency, that it may incur obligations and direct payments in accordance with regulations or resolutions issued by the responsible head of the agency. In such cases the General Accounting Office is so governed in its examination and audit of accounts submitted by the accountable officer of the agency. In other words, in auditing some of these agencies' accounts, we might raise a question as to why certain expenditures were made. If those expenditures were approved by the board of directors, or by resolution, or blanket operation, the Comptroller General would audit those accounts in accordance with the rules and regulations of the agency rather than of the statutes. And that has to do particularly with corporation accounts.

From time to time the Congress has authorized the creation of so-called "governmental corporations," and has conferred upon them the right to sue and be sued in their own name. In no single instance has the Congress declared that such agencies of the government shall not render their money accounts to the General Accounting Office for audit and settlement, but, nevertheless, it is the exception rather than the rule for any of them so to render their accounts. The outstanding cases of those which do render accounts to the General Accounting Office are the corporations created by direction of the Coördinator of Inter-American Affairs.

Inland Waterways Commission, the Reconstruction Finance Corporation, Smaller War Plants Corporation, Panama Railroad, Federal Deposit Insurance Corporation, and the Commodity Credit Corporation are among outstanding examples of those governmental corporations which do not render their accounts (of expenditures) to the General Accounting Office.

For certain types of governmental organizations, particularly the corporations, the Comptroller General has indicated his willingness to expand the scope of his auditing function by his approval of the Commodity Credit Corporation bill, which provides that the General Accounting Office will audit the capital fund operations of that corporation, if and when it is so empowered by the Congress.

Due to the enormous number of field activities of the regular establishments of the government, estimated at 100,000, most of which only render services or enforce regulations, there is serious doubt whether more can be done other than is now being done, namely, audit the cash transactions as reported by the fiscal officers—and leave the audit of the accounting records as to property, supplies, and the measure of accomplishments to the administrative branches of the government responsible therefor.

The Comptroller General is an arm of Congress, appointed for a term of fifteen years, and he is responsible only to Congress. Congress has directed that he shall prescribe the forms, systems, and procedures for appropriation accounting.

While his organization is as expert in the field of government accounting as is the certified public accountant in the field of commercial accounting, the Comptroller General would never assume that improvements cannot be made. But, since it is the responsibility of the Comptroller General to prescribe, would it not be more reasonable to review the situation carefully from that angle, rather than to approach it from an outside angle?

This subject is much too large in its operating aspects to draw conclusions before careful study has been given to it. My observation is that, if you want to learn a language, learn it from those who speak it in their daily work, rather than in the classroom.

The Place of the General Accounting Office in the Accounting Structure of the Federal Government

By J. Darlington Denit, Washington, D. C.

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I believe, profoundly, that the place of the General Accounting Office in the accounting structure of the federal government is a matter deserving the most serious consideration by this Conference. Indeed, I think that the Conference would be incapable of rendering to the nation benefits worthy of and commensurate with the talents and wisdom here assembled if it failed to bottom its entire deliberations upon the topic concerning which I have deliberately elected to speak to you today.

The history of our country does not antedate the era of reliable records, and to all who care to peruse the pages there will be disclosed the firm resolve of a people determined not only to be free, but determined also to organize and to establish their government in a manner calculated forthwith to vest, and for all time to retain, in themselves, the full power of government.

We, whose business it is to study the fiscal and financial transactions of enterprise, private and public, will never be found in the camp of those who dispute or deprecate the power residing in the control of the purse. We know that in the power to supply or to deny funds there exists a grace capable of balancing or counterbalancing any other authority that can be bestowed. This principle, constituting one of the foundation stones in the structure of our federal government, is clearly set forth in Article I, sections 8 and 9, of the Constitution of the United States. Those provisions vouchsafe to us, the people, for exercise through our representatives in Congress, the exclusive power to determine what we shall spend for our common good, and how the burden of that spending shall be apportioned among us.

I shall not undertake to suggest to what extent, in my opinion, the retention of that force in our hands, the hands of the governed, has contributed to the solidarity and rapid growth and development of the United States to the first position in the sun among all of the nations of the world. After all, it is not my purpose to concentrate your thinking on that topic. Our thoughts in that regard might vary and I prefer on this occasion to deal with matters of far greater importance to us and as to which I think we shall have little if any differences of opinion. The first of these is the axiom, which though not always uppermost in our thinking is nevertheless true, that in the power which we hold as citizens to control the purse there is inextricably embedded a concomitant responsibility and duty. With our cherished and inherited right to levy taxes and to appropriate those taxes as our needs require, or, conversely, to appropriate as our needs require and to levy taxes to meet those appropriations, there goes hand in hand, inseparable if you please, the duty also to see that in the levying of taxes and in the spending thereof we do not become profligate.

Over the period of our history as a nation, there has been a steady progression and expansion in the field of government. In more recent years, functions which cannot be classified as being purely governmental in character have been carried forward with public funds and as activities of the government. A greatly accelerated program of public spending accompanied our efforts to shake off the era of depression which followed the boom period after World War I. While still in the midst of that enormously expanded program of expenditure and activity for emergency relief, the rate of spending was further augmented; and the purposes of spending shifted to embrace the needs of national defense. By leaps and bounds we then plunged into our present titanic efforts to win the war, throwing away any band with which the public purse might theretofore have been bound.

We, the people of this great nation, through our representatives in Congress are appropriating fabulous sums today. Our range of enterprise is far flung, limited only by the circumference of the earth. Among our undertakings will be found every industry and science known to our present highly developed and complex civilization. Indeed, the business of our federal government and the activities in which we have engaged in the name of that government comprise many huge projects which, when subdivided for their full accomplishment, present a veritable network encompassing the entire globe. Throughout that network of national activity there are thousands upon thousands of our agents, our servants, employees of the government into whose custody there must flow the lifeblood of public funds; and, in order that we, in the proper and responsible exercise of our power to provide those funds, might at the same time discharge our attendant and conjoined responsibility to do so wisely, there must flow back to us from the points of outlet for the wealth which we send forth a proper and adequate system of reporting. Here again I am sure that we are in complete accord. We, the taxpayers, upon whom there rests the responsibility for judicious appropriation from our national treasury, find upon analysis of that responsibility that it is not discharged with the mere provision of funds. We must provide wisely, and to that end it is our duty to see that we are implemented as well as may be.

Upon hundreds of our agents there devolves the task of collecting the revenues which we authorize and direct to be levied against ourselves and the debts which are due to us as a nation. Upon hundreds there is imposed the trust of receiving and holding the funds which we authorize to be collected. Into the custody of hundreds of others we entrust great property values, real and personal. We rely upon thousands of others and entrust them with the power to incur the debts of this great republic within the limitations which we prescribe, and upon others we impose the duty of paying those debts from the funds which we appropriate.

Adequate reports from each of these basic groups is indispensable to the intelligent discharge of our fundamental duty as citizens, and consequently we are bound to require them. But here again I apprehend that our reponsibility goes further than the mere requiring of reports. We, as the bounden and obliged users of those reports, must specify what they shall set forth and provide the means for their compilation. Hence the shadow of those responsibilities attending our rights as citizens still looms before us, compelling us, in the exercise of our power to provide revenues and to spend, to make provision also for the keeping of records. The cold logic of this analysis cannot be denied. The pack, beginning now to overflow with the glorious rights of citizenship, grows heavy, but we cannot put it down. If we do it will be to face chaos and ruin, a specter which we are determined shall never appear on the horizon of a free people. So pursuing our responsibilities further, as citizens if you please, we direct our thinking into the realm of records.

What records must we have? We want to be able to exercise our powers wisely, and consequently we consider first what our needs shall be. The least that we require must come from our agents through whom our business is conducted. Upon them there must fall the duty of keeping most of the records in order that they may report to us.

But there are thousands of our agents. They are situated over the entire world. They are engaged in every conceivable occupation. Through some we conduct large and small research operations; through others we carry on experiments of varying types; we engage in wholesale and retail buying and selling; we manage large and small corporations; we act as trustee; we engage in banking, brokerage, farming, mining, forestry, fisheries; we manufacture; we act as home builders, home buyers, and financiers; we conduct schools, and varying types of educational enterprises; we maintain prisons, hospitals, and homes for the aged and infirm; we build and operate railroads; we build ships and carry on extensive commerce at home and abroad; we maintain an army and a navy for protection against invasion; we provide safety and protection for ourselves at home; we are borrowers and lenders, insurers and insured. In short, we, through our agents, as I have previously stated, engage in every enterprise and science known to our modern civilization. This great diversity of activity makes impracticable the maintenance of a single type of record if the reports upon which we are to predicate our judgment are to be informative. Each enterprise presents a separate problem. The forms, systems, and procedures comprising the records must vary to accommodate the peculiarities of the respective operations with regard to which they are to inform us. And it is not sufficient that such records as we direct to be maintained contemplate merely the supplying of information to us. They have another purpose which is none the less important. They must serve also the needs of our agents who must be kept informed at all times regarding the status of the projects upon which they are engaged, the resources at their disposal, and with respect to other factors essential for efficient management of their respective affairs. To the chain of our responsibilities as citizens we thus add one more link, the implementation of our agents with records through which they might effectively and intelligently analyze their respective functions and at the same time supply us with the facility for wisely providing for them. The line of our responsibilities as taxpayers, citizens, has not yet, however, run its course. It still moves on.

While from all our agents it is proper that we should have an accounting, wisdom and reason direct that upon some we must place the yoke of personal liability. In this category of public agents are those we generally describe as accountable officers of the government, and it is into the custody of such that we intrust our money and other negotiable things. For the safekeeping and faithful application thereof according to law, they are personally liable, and in the light of the fiduciary relationship obtaining between these agents and ourselves we are bound to afford them every reasonable protection among which adequate records would be prerequisite, records which will be maintained not only by them but by us as well.

In the supplying of this further facility we go one more step along our path of responsibility as citizens, but the journey is not yet finished. To our accountable officers we owe one further duty. Their accounts must be examined and settled. They must be given quittance for the faithful discharge of their respective stewardships. Not until that has been done do we make a single trip around the cycle of responsibility inherent in and attaching to our right as citizens to levy and collect revenues and to disburse them for our common welfare.

I think we can all agree that this brief analysis which I have made of a single phase of our obligations as citizens is a reasonable one. I think you might agree with me also that these obligations, which we concede to be ours, form the background, the instigation, and the motivating force behind all the fiscal records and accounting procedure required to obtain throughout our federal government. Assuming that we are in accord, on both premises, the further development of my subject imposes the necessity now to inquire into the manner in which we have organized and developed our accounting structure in order that we might fulfil those obligations.

In the beginning, we stipulated in the Constitution of the United States, as we have already observed, that all receipts and expenditures shall be subject to control by the people, through the Congress, and that reports thereof shall be made. Over the course of years, by statutory law, our system of control and management of our financial affairs has been broadened from time to time to correspond with our growth and to give effect to the crystallization of our conceptions of our responsibilities, thus evidencing a more or less constant consciousness of our duty. The first enactment bearing particularly on this phase of our business took place in 1779 by the establishment of a Board of Treasury. In 1781 the business of the Treasury was placed under a Superintendent of Finance. During the same year offices of Comptroller of the Treasury, Treasurer, Register, and Auditors were created. In 1789, all of those offices were abolished and in lieu thereof there was created a Department of the Treasury headed by a Secretary of the Treasury and having offices of Comptroller, Auditor, Treasurer, and Register. More than a hundred years later, the so-called Dockery Act of 1894, in response to the pressure of many years, brought about noteworthy reforms in the accounting structure of our federal government. Of singular significance in the reforms effected by that Act, however, is the apparent recognition of the desirability for consolidating with the responsibility for settling accounts the responsibility also for prescribing the form and manner in which all of the accounts should be kept and rendered. Under all the enactments up to and including the Act of 1894, we imposed upon an agency of the executive branch of the government, the Treasury Department, which by the very nature of its principal function was the chief accountable agency of the government, the responsibility for securing a full accounting on the part of all other agencies of the government and the duty also of prescribing the manner in which their records should be kept. However anomalous and unthinkable that arrangement might appear today, it did not constitute the primary influence in bringing about the enactment of the Budget and Accounting Act, 1921. Another cause of greater concern to the citizens and consequently to the Congress, at that time, was the clearly demonstrated lack of independence of the accounting officers and their complete subordination to the will of their administrative superiors. Hence, one of the declared purposes of the Budget and Accounting Act of 1921 was to insure an independent audit and settlement of the accounts of the federal government.

Under the provisions of that Act of 1921 which brings us up to date in our statutory law we have clothed a single establishment with exclusive authority to audit and settle all accounts in which we, as a nation, are concerned either as debtor or creditor. We have made that establishment independent of administrative control, responsible only to the Congress, and thus per se to us, the citizens. Acknowledging that the effectiveness of audit and settlement will be greatly enhanced by properly constructed records, we have vested in that establishment, upon which we impose the duty to audit and settle, the authority also to prescribe the forms, systems, and procedures for the keeping of all accounts. We charge that establishment with the responsibility for seeing to it that such systems and procedures as it prescribes, pursuant to its statutory direction to prescribe, shall serve all the purposes for which the records of our government need to be maintained—our needs as citizens, the needs of the respective agencies for their efficient management and administration, and the requirements also for full and adequate accounting. We charge that establishment with the duty to maintain such records as shall be required to insure a full accounting for the funds meted out to the several agencies of the government. We charge it also with the responsibility for seeing that the agencies of the government observe the limitations and restrictions which we, by law, impose upon the levying of our taxes, the collecting of our revenue, and the spending of the appropriations which we make. We charge that establishment with the duty to certify balances in public accounts and by law declare that such balances as are certified shall be final and conclusive upon the executive branch of the government.

We authorize that establishment to direct the payment of accounts or claims through disbursing officers instead of by warrant. We direct that establishment to investigate at the seat of government or elsewhere all matters relating to the receipt, disbursement, or application of public funds and to make recommendations looking to the prompt and accurate rendition and settlement of accounts. Also we require it to make recommendations looking to greater economy or efficiency in public expenditures. To the end that this establishment which we have created shall be free and unhampered in its performance of the tasks allotted, we have declared by law that it shall have unrestricted access to and the right to examine any books, documents, papers, or records of any or all departments and establishments of the government. We have very appropriately given to that establishment the name of "General Accounting Office" and to its head the title of "Comptroller General of the United States."

The place of that establishment in the accounting structure of the government is, it seems to me, made perfectly plain by its name and by its functions. It is the instrumentality through which we discharge our full obligations as citizens charged with control of the public purse. As legislatively constructed it is the taproot from which the branches of our entire accounting structure draw sustenance, or, if you prefer, the trunk out of which the branches of the entire accounting system of our government grow and from which the branches should never be severed. It has the capacity to serve, and should be made to serve, as a vital factor in the preservation of our system of government.

Accounting Problems of a Governmental Agency

BY ERIC L. KOHLER, WASHINGTON, D. C.

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ACCOUNTING in the federal government has not yet developed to a point where it can compete in usefulness with the accounting of private business. A typical federal accounting system serves an extremely limited purpose. The accounting requirements of the average agency are wholly uninvolved: There are no problems of inventories, capital assets, and depreciation; no invested capital, no sales, no profits. Six months or more before the beginning of each fiscal year the agency submits a budget estimate for that year; and this estimate, once it has been transformed into an appropriation act, sets the pace for the agency's expenditures for the year to come.

From a comparison of governmental operations with those of private business, it is difficult to imagine why governmental accounting requirements should offer difficulty. Only simple expenditure accounts seem to be necessary, provided, of course, agreement can be reached on the definition of "expenditure." In practice, involved systems of accounting are the rule rather than the exception; not put to active administrative use, they are frequently badly designed, and in arrears. Causes are numerous, the principal one being that accounting needs have been met with concepts that have tended to make accounting an end in itself, rather than a means of information and control useful alike to agency management, supervisory financial agencies, and the Congress. As I see it, the remedy lies in appraising in realistic terms the present stage of governmental accounting development, and by so doing pave the way for the introduction of simpler and more useful standards.

This remedy was resorted to in the case of the Tennessee Valley Authority, and it is the purpose of this paper to present the accounting problems of that organization as they existed five years ago, what was done about them at that time, and their condition today. These problems were far from simple for they *did* include inventories, capital assets, depreciation, invested capital, sales and profits. Yet they were solved and they have remained solved for five years.

The Tennessee Valley Authority was established as a federal corporation on June 16, 1933, by an Act of Congress. Like other government corporations, it was given large powers and considerable freedom of action. Its three directors are appointed by the President; each year they file a report to the Congress summarizing the results of their operations. In general, the TVA was intended as a spur to the economic development of a very much undeveloped area of the country. It was charged with the duty of harnessing the flow of the Tennessee River and its tributaries so that maximum navigation, flood-control, and power benefits might be derived; maintaining an ambitious experimental fertilizer manufacturing and use program; and developing the natural deposits and other economic resources of the area. Like other large-scale social experiments undertaken by the federal government, it suffered from growing pains, and after five years its methods of accounting were in disorder.

TVA Problems and How They Were Solved

On May 1, 1938, TVA accounts, then reflecting the five-year expenditure of nearly $200 million, were in an all-too-frequent federal-agency situation: An indifferent cash-accrual-commitment basis had been followed, a punched-card method of accounting had been installed for several years from which information proceeded slowly and inaccurately, no decision had been reached on the allocation of multiuse-project costs, no financial statements had been issued, and new notions of account classification had followed each other at a rapid rate, making necessary constant and costly reviews and recastings of financial data. No audit of the books had been made, poor functional relations with various sectors of the management persisted, and figures that fought each other were being issued by everybody—particularly by persons not accountants. Analyses of incomplete records were the order of the day when anyone wanted financial data. No one could be sure that a statement of project or operating costs was accurate, and cost engineers were obtaining unit costs of construction based in part on undisclosed ideal estimates. Budget statements allegedly reflecting expenditures of past periods were revised frequently and no reconciliations could be made showing causes of difference.

On December 1, 1938, several months later, these troubles had been ended. By that time an accrual basis of accounting had been set up and a classification of accounts which fitted into the management picture had been approved. The accounts for the preceding five years had been cast into the new mold, financial statements had been prepared and fixed for past years and approved by the board of directors; no adjustments were needed thereafter and none have been made since. Bookkeeping machines had been substituted for punched-card methods and complete financial statements were issued not later than fifteen days following the close of each month. The costs of the multiuse projects constructed or acquired by the TVA had been allocated to the several purposes they were to serve. Adequate straight-line depreciation had been carefully computed, based on engineering estimates approved by the board of directors, and given expression to on the books and in the financial statements. Completed-property costs had been analyzed and reported on a unit basis and elaborate studies of cost-comparisons had been published. The work of cost engineers was put under the jurisdiction of project accountants and cost and statistical statements of all kinds were limited to those approved by the accounting organization. Property records were established with rigid controls over costs, and property-accountability officers were appointed from existing personnel wherever movable property was located. Inventory methods and controls were installed. During November a five-year audit of the books had been made by certified public accountants. All this was accomplished in seven months, notwithstanding that throughout that period a joint committee of the Congress was combing over the affairs of the agency and demanding literally thousands of figures that contributed substantially to a seventeen-volume record; but the changes then instituted have stood the test of the past five years. And the work was done by a decreased staff, originally on the job, without the addition of outside talent, by the use of well established commercial-accounting methods, and an internal-training program paralleling a careful definition of the agency's accounting needs. If the resulting system and its products reflect the best practices of commercial accounting, as I believe they do, that fact does not mean that any significant governmental-accounting requirements were abandoned in the process, but that immense gains in the direction of account simplicity and usefulness were brought about by the employment of non-governmental devices. What was done for TVA can be duplicated in any other government agency. As a matter of fact, there is probably no other government agency with accounting problems more complex than those existing in the TVA.

Allocation of Joint Construction Costs

Before operating costs could be determined, TVA's investment in its major projects had to be allocated. These projects are dams which have been constructed with features important to flood control, navigation, and power. Annual losses from floods in the Tennessee Valley had run into the millions, and attempts to improve navigation in the river had been made more or less continuously for over a hundred years. Power developments in the river and its tributaries had been planned by the Army engineers before the first World War; the Muscle Shoals project (two nitrate plants, a power and navigation dam, and three villages) was started in 1917. Ten years later the first power from Wilson Dam at Muscle Shoals was sold. The policy of Congress reflected in the act creating the Tennessee Valley Authority in 1933 called for the simultaneous development throughout the Valley of the three objectives mentioned, and a spread of the costs as between these objectives. The spread of project costs was essential if depreciation was to be charged against operating expenses. A committee of engineers, economists, lawyers, and accountants had been working within the Authority for several years on various suggestions for the ideal spread, and their efforts had to be brought together and a conclusion reached promptly.

Within a month, the committee had rendered its report, and its recommendations were at once approved by the board of directors, and, as required by the Act, by the President of the United States; by June 16th it had been filed with both houses of the Congress and has remained the basic document underlying the allocation of costs as each subsequent project has been completed and put into operation.

Briefly, the method of allocation may be described as follows: The costs of the portions of the structures relating directly to navigation, flood control, and power, such as locks, channel improvements, flood-storage facilities, powerhouses, and generators, amounted at June 30, 1943, to approximately 43 per cent of the total cost of the eight completed multiuse projects. These direct costs are subtracted from the total cost, and the balance of 57 per cent is divided in three ways: 37 per cent to navigation, 23 per cent to flood control, and 40 per cent to power. By adding the allocated indirect cost to the direct, navigation bears 30 per cent of the entire project cost, flood control 16 per cent, and power 54 per cent. The three percentages applied to common costs were derived primarily from a consideration of the relative costs of justifiable alternative single-purpose structures, this method being the nearest conceivable approach by valuation engineers to the cost-accountant's method of splitting joint costs in proportion to the market prices of end products. Vendibility, benefit, special-cost, and equal-apportionment theories were considered in detail but rejected in that it was found impossible to translate them into sufficiently realistic terms.

TVA's solution to its allocation problem has been subject to lengthy debate in the Congress and in public-power circles. Among engineers there have also been sharp differences of opinion. But accountants who have examined the allocation computation have been puzzled by the extent of the controversy. If, for example, the allocation of common costs attributed to power were raised from the present rate of 40 per cent to 70 per cent—beyond which no one, regardless of his political faith, has yet gone—the effect would be a decrease in net annual income of $300,000. The materiality of this figure may be judged in comparison with TVA's present annual gross power revenues of $35,000,000 and probable net profit for the current fiscal year of $15,000,000 after straight-line depreciation of $6,000,000 (using the present 40 per cent common spread) and after in-lieu-property-tax payments of $2,000,000. In fact, if the net profit from power were reduced by the entire 60 per cent of common cost now charged to navigation and flood-control operations and were further reduced by all the other operating expenses now charged against navigation and flood control, the result would still be a net profit of $12,500,000 from the combined river-control operations. Incidentally, the $15,000,000 power profit represents a 4 per cent return on the investment in power facilities, including 40 per cent of common costs.

The Activity

A number of innovations were introduced in the TVA accounts that can be used equally well in other government organizations. The first of these was the activity concept which became the basis not only of TVA's accounting classification but also the basis of a whole pattern of organization and management, including budgetary control. In the development of this concept it was necessary to outline clearly the pattern of the subject matter that had to be dealt with. This was done by formulating a series of propositions or definitions which in substance were as follows:

(1) A project is a major property-acquisition function, the costs of which are assets.

(2) A program is a major operational function, often repetitive, the costs of which are expenses. A non-repetitive operation may be designated as a development program.

(3) Subprojects and subprograms are organizational, geographical, or other convenient breakdowns of projects and programs.

(4) An activity represents the lowest practicable coincident level of function, management, budgeting, and accounting.

(5) An organizational unit, the smallest administrative subdivision of control, consists of one person, or one or more persons under a supervisor, engaged as a working group on one or more activities.

(6) An organizational unit may be charged with a number of activities, but an activity may not extend beyond a single organizational unit; that is, an activity must be generally recognizable as the exclusive task or as one of the exclusive tasks of an organizational unit.

(7) One or more accounts may be maintained for each activity.

(8) One synthesis of activity accounts will yield financial statements of projects or programs; another, over-all statements of organizational costs.

(9) One analysis of an activity account will yield expenditures by objects; another, unit costs.

(10) A budget is the sum total of activity costs, with subtotals by projects and programs, or major organizations, or combinations of both.

These definitions were not permitted to remain as mere abstractions. They became part of the working tools of the organization, and they still are. The job of the TVA was thus broadly divided into projects and programs, the former being capital expenditures, the latter expenses. Subprojects and subprograms were carefully described. Activities were subdivisions of subprojects and subprograms, on a par with the furthest breakdown of the management structure, which, for convenience, was called an organizational unit. Because of the varied nature of its daily work a single organizational unit might be engaged in several activities; but by careful definition no one activity was permitted to cover more than a single organizational unit. By this procedure, activities became the basic elements of every functional picture and, with rearrangement, the basic elements at the bottom of every organizational chart. Thus, from the functional point of view, one could proceed from the policies laid down by the Congress in the TVA act through a series of carefully defined steps to the activity. The same activity could be reached through a series of specific delegations of authority by the board of directors to departments, divisions, and sections, down to the organizational unit responsible for the activity. Keeping these two channels clearly in mind whenever an activity was under consideration has tended to sharpen the definition of the activity, particularly at the operating level, and to eliminate the overlapping and jurisdictional disputes so common in government agencies.

TVA's activities number several thousand. Their definition has remained an accounting responsibility not only because a separate account is maintained for each activity but also because each definition has included a description and limitation of the expenditures that may be incurred. TVA's manual of accounts is thus the same as its manual of activities. The definition of the average activity occupies from a quarter to a half page and is divided into two parts: a listing of the varieties of permissive expenditures and a narrative covering the work to be done. In view of the notorious tendency in the direction of language degeneration among government employees, a vigorous attempt was made in the activity narratives to keep them free from the bad grammar and iterative clichés of typical job descriptions and organizational outlines, and to phrase them simply, with primary emphasis on the picturing of daily work to be performed. Responsibility for drafting activity descriptions was assigned to one individual who must also keep abreast of changes. Details of the manual are altered from time to time in line with new assignments, changes in scope, and terminations.

To integrate activity accounts with the summaries underlying monthly financial statements, each activity bears a seven-digit code: The first three represent a project or program, or subproject or subprogram; the next two the organization; and the final two the subdivision of work coming under the intersection of project or program and organization, thus establishing an activity. For example, 993–04–02 denotes the activity called "Plant-Records Maintenance"; "993" is the designation of "General Administration," "04" is the symbol of the Finance Department, and "02" is the organizational unit charged with the keeping of property costs, depreciation studies and computations, supervision of property accountability and retirement, and so forth. The figures appearing in operating statements at the end of each month are subtotals at functional and organizational intersections derived directly from a classified trial balance. By recording monthly adjustments for depreciation, accruals, and prepayments, the financial statements are prepared without intervening work sheets.

One of the factors that has influenced the establishing of an activity has been the possible significance of the resulting account. An activity has tended to be a separate unit within a program if, for example, its operations can be more easily compared with existing outside standards, or its unit costs offer a control approach which would not be available if merged with another activity. In such instances the move toward simplicity in record keeping might well mean an expansion in the number of activity accounts. On the other hand, if one activity resembles another, the two are in the hands of the same organizational unit, and their continued separation is not likely to furnish useful information to the management, their merger would be rightfully demanded, for a too elaborate breakdown of the work of a single organizational group diffuses its costs and detracts from the attention that should be given to the costs of what is actually a single common function.

Simplification of Method

Bookkeeping methods at TVA are characterized by the utmost simplicity. Postings are made from vouchers, after internal audit but before payment, directly to activity accounts, with an adequate description showing the nature of the item, the voucher number, and the object number of the expenditure; a cumulative total for the month is automatically extended by the bookkeeping machine. The account, an unprinted sheet 8″ x 10½″ in size, is made in duplicate and the balance of the account at the beginning of the month is the last entry, so that both the monthly and year-to-date totals appear on the face of each account without the need of a third money column. Journal postings to control accounts are made from totals of the machine backing sheets which are likewise unprinted. A fresh sheet is opened for every account at the beginning of the month; it is thus possible simultaneously to adjust the November accounts and prepare trial balances from them, and to keep December work up-to-date.

Two classified trial balances are abstracted, both on Ditto sheets. The first follows the normal or functional account sequence which builds up projects and programs; the second, obtained after rearranging the accounts in third-and-fourth-digit sequence, yields subtotals by organizations.

Expenditures by objects (salaries, travel, communication, etc.) are obtained, in the case of most projects, by recapitulation of original transactions; in all other cases, by account analysis. Each account posting includes an object number. At first thought, this may seem wasteful and unnecessary. Actually much time and expense are saved since it is a simple comptometer-pegboard operation requiring but a few hours for the monthly analysis of several thousand accounts by object. By placing all the items pertaining to an activity in a single account, emphasis is placed on the activity, not the object, as the accounting unit; and the review of activity-cost characteristics by persons not accountants is made much simpler.

Clearing accounts are provided for service activities the costs of which are to be spread over a number of other activities. But the spread is made only once so that explanations for service costs may remain uninvolved.

Management Responsibility

The second innovation referred to is related closely to this methodology of account keeping. I mentioned that activity accounts are prepared in duplicate. By the fifth of the following month, the duplicate of each account is sent out for review. The reviewer may be the head of an organizational unit or some superior; within five days he must report back his disagreement with any item. Because of his familiarity with previous monthly statements and with the activities under his jurisdiction, the reviewer assumes the responsibility without difficulty. Although he is an important element in the system of internal audit, he does not need to be an accountant, for every item in the account is accompanied by what is intended to be an adequate description. He may call for supporting invoices, or for supporting service-cost analyses in the case of charges from other organizations. Controls over service costs where there are numerous recipients of the service are difficult in any enterprise, especially where the charge to no one recipient is material. To encourage curiosity on the part of chargees as to the character of and control over service costs and to make available to them sufficient details for a quasi-independent and critical review of such costs is to add a valuable item of administrative control over expenditures. This practice has been known to lead to cheaper service costs, and in some instances their elimination.

Management reviews of the accounts are not uncommon in private business but they are virtually unknown in government circles. In those agencies where compensation for services constitutes the chief cost incurred in organizational units, payrolls may be sectionalized and copies transmitted to organization heads in lieu of formal accounts. But the administrative review of expenditures is not only a valuable addition to any agency's system of internal check but it makes obviously practicable the delegation of budget preparation and budget operating controls much further down the line than is usually the practice. The result is more realism and less fantasy, more understanding, and more easily effected controls from the top.

Elimination of Budget and Commitment Accounts

I have indicated that in setting up the TVA system of accounts it was necessary to reject completely the common pattern of governmental accounting. This involved omitting from the formal bookkeeping records both budgetary and commitment items. Most government agencies record them in great detail so that the books reveal, for several dozen or several hundred subdivisions of each appropriation, actual expenditures, expenditures plus commitments (i.e., obligations), the unexpended balance, and the unobligated or unencumbered balance. Bookkeeping-machine manufacturers have spent many years perfecting the mechanical features of their products in order that the oppressive job of keeping government books might occasion the least strain on the human machine. If the necessity for such elaborate records be admitted, the task has been achieved, and achieved well. But such a necessity has actually never existed, either in the TVA or anywhere else. Substitutes are available, cheaper to understand and operate, and vastly more effective.

A budget, regardless of its incorporation or nonincorporation in the records, is a control device which in all modern countries has accompanied the development of improved government finance. It is an estimate of future expenditures which, if adopted, becomes a limitation on such expenditures. For operational purposes it must be broken up in small amounts or allotments according to some organizational plan. Within the organizational unit a further division, as by objects of expenditure, may be required. But control over expenditures does not commence with the bookkeeper; it commences at the point where the authority to commit or the planning behind the authority to commit resides, and it is at that point that control devices are needed. Budgetary administration is a part of the job of management; it must be carried on actively from the organization head to every supervisor, and not relegated to the bookkeeping unit and forgotten. Thus conceived and put into practice, the day-to-day administration of the budget will be found at every supervisory point. A budgetary officer becomes almost superfluous. TVA's budget officer is in effect a planning aide to the management and the editor of the annual budget document. The work of budget preparation and adminstration is well spread over the entire organization.

There is even less occasion for putting budgetary allotments on the books where there is no need for activity accounts. Primary accounts may then be objects of expenditure and any limitations attaching to them become automatically so well known to administrators as to require no more than reminders in the way of comparisons of the actual with the estimated on monthly financial statements.

Commitment records for control are often needed, but, as in business, they should be maintained, not as a formal part of the bookkeeping record, where they serve no useful current purpose, but, as I have indicated, at the point where commitment decisions are made. A simple listing and totaling is ordinarily sufficient, with occasional comparisons of limitations with actual expenditures. Many schemes have been put into practical use. For example, a permissive dollar total can be given each executive who makes commitment decisions, along with a block of commitment-entry numbers and a simple register, all for a stated period. The register receives an entry, which includes dollars, for each commitment document, and a copy of the document, containing the entry number, proceeds at once to the agency's bookkeeper, not for a second entry, but for retention in an "open" file. When a voucher covering the purchase has been noted in the executive's commitment register and is ready for posting in the accounts, the bookkeeper's file copy is removed and attached, or, in some systems, is placed in a "liquidated-commitment" file so that commitment-entry numbers can be fully accounted for at any time. Summaries by the bookkeeper of outstanding commitments at the end of each month, obtained by listing its "open-file" items, are totaled by commitment origins and compared, in detail or in total, with the various commitment registers.

Management must take the responsibility of keeping within bounds if the job assigned to it is to be well done. A spending program curtailed only by the bookkeeping staff is a dangerous program. For statement purposes, TVA's open contracts and purchase orders at the end of each month, evaluated in dollars, are all that is needed to transform a statement of expenditures into a statement of obligations.

Other Features of TVA Accounting

A number of other features were developed in the TVA accounting scheme that deserve mention.

One of these is the method of property control. The Tennessee Valley Authority owns many thousands of acres of land located at or near reservoirs. It owns many power-generating plants, power-transmission lines, and thousands of automobiles, trucks, and tools. The land holdings are administered by a separate organization known as the Reservoir-Property Management Division; the structures and equipment, by various organizations charged with their operation. But all the property is accounted for by a Plant Records Division, decentralized as far as possible, within the Accounting Department. Elaborate files and location maps are maintained on land purchases, and a sheet or card is maintained for each item of property. For example, a McBee card is prepared for each of one hundred thousand or more power poles, and on it is recorded cost, location, height, quality, and other details available at any time for statistical or accounting summaries; upon the removal of the pole, the card becomes a retirement record useful in the compilation of the experience tables so necessary in the determination of adequate depreciation rates. Part-time responsibility for the periodic reporting of existence and condition is assigned to some individual in an organization which uses or is located near movable property; these persons are called property-accountability officers and form important links in the system of internal controls.

In addition, the properties themselves are regularly inspected and depreciation rates and accumulations are under continuous study by a small group of engineers working directly under the Comptroller. Opinions on service lives are sought not only from operating people but from all the outside sources available. Depreciation charges to operations are on a straight-line basis; many of the rates are composites. Limited-life property of every description, regardless of its income-producing potentialities, is subject to the same rules. Upon retirement, original cost less salvage is charged in full against the reserve. Where changes in estimates of service lives have occurred, rates for the current year and future years are revised and applied so as to spread remaining undepreciated costs in equal amounts over such years, without adjustment of provisions or accumulations of previous years. Acquisition adjustments, as defined by the Federal Power Commission and arising out of the purchase of various properties from private utilities at figures in excess of original cost less accumulated straight-line depreciation, are being amortized over periods less than the composite life of the properties to which they relate. From this I think it is accurate to say that the TVA's properties are under strict control and that its depreciation provisions are liberal and in line with all that is desirable in commercial-accounting practice.

Another feature has been the painstaking care that has been given construction costs. To each major construction project has been assigned an experienced project accountant, responsible administratively to the project engineer, but with functional responsibility to the comptroller. By means of a uniform scheme of accounts, the progress of unit costs is carefully watched through succeeding stages of construction; at weekly meetings of accountants and engineers variances between estimated and actual costs are discussed and plans are made for halting undesired trends. Upon completion, an inventory of the material content is estimated for the project by an independent group of engineers and careful inquiries are made in the event substantive differences are disclosed between such a postcompletion survey and the recorded actual. The same group also dissects unit costs, and the whole study is ultimately incorporated in a detailed construction report widely distributed to the public. A chapter of the report is devoted to a cost summary which is in agreement with the books of account as at the completion date; the total cost is the sum of a series of items each factored into quantity and unit cost. Engineering and general overheads appear as separable additions to unit cost. With the publication of each project report, a record has been created that fixes the cost of the principal elements of the project, and, at the same time, an internal-audit procedure has been completed that is unique, I believe, in the history of large construction projects. Initial property records are literally copied from such reports.

In the organization of accounting services relating to operations, accounting units were placed wherever operating heads preferred to have them. Paralleling the construction-accounting plan, this attention to operating programs led to an extensive decentralization with most of the units only functionally related to the comptroller. Although in such cases the selection of the unit head was the joint responsibility of the operating chief and the comptroller, the latter's recommendation was invariably followed; but in each case an effort was made to secure a qualified person having some past experience in the field of endeavor in which he was now to serve. His capacity for responsibility was assiduously cultivated, and his work was made as autonomous as possible in order that he might deal directly with the operating head and that statements prepared by him reflecting operating results might be complete. By virtue of this policy, power accounts, for example, were instituted at Chattanooga, chemical-engineering accounts at Wilson Dam, automotive and truck costs and statistics within a transportation operating pool. In each instance, operating people were encouraged to put the products of accounting into active use as an aid to them in their job of controlling intelligently their present and future methods of doing business. Attention was given to the need for the employment of unit costs as control devices, and for the criticism of these costs in relation to similar figures produced elsewhere. Each time the effect was not only to make working tools of the accounts, but also to provide an added agency for the internal review of operations. I should like to add my observation that it is difficult to overdo the emphasis which can be given to the need on the part of management of watching comparative costs in governmental operations. The available units of measurement are almost without limit.

The final major feature of TVA's now five-year-old accounting procedures which I should like to describe to you deals with the accounts kept by TVA's retail power outlets. Nearly one-half of TVA's present nine-billion-kilowatt annual power production is sold to industrial plants located within the area; one-third is being sold to 87 municipal and 46 coöperative distributors. From retail outlets resales may be made at prescribed rates, but the rates are sufficiently high (although among the lowest in the country at large) to earn handsome profits for all but a half-dozen of the less-favorably situated distributors. The TVA act requires that statistics on distribution be made public, and TVA's contracts with its distributors provide that they maintain a uniform system of accounting. These requirements, together with the relative unfamiliarity of local-community power boards and boards of directors with utility-accounting procedures, made it necessary to prepare a simple manual of accounts based on FPC standards, with, however, a number of variations applicable to local conditions.

An important part of the TVA local-distribution plan was to take all feasible steps to popularize the affairs of every distributing unit, so that both persons and organizations within the community might intelligently follow its operations. This necessitated emphasis on the need for good accounting in local government so that continued approved accounting practices might be recognized as a prime necessity in the power-distribution organization. Accordingly, with the cooperation of the University of Tennessee, two pamphlets on the need for high standards in local-government accounting were prepared by a faculty member and distributed as a university publication among all the communities of the state. In these pamphlets Rotary and Kiwanis clubs and other business groups were urged to study the monthly financial statements of its local political bodies and to invite the administrators of these bodies to address them on the problems confronting them, particularly with respect to comparisons of operating results with those of previous periods and similar operations elsewhere. The need was stressed for good books of account, for intelligible reports to the public based on such books, and for audits of local bodies by certified public accountants. The pamphlets proved to be of great value in instituting and maintaining TVA's uniform system of accounts for power distributors.

As an aid to distributors, the TVA has some half-dozen engineers stationed at convenient points in the area. They supply expert help to local power managers, many of whom are not themselves engineers and have only a single lineman as a technical adviser. Each district engineer has as an assistant an accountant who visits the distributors' offices at regular intervals to review but not audit the bookkeeping records, and to lend a hand if the local bookkeeper is experiencing difficulty in following the system of accounts. A balance-sheet, income statement, and certain statistical data must be furnished by each distributor on a one-page monthly report. A more extended, annual report must also be submitted. There have been occasional delays but no failures in rendering these reports and each year a comparative statement showing the balance-sheet and operating results of each distributor, individually and combined with all the others for the same period, is published and given wide distribution.

At the beginning of TVA's manual of accounts for distributors is a carefully prepared statement of accounting policies, twenty-five in number, dealing with the treatment of troublesome problems of organization, administration, valuation, depreciation, overhead, accruals, bond discount, earned surplus, revenue controls, tax-equivalent computations, and interest. In addition, the definitions of fifty accounting terms are given. The presence of these descriptions of policies and words has had a three-fold effect: first, the bookkeeper is given a better analysis of what he must work with daily; second, those who must deal with accounting results rather than daily postings, such as managers, board members, and interested businessmen, are given what is designed to be a clear and forthright picture of the principal characteristics of the accounts; and third, public accountants who audit the books are presented with the leading accounting features of the system.

These problems, and many others that had to be disposed of, were solved by methods and techniques common in the commercial world. Many of the problems would remain unsolved today if the cumbersome processes of what ordinarily goes under the name of government accounting had been applied. From my experience with the TVA I believe the following conclusions are justified:

(1) An accounting officer having professional qualifications should be established in every government agency, reporting to the agency head and having a rank equal to the principal executives of the agency. His responsibilities should include budget preparation and administration, and he should have unrestricted investigative powers.

(2) Government-wide minimum accounting and reporting policies and standards should be promulgated and maintained by one of the executive agencies, but they should not include formal account classifications nor exclude agency adoption of variant but economic accounting methods.

(3) Flexibility in the use of accounts demands that the account itself be a simple collection of data, unclouded by intricate mechanical refinements and so designed as to be interpretable by those unskilled in the art.

(4) Controls over expenditures should be exercised directly by management, not through the medium of allotment accounting.

(5) Expenditures, not encumbrances, should be entered on books of account.

(6) The ordinary accrual basis of accounting should be followed, and the cash basis of accounting and reporting should be abandoned. Commitment records should not be incorporated in the regular books of account but should be maintained, where necessary, in the form of registers at the commitment source and in the form of files in the bookkeeping office, available for summarization in monthly and other periodic financial statements.

(7) Monthly reports now required by the three supervisory fiscal agencies should be eliminated; in their place should be adopted 8″ x 10½″ all-purpose Ditto forms suitable for use within the reporting agency as well as without.

(8) The Bureau of the Budget, with the advice and approval of the Congressional Appropriation Committees, should adopt for general use a universal project and program classification suitable alike for over-all government summaries and for subproject and subprogram breakdowns within each agency.

(9) Decisions by the Comptroller General as to expenditure legality should be abandoned and the work of his office confined to postaudits and postaudit reports, with advisory functions only on questions of accounting method. In place of such decisions a codification should be made of expenditure laws, binding on every agency.

(10) Commercial-accounting techniques, which are many and varied, should be given wider adoption in governmental practice.

(11) The activity account, reviewed monthly by management, is suggested as a practicable and a useful means of budgetary and operating control.

(12) Accounts should be decentralized wherever possible, in order that management may share the responsibility for account content and maximize the use of accounting end-products.

(13) Wider uses of comparative costs and unit costs of operation should be developed, and demonstrated to the management of government agencies, in order to bring about a greater sensitivity on the part of management as to the need for and practicality of cost controls.

(14) Unit costs should be under constant study during the construction of every government project, and published unit costs should be linked with the book records at the conclusion of the construction period.

(15) Clear definitions, expressed in nontechnical language, are valuable precursors to the formulation of any system of management-accounting policies.

Effects upon an Operating Agency of Accounting, Auditing, and Financial Reporting Requirements of Other Agencies

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I am here not representing the Department of Agriculture, but expressing my own personal opinions from my operating experience. I want first to take up the subject of audit, and I want to say that I do not think there is any argument against an independent audit by the public auditor. As Mr. Jump says, "it is 'immoral' not to be so audited." I merely have some different views upon the type of audit. Personally, I think that our present audit is entirely too costly for what it buys. In the commercial world, one of the purposes of the independent audit is to certify to the correctness of management's financial statements to the owners of the business, the stockholders, etc. We need more of this type of audit in government. Mr. Slaughter mentioned the Commodity Credit Corporation and the pending bill extending its life, which has in it a provision for an audit by the Comptroller General.

The House Report on this bill, No. 846, 78th Congress, gives about as clear as anything can a short description of the present audit as performed by the Comptroller General, and also the type of audit that is contemplated for the Commodity Credit Corporation. If you will bear with me a few minutes, I would like to read this, in order to clarify the audit procedure as it is and what I think it should be.

The proposed bill is the result of numerous conferences with members of the General Accounting Office staff and of the Department of Agriculture, and it has the concurrence of both the Secretary and the Comptroller General. As the purpose and the reasons for the proposed audit provision in the bill, the House report includes the following:

"The governmental type of audit generally involves the following seven steps:

"1. The fixing of the amount for which the disbursing officer is accountable under his bonded responsibility by reason of the advance of funds under particular appropriations upon accountable warrants and by reason of collections received by him;

"2. The submission by the designated disbursing officer to the General Accounting Office for audit and settlement of an account supported by certified vouchers and by other original papers evidencing specific payments which he has made from the particular funds charged to him;

"3. The examination by the General Accounting Office of these vouchers and other original supporting papers to determine whether the payments covered thereby were properly authorized and whether the expenditures represent valid obligations of the government under the specific appropriation sought to be charged;

"4. The settlement by the General Accounting Office of the disbursing officer's account and the determination of his liability to the United States;

"5. The determination of the liability to the United States of the officer certifying for payment the items included in the disbursing officer's account;

"6. The preparation and issuance of certificates of settlement incorporating all unexplained or unadjusted differences developed in the examinations of the accounts; and

"7. The institution of collection proceedings if the accountable officer fails to pay over any balances found due from him in the settlement.

"The commercial type of audit ordinarily made of large business corporations usually involves the following seven steps:

"1. The establishment of the authorities of the various officers and employees by reference to the original articles of incorporation, by-laws, minutes of the board of directors, and other official authorizations taken in the name of the Corporation;

"2. The verification, through appropriate checks, of the original general and subsidiary ledgers by comparison of original collection and disbursement documents with such ledgers and, in connection with this, the determination that all actions reviewed are properly authorized;

"3. The verification from the original accounting records and supporting documents of the accuracy of all items appearing on the balance-sheet, including verification of all cash on hand and in banks, and when needed, positive establishment of the existence of assets by physical inventory methods or through inquiries addressed to debtors and the determination of actual liabilities through inquiries addressed to creditors;

"4. The review and establishment of the accuracy of any operating statements to determine that they clearly indicate the financial progress of the Corporation during the period covered by the audit, including proper reflection of any profits made or losses suffered;

"5. Determination, in light of the actions by the board of directors and any changes in the policies of the Corporation, that proper records are established and necessary safeguards developed correctly to reflect the financial operations of the Corporation and to protect the Corporation from financial loss which can be prevented by proper and adequate records and procedures;

"6. The preparation of a report covering the audit, including certified financial statements and comments deemed appropriate by the auditor, such as recommendations for changes in the accounting procedure and records, errors still uncorrected at the completion of the audit, analysis of facts brought out in the financial statements, and the submission of such a report to the officials ordering the audit; and

"7. The institution of corrective action by the corporate management."

I sincerely hope that that legislation goes through for the Commodity Credit Corporation. If it does, I think that the General Accounting Office and the general auditing situation in the government, particularly for corporations, will have taken a long step forward, particularly in view of the possibility of applying this kind of audit to other corporations in the government which do not now have an independent audit by the public auditor. I think that there should be an independent audit, and this is the type of audit that should be given, particularly to the corporations.

I also believe that the principles can be applied more closely to the regular appropriation expenditure and collection audit. The audit now is, as I said, too costly, and it is too costly because there are too many audits of each particular financial transaction. There are probably at least three audits, and sometimes more, of each transaction. It results from placement of financial responsibility for each disbursement account on a certifying officer. That is a legal responsibility. The administrative officer who took the action has an administrative responsibility, and, finally, there is the legal requirement that the General Accounting Office audit each account.

Theoretically, there may be another audit, that is, the audit of the disbursing officers' accounts current at the department level. In our office, we have to audit many hundreds of accounts each month, reconciling the administrative statements with the disbursing officers' accounts and then certifying those to the Comptroller General, where another audit is made. In connection with our department audit, we get every voucher for the accounting period in the department. They come down in trucks. We count them by tons, not by numbers. We cannot hope to go into an audit of those vouchers. We have three positions just to handle and receipt for them, and that is about all we can do. Theoretically, you do have that other audit at that level, which is the audit of the disbursing officer's bank statement of your funds turned over to him for disbursement.

I do not think there should be more than two audits. There should be the administrative audit—a system of administrative auditing and controlling—and also the independent audit. I think there should be a closer tie-in between the two audits. One should complement the other as much as possible. We should get an audit of our accounts and of our records, and I think we should get suggestions and recommendations from the independent auditor. I think that our administrative audit should go from that point and be the continuing internal audit with establishment of such checks and controls as are necessary.

I think that the General Accounting Office should certify to the Congress and to the public its audits of the financial transactions and the records and statements of the bureaus.

The great emphasis on the audit has been placed upon the legality of each financial transaction and the development of personal responsibility therefor. This legal concept stems from, we may say, the Constitution, laws, philosophies, traditions—and it is necessary to a certain extent reasonably to verify the correctness of actions taken. But, because of the personal financial responsibility, the administrative responsibilities, and this stress upon the legal phase of the audit, the fact that most emphasis is placed on that, you have each individual officer who is responsible for an account surrounding himself with some auditing facilities for protection.

Each time a certifying officer puts his name on a voucher, he is jeopardizing his personal financial position to the extent of the amount of that voucher. He is jeopardizing his home and the financial security of his family, because the bonding company, if it is forced to make good, comes right back upon the certifying officer. So, you have groups of audit facilities from lower levels of the administration clear through to the General Accounting Office continually reviewing at each separate stage these same disbursing and collection documents.

The audit, I think, is too slow, and I do not see how it can be overcome unless the audit is placed in the field. Mr. Slaughter, I believe, made the remark yesterday that the present field audit for the Army and the Navy would be pulled back to Washington or discontinued after the war emergency. I was hoping, on the other hand, that it would be a step toward establishing universal audit in the field. I think the government has responsibility for an audit that is current, has a responsibility to the firms and the employees whom it pays to settle their accounts promptly. It has responsibility to certifying officers to give them current information as to the status of their personal accounts with the government.

So I hope that there will be more consideration given to the establishment of independent General Accounting Office auditing facilities in field offices, possibly in connection with disbursing offices where the accounts are disbursed.

There is one more item that I should like to mention on audit. The General Accounting Office sends notices of exceptions, taking exceptions to particular accounts which may later develop into suspensions, and those notices of exception really establish fiscal requirements and procedures. The administrative office will receive a notice of exception, and, in order to prevent future exceptions of that kind, very often will institute procedures, protective devices, and so on, to prevent that type of account from being rendered again in such a manner as to draw a suspension or exception for the same reason.

We have found in many cases that quite complicated procedures have grown up in our offices which apparently have no formal basis of requirement. We have the last few months chased down two particular procedures in connection with disbursement accounts, and tried to find the requirements. They were universal in our department. We checked with the General Accounting Office on both of them, but could find nothing except that sometime, somewhere, in years past, there had been exceptions to the accounts causing development of the procedures. Then some inquiring soul asked why, only to find that apparently there is no "why."

There is danger in establishing procedures and requirements through a notice of exception sent to an administrative officer by some auditor in the General Accounting Office. I believe that the General Accounting Office should, as far as possible, give the agencies formal requirements in advance. They do that, of course, through general regulations, etc., but I do not believe that is sufficient.

The problems confronting us in the accounting field are really tremendous. I just do not know where to begin on that. Having been in Washington but a short time—a year and a half—I have only a vague idea of the fundamental issues, and even less concrete ideas on the solutions to the problems.

Accounting requirements of other agencies which have major effects on an operating agency are about as follows: The requirements involve the development and placement of individual accountability; the requirements are developed to serve audit purposes; there are requirements developed to maintain central accounts, uniform accounts; there are requirements designed to prevent the overobligation and expenditure of available appropriations; there are requirements as a result of various fiscal laws which either broadly or specifically establish procedures and responsibilities; and there are requirements to furnish current financial information for administrative and budgetary purposes, and at various levels—administrative level, department level, and government level.

These requirements, whether as a result of accounting, legal, audit or administrative purposes, are all designed to serve worthy objectives, but it seems to me that they have been tacked on throughout our history either as a result of fiscal laws, or as experience dictated additional requirements were necessary. They have been tacked on, I believe, in such a form or manner as to result in confusion and complexity, thus creating a very cumbersome system. It appears that throughout the whole period of development of the accounting system, attention has been focused primarily on the accounting, auditing, and reporting control needs of the general fiscal agencies, to the neglect of the requirements of the operating agencies.

This condition has been recognized by the fiscal agencies. The General Accounting Office has tried to develop a flexible system of accounts, and to a certain extent has succeeded. Its charts of accounts, etc., go through only the general ledgers, with the thought that flexibility can be attained through subsidiary ledgers within the administrative agency. I know that the Budget Bureau and the Treasury have not gone any further than they consider necessary in establishing procedures and reporting requirements; nevertheless, the system needs improvement. Perhaps a change of fiscal law is needed in many cases; certainly there is room for improvement within the framework of existing laws.

The warrant system should be given a fresh look by someone. It is all right from the appropriation side, I believe, since here it does not hinder management. It is entirely too ponderous and inflexible, however, to serve the needs of operating agencies who finance to any extent their operations upon reimbursements.

The accounting officers in my office tell me that in the case of receipts to trust fund and special receipt accounts to be spent later, the ordinary course from the time they are scheduled for deposit until the money is made available for spending, requires about fifty days. Repayments to appropriations, I am told, take about thirty days before they are available. As a result, we have to take special action every day, messenger service, calls, going to the General Accounting Office, over to the Treasury, back to the General Accounting Office, and so on, in order to work these receipts and warrants and cash requisitions, etc., through, and have the funds available for disbursement. I believe that, from the receipt end particularly, the warrant system should be further examined.

The disbursing system has become too entangled with appropriation control and accounting requirements for appropriations. I would like to look upon disbursing officers more as cashiers. Our disbursing cash is now tied up with appropriation control, and it is a rigid control; while it prevents the overexpenditure of any appropriation, at the same time it hampers administration.

In the Department of Agriculture in 1943, we had over 11,000 cash transfer requests, and between 600 and 700 cash requisitions. We kept over 1,000 cash accounts with the division of bookkeeping and warrants of the Treasury Department, and we kept nearly 4,000 cash accounts with disbursing officers, which were tied in with the division of disbursements of the Treasury Department. We utilized approximately 25 disbursing officers for the majority of those expenditures, but, due to our many appropriations, those 25 disbursing officers with whom we placed money caused us to keep some 4,000 cash accounts.

The situation is also bad from an operating standpoint, because having cash in so many pockets makes a rather troublesome financial problem. Having cash thus scattered throughout the country, tied down to appropriations, splits it up into too many little pieces. There have been cases where I was forced, in an operating agency, to break the laws, because I had emergency payments and no cash in the proper appropriation. This necessitated paying out of some appropriation in which we did have the cash and making adjustments later. This should not be necessary.

Also there is too much duplication of accounting records, arising partly from confused interagency relationships and accounting responsibilities. The relationship of operating agencies—Treasury Department, General Accounting Office, etc.—and the responsibilities in each should be clarified and duplication reduced to a minimum.

The accounts of operating agencies and over-all government accounts should, in so far as possible, be geared together into one system of accounts. But that is an enormous, if not impossible, job. Accounts are kept at all levels—counties, districts, regions, and such other operating levels as are needed—and it is very difficult for agencies which must operate on an obligation basis and on a scheduled basis—that is, scheduling vouchers to disbursing officers—to tie in their accounts with the Treasury and General Accounting Office, or even with the accounts at the departmental level, because those accounts are kept on a check-issued basis or warrant basis, rather than on the obligation basis or the scheduled basis.

I think we have a problem in the classification of accounts. The question of classification of accounts and uniform classification, of course, has been discussed as long as there has been accounting. I mean classification in its broad sense—treatment of accounts in income-and-expense statements and balance-sheets of government corporations, what should be included, how they should be shown, method of treatment, and so on. Now, the Treasury and Budget Bureau have prescribed, under Regulation 2, certain annual reports from corporations, and are working on the development of Regulation 3, which will prescribe monthly reports from corporations. The annual reports include income-and-expense statements, balance-sheets, receipts and disbursements, supported by certain schedules.

The prescribed classifications in some cases have forced some of our corporations to maintain additional accounts, because to have gone over entirely to the system as prescribed would have destroyed the continuity of their records on a certain basis over periods of years. It was felt necessary to retain this continuity on certain bases for comparative analysis purposes, and the corporations believe they have to keep them that way for administrative purposes. The Treasury and Budget Bureau say that for their purposes it must be the other way, and I can see their needs for uniformity, but it has meant that we have had to treat certain of our accounts separately, keep separate records in order to give the corporations the information they need and at the same time give the fiscal agencies the information they need. It seems, therefore, that the classification of accounts should be studied more carefully.

In the classification of accounts there is also danger of showing erroneous information by objective classes under present regulations. This subject should be given future study, as duplicate information may be shown under the present system. I have in mind one of our agencies which serves many of our research bureaus, near Washington, as a service center, showing their communication expense as approximately $20,000. When those expenses are billed to the agencies, they are taken up as communication expenses to the extent of $20,000 or whatever the amount may be. There you have a quite possible duplication of communication expense in required reports. The regulations should be clarified, and, when new regulations are developed, more thought should be given to the elimination of the danger of reporting duplicate information.

In the matter of financial reporting, I like to think that the accounts could be designed so that reports could come from them. I am very glad that the skeleton in the closet of the general fiscal agencies came out yesterday afternoon and was thoroughly aired and received a good shaking, because, from an operating agency's viewpoint, they, the operating agencies, occupy the crucial position in the existing differences in the philosophy of our overall fiscal agencies. The operating agencies are the ones to suffer. Our accounts are prescribed to be maintained on one basis, and then we are required to make reports on another basis. It is realized, of course, that this is something that can be straightened out, and that apparently only the general fiscal agencies can do it. And the sooner the fiscal agencies get together on this question, the sooner the operating agencies will be happy and able to render current, accurate financial reports. Until that time, they will not do so, because the psychological effect is against it. The operating agencies feel, "Well, what do they want? Why do they want it? Why should there be these differences? Let them clean their own house before requiring that our house be in order."

Accounting and financial reporting requirements just do not follow the fundamental principle that the reports should stem from the accounts. I know that the General Accounting Office and the Budget Bureau and Treasury have come part of the way together, and, in the General Accounting Office's new Accounting Regulation 100, there has been prescribed a system which will bridge the gap. The system, though, is cumbersome. It requires too much duplication—two sets of records, almost—and it should not be necessary to have to bridge the gap; there should not be any gap.

Financial reporting in so far as possible should be harmonized with activity reporting. We have to report to the Congress, and we have to report to the public. We ought to be able to tell them a story, in dollars and cents, of our activities, as a measurement of our accomplishments. That, again, is an enormous job, but, until there is some sort of related activity and financial reporting, the present weakness is likely to remain.

Fiscal agencies have been too prone to impose reporting requirements without taking into consideration the psychological effect of such requirements on the operators. Administrative agencies will devote time and personnel to the preparation of reports, current reports, accurate reports, only to the extent that they can understand the need for such reports. When one is out in the field, there are too many of these requirements for which he does not know the reasons. There seems to be no need for them. The field people have a job to do, and they are going to devote just as little time as they can to requirements for other agencies. They have enough to do in handling the requirements of their own agencies. It seems, therefore, that a big educational and selling job needs to be done in the financial reporting field. Financial reports should be limited strictly to justifiable requirements; the accounting and reporting question must be settled; the people operating in the field must be sold on the idea of financial reporting, regardless of your systems, because their cooperation is essential. Most of your operations are at the grass-root level. Most of your accounts are there, and, if they are not right, your financial reporting cannot be right.

Simplicity of requirements and systems and procedures should be the keynote in considering solutions to federal auditing, accounting, and financial reporting problems. The basic transactions, procedures, and accounts are maintained and processed mainly by low-bracket clerks, or they are processed by technical men without benefit of clerical help, project supervisors, research men, land managers, and so on, who have their main job to do, and simplicity is a fundamental requirement. I would rather have less financial reporting, less accounting, and know that what I did have was right and timely. It is felt, in the field, that a minimum of time must be devoted to the whole fiscal process, and such process must be simple and understandable by the classes of employees that are assigned to administer them.

Nothing I have said is new; it has been discussed time and time again, and, as someone told me the other day when we were discussing the General Accounting Office Regulation 100 in our own department, that, like all other discussions on this accounting problem, was 99 per cent talk and one per cent do. I think there are two reasons for that. The lack of accomplishment is due, for one reason, to lack of unity of opinions and objectives among fiscal officers of the various agencies; for another, it is due to the tremendous job with which the fiscal officers, the accounting officers in the agencies, are faced. Their time is taken up from day to day by their humdrum jobs, and they have no opportunity to devote the weeks and months to research and development that must be given to this job. I think that the American Institute of Accountants and the men in the Institute who take an interest in this problem can make a major contribution to the federal service.

Discussion Speakers

Those who took part in the general discussions reported as part of the proceedings of the Conference on Federal Government Accounting were the following:

RAYMOND G. ANKNER, Principal Accountant, Federal Communications Commission, New York.

E. F. BARTELT, Commissioner of Accounts, Treasury Department, Washington.*

DONALD W. CORRICK, Chief, Division of Accounts, State Department, Washington.

JOSEPH M. CUNNINGHAM, CPA, Deputy Comptroller, City of New York.

J. DARLINGTON DENIT, Chief, Division of Accounting and Bookkeeping, General Accounting Office, Washington.*

GEORGE P. ELLIS, CPA, Chicago, General Chairman of the Conference; Chairman, Committee on Governmental Accounting, American Institute of Accountants.

PAUL W. ELLIS, Division of Industrial Economics, National Industrial Conference Board, New York.

CAPT. PAUL W. GLENNON, USA, Fiscal Officer, Office of Dependency Benefits, Newark, N. J.

PAUL GRADY, CPA, New York.

ALVIN R. JENNINGS, CPA, New York.

J. WELDON JONES, CPA, Assistant Director in Charge of Fiscal Division, Bureau of the Budget, Washington.*

EDWARD J. KELLY, Chief, Division of Finance and Accounts, Food Distribution Administration, and Treasurer, Federal Surplus Commodities Corporation, Washington.

ERIC L. KOHLER, CPA, Executive Officer, Petroleum Administration for War, Washington.*

F. F. LOVELL, Auditor, Home Owners' Loan Corporation, New York.

ALLEN D. MANVELL, Bureau of the Budget, Washington.

J. ARTHUR MARVIN, CPA, past president, New York State Society of Certified Public Accountants.

LLOYD MOREY, CPA, Controller, University of Illinois and past chairman, Committee on Governmental Accounting, American Institute of Accountants.*

JOHN C. MURPHY, JR., Regional Fiscal Officer, Office for Emergency Management, New York.

WILLIAM R. QUIGLEY, Chief, Division of Accounting, Office of Budget and Finance, Department of Agriculture, Washington.*

WILLIAM L. SLATTERY, Finance Division, United States Maritime Commission.

R. H. SLAUGHTER, Assistant Chief of Investigations, General Accounting Office, Washington.*

C. G. VANDER FEEN, Statistician, National Bureau of Casualty and Surety Underwriters, New York.

WILLIAM S. WOODMAN, CPA, Detroit.

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* Also presented conference paper.

General Discussion

Chairman [George P. Ellis]: The meeting is now yours, and I hope that all the speakers on the program will consider themselves discussion leaders, to try to get before this Conference the important points that have been raised in these papers. Let us use every moment of time to the very best advantage.

R. H. Slaughter: Mr. Chairman, I am directing my remarks to the statements made by Mr. Morey in his remarks a few moments ago. I am wondering whether he has expressed something about a situation which existed several years ago, rather than a situation which now exists. I refer particularly to the responsibility of disbursing officers for the payments which they make. He suggested that the certifying officer should be responsible for the vouchers he sends to the disbursing officer to pay, and the disbursing officer should be responsible for the correctness of the payments, that is, see that a voucher has been paid in the amount submitted, and not for a different amount, and that payment is made to the persons named in the voucher and not to someone else. As to the legality of the payment, as to whether it is charged to appropriation A, B, C, or D, in our procedures we must follow appropriation lines. A payment expenditure or disbursement may be properly chargeable to appropriation A, but not to appropriation B. The voucher, though, is charged to appropriation B, and, therefore, it is an illegal expenditure from appropriation B.

The provision establishing who is responsible was enacted about two years ago in the certifying officers act, which provides that the certifying officers shall be responsible for the accuracy and legality of the vouchers which they submit; that the purposes for which expenditures have been made are proper purposes; that the supplies have been furnished as indicated; that the services have been rendered as indicated; that the appropriations to which these vouchers are charged are properly chargeable with those particular expenditures.

Now, as I said, the certifying officers act does put that responsibility on the certifying officer, and the disbursing officer is no longer responsible for that, but, under our system of disbursing government moneys, the disbursing officer is the channel through which all public moneys are expended and accounted for. Congress makes the appropriation. The money is available for the administrative office to obligate and expend. The administrative office thereupon requests the Treasury to advance to the disbursing officer a certain amount of money under the particular appropriation. The disbursing officer subsequently draws checks and submits his accounts showing how much he has received, how much he has paid out, and how much balance he has left.

We have settled accounts by examining the vouchers to see that they are properly chargeable to the appropriation account. If there is no question, the amount is allowed, that is, the disbursing officer claims credit for the expenditure which he has made and reduces the amount by which he was otherwise responsible. That is allowed if the expenditure is proper. If it is not proper, the Comptroller General charges it back to the disbursing officer. What I am leading to is this: We merely channel that charge back through the disbursing officer; at the same time we raise the charge against the certifying officer and call on him to explain the circumstances under which he submitted such a voucher. If, on the other hand, the finance officer or disbursing officer has made a mistake, has drawn a check for a greater amount than he should have, and has failed properly to account for what he has received, then the responsibility rests solely with the disbursing officer.

What I wanted to do was to make clear that the responsibility is not solely with the disbursing officer. Certifying officers bear their full share of responsibility. They are required to execute surety bonds, and the disbursing officer is only responsible for errors which he makes due to carelessness or acts of his own.

There was another comment made about the responsibility of the Comptroller General, as to why he audits the way he does, or why a different kind of audit could not be made. The answer to that is that the Comptroller General is auditing now in the same manner as his office has audited probably for a hundred years. In 1894, the accounting procedures were reorganized somewhat and there were established certain audit officers whose duty it was to receive the accounts from the disbursing officers, and to examine and settle the accounts.

In the act creating the General Accounting Office, it was merely a carrying forward of those same routines, namely, that the General Accounting Office shall receive the accounts from the disbursing officer, properly supported with the vouchers evidencing the payments which he has made, and examine and audit those vouchers and accounts.

There is no authority, unless in specific legislation in a few instances, for the Comptroller General to go outside of his office or to move from where he sits, or for the auditor to do so. His position is that of receiving the accounts from the disbursing officer. Figuratively, the auditor holds out his hands to the disbursing officer or the administrative officer who examines these accounts, and transmits the vouchers to the auditor. The auditor has nothing to go on except the vouchers submitted in support of the accounts.

The Comptroller General under present statutes has no authority to prove or disprove the correctness of statements made in the vouchers. My personal feeling is that vouchers are sometimes prepared to get by the auditor. By that I mean they do not always faithfully disclose exactly what the transaction is, but, by stating it adroitly, they have found by experience that the auditor does not raise a question. If, however, all the cards were laid on the table, the auditor would not question it. The emphasis I am making is that under the present statutes the Comptroller General is not required to do more than make a voucher audit of the accounts of the disbursing officers.

We have gone outside of our routine a bit on war contracts, because they are usually on a cost-plus-fixed-fee basis, and involve charges made by the contractors which are reflected on the contractors' books. We can only examine those books at a contractor's plant.

We have 212 points at which those audits are being made in the field, but as soon as this cost-plus-fixed-fee contract era is over, and we pull back from the field, we will not be concerned with the accounts of the contractor who is furnishing services and supplies to the government.

Another point that was raised was about preaudit and postaudit. Preaudit has been dead for possibly three years. Preaudit was a practice not imposed by the Comptroller General on any agency of the government, but it was somewhat of an upsurge from the departments which had had difficulty in getting their vouchers allowed by the auditor in the settlement of accounts. So the suggestion was made by some of the departments, "Mr. Comptroller General, let us send our vouchers to you before we pay them. The service has been rendered, the supplies have been furnished, the voucher has been stated. These are the facts that we believe should permit the disbursing officer to make payment.

"Now, since there has been some unpleasantness about other vouchers, Mr. Comptroller General, would you look these over in advance? If they look questionable to you, if they are incomplete, not properly supported, tell us before we send them to the disbursing officer, and we will complete them, if it is possible to do so."

That was not a requirement for our office to perform. Under the laws under which we operate, the head of a department can ask the Comptroller General if it is proper for him to make certain expenditures as evidenced by such-and-such voucher, but usually that question is asked after the act has been done. It has very seldom acted as a control to prohibit the administrative officer from going ahead and doing what he intended to do in the first place.

For the last two years, preaudit has been withdrawn, and only in very few cases is a certifying officer under this new certifying officers act dubious about submitting a voucher for payment. Mind you, the service has been rendered, the transactions have been consummated, the government is obligated to pay. There is no holding up on anything that is to be done, except the matter of payment of the bill. Under the certifying officers act, the certifying officer can ask the Comptroller General for an advance opinion as to whether a voucher should be paid under the appropriation which has been indicated. The Comptroller General will advise him. Sometimes he says yes, sometimes no, in which case the disbursing officer has not paid the money out, and the vendor is holding the bag. He may continue to hold the bag until he can get a claim approved by the Court of Claims, which in itself does not make an appropriation available.

There yet remains the step to go to Congress to get an appropriation to pay vouchers for which judgment has been rendered. That feature is not generally understood. Too frequently the Court of Claims will allow a claim of a classification which the Comptroller General has refused to allow because appropriation does not provide for it, whereupon the administrative office says, "Hurrah, the courts have said that that expenditure is correct." But the court has not said any such thing. The court has approved the matter of the claim as equity, but they must yet go to Congress to get the money to pay the bill.

Well, I have covered certifying officers and preaudit. I expect that ought to be enough meat to throw to the lions for a start.

CHAIRMAN: You will have an opportunity to cover this subject in your paper, too, and there will be further discussion on that.

LLOYD MOREY: I appreciate Mr. Slaughter's comments. When the office of the Institute asked me to participate in the program, I pointed out the extreme difficulty of anyone in the field keeping right up to the minute on everything that is being accomplished in the way of changes and adjustments, and I am not surprised that there may have been some omissions in that respect in my comments.

With respect to this point about certifying and disbursing officers, I understood, of course, the provisions of the recent act with respect to this matter. I think that is a step forward, because it does put squarely on certifying officers responsibilities which were not clearly placed before. In practice, they were rather generally recognized, yet there was no legal requirement.

Obviously, an item must be a correct charge to an appropriation, and the fact that somebody may have intended or desired that an appropriation cover something does not make it applicable to an item if Congress failed to make the provision in the appropriation act that would cover the specific item in question.

Mr. Slaughter's point that correction through the Court of Claims does not carry with it an appropriation we recognize, all of us. I am a part of a state organization myself, and know exactly what those things mean.

But on this point of the liability and responsibility of the disbursing officer —if I interpret the discussion correctly, and if I interpret the act correctly, we have not yet relieved the disbursing officer of any responsibility on these things. We have simply shared that responsibility with another officer, to whom the disbursing officer himself is required to turn to get his own release.

I think, Mr. Slaughter, you indicated that the disbursing officer is still held responsible, if the item has been disbursed, even though the error in the disbursement was one for which the certifying officer is in fact responsible.

Mr. Slaughter: The degree of responsibility to which the disbursing officer is held is merely one of administration, in settling the account of the disbursing officer. We do not settle that account in its finality until these items have been adjusted or satisfied, but there is no action against the disbursing officer to recover from him for any expenditure for which an administrative officer under the certifying officers act was responsible.

Mr. Morey: Yes, but he is still held responsible until the matter is fully cleared, even though the reason for the incorrectness of the item is the reason for which he himself is not in any way responsible. Is that correct?

Mr. Slaughter: That is correct, and that grows out of our time-honored procedure of the government undertaking to pay its obligations, shall we say, directly from the Treasury to the vendor, or the individual entitled to receive payment. Many years ago, as I understand, in the early days of the Republic, most of the claims were settled on warrants paid by the Treasurer, and the disbursing officer as such was a very small potato. As the activities grew and it became necessary that a disbursing officer or a number of disbursing officers be selected (and they were usually in the departments and the bureaus of the agencies whose appropriations were disbursed), they were presumed to be so close to the administrative expenditure end of it that they would have, nevertheless, first-hand knowledge of the legality of the payment which they were called upon to make.

In the settlement of an obligation, the disbursing officer was merely an agent. He paid out the money. In the early days, it was not so much by check as it is now. The disbursing officer had moneys advanced to him on account of a warrant. He would take it to the Treasury and cash it, and he would use the cash to pay bills. He was personally responsible or accountable for all the money which he received. Congress, through the years, imposed responsibilities on the disbursing officers, or, rather, imposed legal restrictions on the appropriations and in effect said the disbursing officer is the last man who has a chance to stop any illegal payment, namely, by not making it. Therefore, he is responsible if he makes an illegal payment, and an illegal payment seemed to encompass everything that could possibly happen in the whole operation.

It may be that the supplies procured were of a quality that was inferior to those for which the voucher was paid. The disbursing officer of his own knowledge would seldom have an opportunity to know whether a plow had a fault in it or whether any material was defective; he paid, and that was as far as he could go. He may not have sufficient balance under one appropriation to make the payment, but he has under different appropriations. He may have arbitrarily decided he would pay it from a different appropriation. There were many things which he did have the opportunity to use, and a considerable measure of discretion, so the whole proposition of piling up responsibility on the disbursing officer continued to grow. As the activities grew, it became impossible for the disbursing officer to be anywhere near what was going on, making it utterly absurd to hold the disbursing officer for something that he had no way of knowing about. Thus the certifying officers act came into effect.

But, as you said, we channel the collections, the recoveries, the removal of suspensions, through the accounts of the disbursing officer purely as a ministerial operation for convenience in the settling of his accounts and determining the amount of balance which he owes to the government.

MR. MOREY: Well, it seems to me that what has been done in recent years represents progress all right, but, unless I fail to see the picture fully, we still have not reduced the responsibility of the disbursing officer to the point to which it seems to me it should be reduced. While we have raised the responsibility of the certifying officer to a proper level, yet that responsibility is more or less secondhand. I mean it comes through a disbursing officer channel, rather than in direct responsibility to the Comptroller General or the Treasury. Maybe I am not clear in that respect.

MR. SLAUGHTER: Mr. Morey, I would like to make another comment on that. There were certain disbursing officers who were not included in the provisions of the certifying officers act, namely, the disbursing officers of the War Department, the Navy, and, I think, the Coast Guard. The heads of the departments for those agencies seemed to feel that the disbursing officers should continue to be responsible for all the legal complications in the vouchers which they paid.

Frankly, I do not know why the act could not have been made universal, as far as all government disbursing officers are concerned, but that just shows there is no uniformity of thinking in the departments of the government.

MR. MOREY: Of course, that simply means that a representative of the department who is responsible and occupies a position of administrative authority other than the head of the department, or the officer ordinarily recognized as the spending officer, is in the case of those departments made responsible for expenditures and disbursements. That is the effect.

MR. SLAUGHTER: The effect is that the disbursing officer who makes a payment is responsible under his bond for the correctness.

MR. MOREY: But he is a member of that department, of course.

MR. SLAUGHTER: He is a member of that department.

MR. MOREY: And, therefore, is given that authority and responsibility in that department.

MR. SLAUGHTER: Yes.

MR. MOREY: Instead of its being assigned to the head of the department. I still come back to my first premise, that the ideal solution of this situation, which has been rather vexing through the years—it has been modified in one direction or the other from time to time—is that the head of the department, or an officer recognized in the department as having the responsibility for certifying expenditures, should bear that responsibility fully for the legality and the correctness of the appropriation charged, and that, if an error in that respect is made, then he should be directly and in the first instance responsible and accountable for the mistake; that the disbursing officer should act only as a ministerial agent and should account for all the money that is advanced to him, or which he receives either by cash or by evidence of his transfer in the proper manner or by vouchers which are certified by responsible certifying officers, and not be called upon to assume responsibility or accountability, or to enforce accountability beyond that point.

You are putting him, it seems to me, in somewhat the position of a police officer to check up on the certifying officers, whereas the latter are the ones who ought to be responsible. The disbursing officers, it seems to me, ought to occupy ministerial positions.

Mr. Slaughter: That is very true, but, as I said a moment ago, in the beginning the disbursing officers were a part of the administrative organizations for which they disbursed. Agriculture, for instance, had its central disbursing officer, and had many field disbursing officers. I have in mind particularly the forestry service, where each of the offices was manned by men of exceptionally high training and qualifications. However, it was felt that the administrative office probably exercised, on many occasions, what I would call undue influence in prevailing upon disbursing officers to make a payment which the disbursing officer, if left to his own, would have declined to make. That was one of the reasons, probably the foremost reason, for the consolidation of all the disbursing of the civilian agencies in the division of dispersement in the Treasury Department, to take away from the immediate control of the department or the administrative offices whether a disbursing officer should or should not pay a voucher.

Mr. Morey: Mr. Chairman, perhaps there is someone else who would like to make some contribution to this discussion.

Donald W. Corrick: Mr. Chairman, I am attending these meetings simply with the idea of being a listener, hoping to profit from the greater knowledge of our speakers.

This subject of certifying officers and disbursing officers has aroused considerable interest in my mind because it is a subject that the State Department has to deal with to some extent, more so now probably than prior to the war. Our department is constantly being called upon to make payments abroad for some of the old line agencies, more particularly nowadays for some of the newer agencies.

A case was brought to my attention the other day where we had paid a reimbursement travel account for an officer of another agency. That officer was a bonded, certifying officer, and had certified the voucher. Our officer had solely paid the voucher, I suppose under the provisions of the authority under Section 301 of the Economy Act, but we were acting as a service agency for another agency, simply as a disbursing office. We had paid this reimbursement voucher, and had been reimbursed by the other agency. So, to my mind, our function had been concluded, and yet apparently there had been some question of the legality of the payment. An officer of the other agency had called us to ask that we request an immediate audit of that particular voucher so he could determine the amount of suspension that would be raised in order to make a proper deduction on a payment that he had at hand, that is, the voucher that he had on hand for payment.

We in Washington perhaps do not get the opportunity to discuss some of these problems between our departments and the General Accounting Office, or between the departments and the Treasury, but we have the opportunity to discuss them here.

Could I ask Mr. Slaughter whether or not our responsibility ends when we or another agency have been requested to make payment, and we have made the payment? Our officer has no conception at all of the authority given under the appropriation which is ultimately charged with that disbursement. As I say, we have been reimbursed. As far as we are concerned, we have performed the service, we have completed it, we have used our own money, and we have been reimbursed. Why should we have to enter into the picture at all after that? Why, perhaps, should not the disallowance be on the man who certifies the 1080 form by which we have been reimbursed?

Mr. Slaughter: Mr. Corrick, if I may answer your question without anyone getting the idea that the General Accounting Office agrees to what I say—I am not the auditor, and it is not within my province to say finally one way or the other in answer to the question. My personal feeling is just this, and it is very similar to yours, that your officer made a payment of a voucher from your appropriation which, if it stopped right there, we would say was an illegal expenditure from your appropriation. But, under the provisions of 601 of the Economy Act, you recouped that money; you got it back. You are in the same position as if your disbursing officer had thrown the money in the gutter and had had to replace it out of his own.

Now, my way of thinking is that the factor of that overexpenditure against your appropriation has been recouped and it is an entirely separate matter from whence the money came, and that the disallowance, if there be a disallowance, should be placed against the officer who sent the voucher on which the payment was made.

Mr. Corrick: We are being called upon, Mr. Slaughter, to make lots of payments for other agencies, and we are requiring that those other agencies have a bonded certifying officer to certify the voucher before we make the payment, because it stands to reason that our officers, who usually are foreign service officers at most posts, are more interested in the consular and diplomatic functions of their posts than they are in the accounting problem. They do not like accounting. They look upon accountants in the way that the engineers of a former engineering agency that I worked with looked upon accountants, and I say they have no conception of the authority given in the appropriation which is ultimately in charge of the expenditure.

They have a voucher presented to them; it has been certified by one who we have told them is a bonded certifying officer; they have paid the voucher; we have recovered our reimbursement. I think we are within our authority in acting in that capacity under Section 601, which I misquoted as 301. I should think we would be out of the picture then.

Mr. Slaughter: My personal opinion is that you should be as far as your accounts are concerned, and that the next place to look is a step beyond the action charging the appropriation which reimbursed your appropriation. That was evidenced on the voucher form known as 1080 which showed the appropriation to be charged with this expenditure for which reimbursement is being made, and the officer who pays that voucher is the one who has made the illegal expenditure. So that is where the expenditure has rested.

Mr. Corrick: It seems to put quite a burden on my division if we perform the service (as we are willing to do), make the payment, and recover the disbursement. Then we think we are all through with it. Then somebody calls up and says, "Will you please request the General Accounting Office to audit that voucher, because we are sure there is going to be a suspension? We have another voucher for payment and we want to get it out."

Eric L. Kohler: Mr. Chairman, I happen to have been in the government service for slightly over five years, but, despite that fact, I find myself not very well indoctrinated in governmental procedures.

Before this amendment to the act was passed which extended the responsibility to certifying officers, or at least shared the responsibility of certifying officers as to the legality of vouchers, I had a chance to express myself in no uncertain terms regarding that particular act. My words, I am afraid, did not get very far.

My question was this, and it is the same question that I raise today: I utterly fail to understand why responsibility for expenditures is saddled on disbursing officers and certifying officers. I do not see the point. It may be something that goes back into the old days, and it is undoubtedly a rule, but it seems to me that in business we have that question coming up all the time. For example, if a branch office of a corporation is established in some distant point, certainly there is no certifying officer set up, although there may be a very large bank account turned over for expenditure of that office. The person responsible is the head of the office. So, as I view the situation, the person who should be responsible for expenditures in a governmental organization or a division that has a separate geographical location is the head of the agency, not someone away down the line whom we call a certifying officer or a disbursing officer.

For the life of me, I have not been able to see the point. I think if it were elucidated it would be possible to cut this argument short. I have found myself very restless over this type of thing, because I cannot see what the ultimate object is in trying to establish away down the line a certifying officer who puts his name on vouchers, which he is very careful to investigate before he puts his name on them; he looks up all the previous decisions of the Comptroller General before he does it, at least some of them do, and, if he doesn't, then the disbursing officer does.

As nearly as I have been able to observe in a number of organizations that I have come in contact with, there is great confusion existing at the present time between those two delegations of responsibility. In no case in any governmental organization that I have observed yet has the certifying officer been a person who has been anywhere near the top level in the management.

Now, the people who originate expenditures are the ones, of course, who should know about the legality of transactions, that is, the persons who have the authority to commit for expenditures are the ones, certainly, who should know about the rules or laws or decisions, or whatever they may be, that apply to those expenditures. How can it be on any other basis? It is inconceivable to me that expenditures can be incurred and later disallowed for the reason that the legality is being questioned about the time they are ready for payment.

William L. Slattery: I should like to say something on this subject with reference to Mr. Kohler's question, and it also hinges on the other question of the preaudit. It brings up a question of the Comptroller General which is little recognized and seldom mentioned. This whole difficulty, and a great many other difficulties in governmental accounting, arise through what the lawyers like to tell us—that this is a government of laws. The reason that people approach the Comptroller General for preaudits, and for the doubt in the minds of disbursing officers and certifying officers, is the faulty, vague, or long-drawn-out law which requires interpretation. While it may or may not have been mentioned in the Budget and Accounting Act, as a matter of practical progress it has devolved upon the Comptroller General to interpret the will of Congress. Whether or not a payment is legal under a vaguely drawn clause remains for the Comptroller General to say, as the word of last resort. When the Court of Claims gives a contrary opinion, you simply have two lawyers interpreting the same clause, and doing it differently.

That is the one difficulty in all our affairs and one thing that sets off governmental accounting from commercial accounting.

Edward J. Kelly: I should like to make a comment with respect to Mr. Kohler's remarks. As you know, the Food Distribution Administration does the stock piling for all of lend-lease activities in so far as foods and agricultural products are concerned. Now, the men who do the certifying have absolutely nothing to say about contract letting. We have six officers in this country, one in Honolulu, and one in San Juan, Puerto Rico. We pay about 33,000 documents a month. None of the individuals who let the contracts probably knows the names of any of the individuals who do the certifying.

We are faced with the difficulty, furthermore, of not getting competent personnel. Consequently, we are sometimes forced to have Grade V clerks earning $2,000 a year certifying documents which in a week's time may involve as much money as they conceivably could earn in their entire lifetimes. Presumably, they shall in each instance look through the contract to find out whether or not what is invoiced appears to be in the terms of the contract. None of them is a lawyer; many have little more than a meager high school education. Very frequently, we face this difficulty: A certifying officer balks at certifying, and yet his superior puts on pressure solely on the score that, if we do not pay this particular vendor, the vendor will telephone Congress, Congress will telephone Hendrickson, Hendrickson will telephone Kelly, and on around until somebody gets paid.

C. G. VANDER FEEN: I have one question that I am not sure is pertinent to the exact discussion, but, in regard to our accounting relations with the federal agencies, we seem to be in some confusion as to the duties and functions of disbursing officers, as to their responsibility and authority to accept receipts after they have approved disbursements, what might be termed refunds. Those arise out of these cost-plus-fixed-fee contracts, whereby the insurance carrier receives substantial moneys during the term of the contract, and, at its expiration, or even before, must render a preliminary settlement and return to the government all moneys in excess of the prescribed contract terms which amount to losses, expenses and a small fixed fee. Those moneys go back to the disbursing officer, and I am just wondering if he has the authority generally to accept them and certify them without recourse to the General Accounting Office.

CHAIRMAN: Mr. Slaughter, do you want to answer that?

MR. SLAUGHTER: Yes. Any disbursing officer or any accountable officer may receive moneys on behalf of the United States Government. By an "accountable officer" I mean one who renders accounts of his monetary transactions to the Comptroller General. If there is any doubt in the mind of this accountable officer as to just what classification these collections shall take, provision is made for him to deposit the checks which he has received in a special deposit checking account until he can confer with the agencies concerned, and with the General Accounting Office, if necessary, to determine what disposition is to be made of these moneys tendered from whatever source they may come. That answers the question very broadly.

CHAIRMAN: Any further question or any further point?

MR. SLAUGHTER: I would like to add to the discussion of the subject of certifying officers and of the fact that certifying officers, as a matter of practice, have been selected from the, shall we say, lower level in departmental organization. There is nothing in the law that I am aware of which would preclude the head of any department from acting as a certifying officer if he wanted to act in that capacity and execute a bond. The head of the department may designate the head of a bureau or the head of an agency or of any activity under his supervision, or he may go down into the clerical level and designate an individual who shall function as the certifying officer. In accounting for government moneys, the whole line of accountability runs through individuals. There is individual accountability for moneys received and for moneys disbursed.

Disbursements ordinarily may not be accounted for in the name of a corporation, or in the name of an organization, whether it be a corporation or not. It must be in the name of an individual designated as an accountable officer or a disbursing officer, and it is that direct relationship which has operated from the beginning of the financial system of the federal government.

JOSEPH M. CUNNINGHAM: Mr. Chairman, may I say a word?

CHAIRMAN: Certainly. Mr. Cunningham is Deputy Comptroller of the City of New York, and I think represents the Municipal Finance Officers Association at this conference. Before you came, Mr. Cunningham, I referred to the fine program under the National Committee, that your group has carried on.

MR. CUNNINGHAM: Thank you, Mr. Ellis. I also have a federal function at the moment, in a very moderate degree, since I am acting (a very vague word) as consultant to the Foreign Economic Administration. But, on this particular point, which is certainly so fundamental in the general organization of the general attack on the financial problem in the City of New York, which has a comparable financial problem (they add another zero usually, or deduct another zero usually in wartime) we have the largest city problem, which is the largest government outside the federal government.

Our system is this: The treasurer is the disbursing officer. He has no responsibility whatsoever. The certifying officer for the City of New York is the comptroller. Under the charter and the established law, he is fully and completely responsible for all disbursements of the city, no matter by whom made. His practice is to designate a number of other certifying officers whom he holds responsible, so that there is a direct line of authority or certification of authority from the comptroller down, but in general the comptroller is the certifying officer.

Certainly, if that system were applied to the federal government, a certifying officer, the top financial auditing man for a government department, with the disbursing officer a cashier, it seems to me it would be a possible working arrangement.

CHAIRMAN: Mr. Cunningham, would you go a step further as to the auditing? After you have the responsibility of certifying, do you also audit those accounts, or is there another function auditing you?

MR. CUNNINGHAM: Our work is entirely preaudit. Like the Comptroller General we require all the documents to come to us, and those documents form the reservoir of the archives of the city. We recently had to get out a contract that was signed in 1795, and our archives produced it. It was a contract for the rent of Bowling Green at the rate of 1000 peppercorns a year. Our department produced the document.

We make a complete preaudit before we certify. That preaudit includes even inspection of the materials and the goods. We go a long way. We have a unified operation to do it. But our audit is entirely preaudit. We certify, and the treasurer must pay on our certification; he can never question it, unless there is fraud. We have a department of investigation authorized to audit us if they care to. The proposition has been so big that they simply have not tackled it, but they have the authority to do so.

MR. SLAUGHTER: I would like to make the comparison that the preaudit performed by the City of New York before payment is comparable to the administrative examination given to the voucher before it is submitted to the disbursing officer to pay.

MR. CUNNINGHAM: I believe that is a correct statement.

WILLIAM R. QUIGLEY: My remarks right now are in the interest of keeping the record straight. I believe Mr. Morey said there had been improvement in the certifying officers' situation during the past few years. I doubt it very much. It also goes back to a remark that Mr. Slaughter made in which he said that the primary purpose, or one of the main purposes, of channeling disbursements into the division of disbursement was in order to have placed in that division a responsibility for payment and to take it out of the administrative agency which incurred the obligation. That may have been a commendable reason for the executive order that established the division of disbursement and placed the responsibility in the disbursement officer.

It seems to me over the past ten years that we have gone completely around in a circle. We changed, and put the disbursement in the Treasury Department, and I do not believe that we should consider as one of the main reasons for putting it there that it was to fix responsibility for payment there. I think the main reasons should be considered as probably economical. With that division in authority under the executive order, though, for several years we did have this overlapping field of responsibility between the disbursing officer and the administrative certifying officer which resulted in the certifying officers' law. But that law fixed definitely a bonded responsibility and a financial responsibility right back upon the certifying officer of an agency, in the same manner as those people were responsible for disbursements when they did their own disbursing prior to 1943. So, I think we have gone right around the circle, and I wanted, for the record, to instil the doubt that there had been an improvement.

Mr. Morey: Mr. Chairman, may I pick up again at this point for just a little while? I find myself for this once in very close agreement with the position taken by Eric Kohler, and that is sufficiently unusual over the long record of friendly differences between Eric and myself to make it a matter of public mention.

It is perhaps also worth while to call attention to the fact that even certified public accountants, even members of the American Institute, do not always agree on the particular solutions of some of these problems.

In my remarks in my paper emphasizing the responsibility that should be placed on certifying officers, I want to admit to incompleteness in terminology to express what I really had in mind. I should have used the term "spending officer" there, because that is the place where I think responsibility should be put. I had perhaps jumped to the conclusion, and yet I should have known better, that it should be the spending officer who certifies these vouchers in all instances. As a practical matter, it is perfectly obvious that the head of the department cannot do this. Nevertheless, whoever does it for him and in his behalf should be responsible to him and not to a central agency of the government, it seems to me. That carries out the procedure that is followed as Mr. Cunningham described, as I understand it, in his own organization, that is, the individual who acts for the comptroller here is responsible to the comptroller and not to the City Council.

Mr. Cunningham: Yes, that is true, but the comptroller himself is the absolute last word; he does not report to any head of an agency or the mayor or anyone else, except to the administrative body of the city, or, rather, the legislative body of the city, which is the City Council, and to the voters who elect him.

Mr. Morey: But the comptroller is responsible.

Mr. Cunningham: That is right.

Mr. Morey: In the State of Illinois it is required within the law, as Mr. Manvell, who was head of our budget bureau in Illinois, can verify, that certain appropriations be made by the heads of the various agencies. The actual fixing of signatures can be delegated by those heads to subordinate people, but the heads of the agencies continue to be the responsible persons, and the certifications are made in their behalf. That is, in fact, what I had in mind in my attempt to differentiate between the two.

May we take a little time, Mr. Chairman, for one or two of the other subjects that were mentioned by Mr.

Slaughter? That does not necessarily mean that this certifying and disbursing officer problem is completely solved, but I think we have brought to light some interesting features of it.

With respect to the problems of audit —and I realize that tomorrow these things will be dealt with more in detail —I would like to raise two or three points. First of all, on the matter of preaudit by the Comptroller General, it seems to me that the discontinuance of preaudit by that office is in the direction of better procedure. That does not mean that the office may not properly be called upon, as it can be legally, for an expression of opinion as to certain types of things. That is the advice that any public accountant would give to his client as to what might be considered a suitable and appropriate method of doing things, or advice on certain types of transactions, but that does not of itself relieve responsibility of any officer. He must act on his own judgment after having secured this advice, and the Comptroller General is still free to audit and reach his own conclusions after he sees the transaction in its complete and final form.

If a preaudit were carried out along the lines that were considered formerly, it would be making the Comptroller General's office the chief accounting office of the government, and it is a proper and fair question whether it is appropriate to make of that office both the chief accounting office and the chief auditing office.

That point leads directly to the question of audit, which Mr. Slaughter raised, particularly stressing his doubt as to whether there is authority for the Comptroller General to go outside of his office. I am wondering if Mr. Slaughter would comment on that, in the light of Section 312 of the Budget and Accounting Act, which not only authorizes but, I believe, requires the Comptroller General to investigate at the seat of government or elsewhere all matters relating to the receipt, disbursement, and application of public funds. Would not that give the Comptroller General complete authority to make his examinations in any respect that he may find necessary at any place in the realm of the governmental operations that he may see fit?

Now, whatever the answer to that question may be, that is, there may be other things in the law that I am not recognizing, I would still raise the question as to whether the procedure is right even if it is in the law. In other words, whether the requirement that these examinations be made only at the office of the Comptroller General in Washington is the best and the most correct procedure. If it is not, why shouldn't we face the thing squarely and all of us work together in getting a suitable change?

Mr. Slaughter: If I may answer that last question first, the fact that we audit the voucher as submitted to us through the administrative office after it has been paid is one which is specified in the act of 1894, which was carried into the act of 1921 creating the General Accounting Office. Let me trace back a little bit to the beginning of the voucher proposition. The administrative office incurs the expenditure in due course, receives the materials and supplies or the services, as the case may be, and prepares a voucher. A claimant signs that voucher, stating in effect the claim against the government. The administrative organization approves that voucher for payment. It goes to the extent of saying, "I certify that the amount is correct and just. Payment has not previously been made for this particular transaction," and a number of other specifications which statutes have more recently put into operation about American materials and products, and into American citizenship with respect to employment personnel.

That operation is entirely administrative. The administrative office certifies the voucher. I must say it is unfortunate that they have selected a certifying officer so far removed from the transaction, if he does not know anything more about it than the fiscal officer would have known if it had no certifying officer. That is a matter of administration.

The certified vouchers then go to the disbursing officer, who pays them. At the end of the month, the accounting period, the disbursing officer transmits his accounts, not directly to the General Accounting Office, but back through the administrative office, sending the voucher for a so-called administrative examination. That is to give the administrative office a last chance, so to speak, to examine the vouchers and the accounts, to see that no changes have been made in the amounts, or in the names of the payees, or to do such other acts of verification as the administrative office chooses to do.

My personal feeling is that this is very little in most cases; that the vouchers are merely routed back from the disbursing officer to the administrative office. They verify the totals as shown on the disbursing officer's accounting report, called on account current, and, if it is reconciled with their records, the whole accounting is submitted to the General Accounting Office.

The point is that the administrative office has a chance to review these vouchers before they get back to the Comptroller General for him to audit. As I said a while ago, the audit made by the General Accounting Office is a voucher audit. If the vouchers are incomplete in statement, if they show errors in computations, if there are any errors of various kinds, or questionable entries on those vouchers, the auditor has nothing before him except that cold voucher to examine. If the auditor finds nothing wrong with it (it may be just as wrong as can be) he may allow it in the accounts of the officer as claimed. It may then come to the attention of the Comptroller General that there is some irregularity. I would not say that the office is naturally suspicious of everything, but we are suspicious at times of some things, and that provision in the statutes quoted a moment ago on the authority of the Comptroller General to investigate at the seat of government or elsewhere has to do with his right to make inquiry entirely apart from the consideration of a disbursement voucher.

As I said, on the one hand the voucher may be allowed without question; on the other hand, information has come to the Comptroller General's office that there is something irregular in connection, not so much with that particular voucher, possibly, as with a whole program as indicated by that one voucher, but that is incidental. The right to investigate and to go out and examine the accounts of an agency has to do, probably, more with investigations aside from the matter of auditing the vouchers in the field.

Chairman: I wonder if I may take a moment. I think the question of preaudit needs a definition as it is used in the federal government. I think you are preauditing everything. As I have read the history of this whole development in the earlier days of our federal government, when activities were closer at hand, you could carry out something somewhat similar to what Mr. Cunningham has indicated they do in the City of New York. It is really an administrative preaudit and a definite settling at that moment.

As the activities of the federal government spread all over the country, and even all over the world, it was impossible to get that administrative preaudit. Therefore, we whipped the devil around the stump by setting up the disbursing officer, and whatnot, and making him the goat to hold the thing until it is preaudited. The thing is not settled until after you clear his accounts, even to the point as you, Mr. Slaughter, indicated earlier, that after the Court of Claims may allow it, you may have to go back to the Congress, so that the supplying organization and everybody along the line have to go back to Congress and air their dirty linens in an administrative way, because somebody, maybe through faulty judgment, or whatnot, authorized a payment in all good faith, and, therefore, until you clear the man that you are holding responsible, you have not made an audit. Therefore, I say that practically everything you do is a preaudit because of that situation; otherwise, the thing would be approved, you would make an audit later on, and then maybe make the head of the department, as Mr. Morey has indicated, the spending officer held responsible, and deal with him, rather than make it necessary for everybody to know all these technicalities and these possible technical interpretations on the legal side.

I would like very much when you come before us tomorrow, Mr. Slaughter, with your paper on auditing to discuss it from that angle. I am making the charge that you are preauditing everything when you come right down to the final analysis, because nothing is clear until after the disbursing officer and the certifying officer have been cleared.

Mr. Slaughter: I think possibly you and I are not using the same meaning in the term "preaudit."

Chairman: I think that is true throughout, and the only reason I am throwing it in here is I think it needs clarifying. I would like to clear that. May we just leave that until you bring up your paper, and then we will have further discussion.

Mr. Slaughter: I can tell you in one minute what preaudit is, if I may. Preaudit is the audit given prior to payment. Postaudit is the audit given after payment has been made. Preaudit was the practice in certain instances upon the request of the departments, when the departments asked the Comptroller General if he would preaudit certain vouchers of theirs which they sent to him to preaudit. Now, that was an audit by the Comptroller General before payment, but that has since been abandoned. We are now auditing on a postaudit plan, namely, after payment has been made.

Chairman: But you are holding somebody responsible in making that determination. As an administrative setup in the clearing of the disbursing officer, you are acting exactly in the same position as Mr. Cunningham's setup, and later you audit your own transactions. That is the bone of contention and the thing which we as public accountants do not see. Now, either the Comptroller General should be a super-administrative officer making these predeterminations, or he should be an auditing function. He cannot be both, and I think that if this two-day conference could clarify the situation we would do much to clarify the thinking of many on the procedures in the Comptroller General's office.

Mr. Slattery: In all the discussions I have ever attended, I usually found people doing as you and Mr. Slaughter are very evidently doing now. You say the word "audit" and you have something in your mind. He says the word "audit" and he has something quite different in his mind. These things are not audits at all, in a sense. As a matter of fact, I do not quite understand what Mr. Slaughter said, because the General Accounting Office is continuing to preaudit in the form of answering letters which come to us as opinions. If we are not sure of what we can do under an act, we write to the Comptroller General and say, "We want to make a payment of such a thing to such a person. Is it OK?" He writes back and says that it is; and that is a preaudit.

Chairman: It is an administrative determination, too, is it not?

Mr. Slattery: It is complete. The government is bound right then and there; nothing can happen to that payment if the Comptroller General says it is OK, and the payment is what the man described in answering the question.

When you say audit, Mr. Ellis, you

are talking about a commercial audit, where a man goes in back of the transaction, is responsible in the certificate which he puts on the balance-sheet that it has been audited, or qualifies to cover himself. But in the government, audit, audit, audit has come down through the years, and when you tell a man in private life that you can complete the audit of a government function without looking at the books, then, of course, you come to that great gulf that you hope to clear up.

Paul Grady: It seems to me Mr. Jones is getting off too easily. I would like to direct a question to him. He made the remark, with which I heartily agree, that the reports submitted by these governmental agencies can only be as good as their actions. I think we can carry that one step further and say that the accounts are only as good as the effectiveness of the system of accounting control that is maintained in the agency.

I strongly suspect there is something to be desired along those lines in many of the agencies. I should like to ask Mr. Jones if the Bureau of the Budget has any authority or responsibility for bringing about within the agencies a higher degree of effective accounting control.

Mr. Jones: Legally, perhaps not, since the prescribing of the administrative act is by law in the Comptroller General, but because of 8512 we certainly do have a good deal of responsibility and authority to ask for a report. We ask for them constantly. The Estimate Division in the Bureau of the Budget asks for more reports perhaps than any other one agency in the country. These fellows who have been up before the budget know how much information is asked for. You may sit up all night because of a question asked, or two nights running. An agency will break its neck to get all the information possible for the Bureau of the Budget, because it is justifiably requested to do so.

The records you are thinking about are outside of our strict sense of accounts, but, as far as I know, Mr. Slaughter, the General Accounting Office has never vetoed an administrator who wanted to set up accounts and records for himself.

Mr. Slaughter: Let me answer that question. Under the authority given the Comptroller General that he shall prescribe the accounting forms, systems, and procedures for administrative and appropriation fund accounting, we have gone into as many agencies as we have had men available to survey their accounting needs, and, as a result of their surveys, subsequently prescribed an accounting system. It has been the purpose and desire of our office to prescribe such an accounting system as would enable the administrative office to prepare from its accounts such reports with respect to its obligations and expenditures under its appropriations as may be required for administrative purposes, or for any other purposes. We have certainly never vetoed the desire of any agency to prescribe an accounting system. In fact, we do not believe they can know where they are or where they are going or where they have been unless they have an accounting system to plot the course. Our objective, ultimately, is to get into all the departments for the purpose of prescribing a uniform accounting system. Within the past month the Comptroller General has promulgated general regulation No. 100, in which is set forth a complete accounting setup for all agencies of the government, regardless of what their types of activities are, and providing for the proper controls over appropriations.

We have no means to police our system to see that it is physically worked in the manner prescribed. The best we can hope to do is be good enough salesmen to sell the system to the people who are to operate it, arouse their enthusiasm about it, and call on the agencies for reports which we believe will be fair indications of how the accounts are being kept.

MR. JONES: I do not want you to get the misunderstanding, though, because of these good words between Mr. Slaughter and me, there are not large groups in the administrative and executive side of the government who believe they are bound unduly or restricted unduly because of this provision that accounting has to be prescribed at the General Accounting Office. That is the law now. We are working very well together, I would like to announce to this group, through a departmental committee, if you please.

The Comptroller General has appointed Mr. Slaughter, the Secretary of the Treasury, Mr. Bartelt, the Director of the Bureau of the Budget, and myself as a committee. We meet monthly, or oftener, to talk about these things called proper and necessary reports and accounts. Mr. Slaughter, can you quote the amendment to Executive Order No. 8512 exactly?

MR. SLAUGHTER: It is No. 9084, as I recall. In that Executive Order it is stated that any requirement with respect to accounting terminology, and so forth, before it shall become effective, shall be approved by the Comptroller General.

MR. JONES: There you can see the executive side and administrative side; they are unduly restricted. It goes back to what shall be the proper allocation of the accounting function. Where shall it be—with the Comptroller General or over on the administrative side?

MR. KELLY: I should like to refer to a remark Mr. Corrick made and one Mr. Jones made. How far shall the General Accounting Office go in prescribing accounting systems? In my limited experience in government (very limited), I am quite clearly getting this impression, that the primary function of accounting thus far is to keep people out of jail. It seems to me that, apart from the necessity of reporting to Congress for appropriated moneys, accounting reports ought to be a powerful tool of administration. Therefore, we ought to have some device for measuring the efficiency of the administration on the part of the various agency heads. One way of doing that, it seems to me, is to allow some latitude—and the amount of latitude is a matter to be determined at great length at some time in the future. How much latitude shall an independent agency have in arranging its own set of accounts? I should think that, in the long view, you who are on this committee of the American Institute might well consider that question with respect to using accounting reports as a device for determining how well an agency head has administered the work load placed on him. With respect to your comment, Mr. Jones, about efficiency, I find that there is nothing said about inefficiency so long as the total sum of dollars expended was less than it was for some prior interval. No reference is made, I observe, to the quality of performance with respect to the assignment that was given to the administrative head.

Now, that leads me to a third comment: I am one of those who Mr. Jones has said stayed up pretty late at night to answer somebody's question. It did not happen to be yours, or the Bureau of the Budget, but Congress. I am firmly convinced that some effort should be made, and it seems to me that this committee can put through the entering wedge, whereby the questions which are asked by Congressional investigating committees for information are reviewed by people who have had training in both accounting and statistics before the agency head or representative who is on the witness stand and who is asked the question really is ordered to produce the data. Fundamentally, my reason is this: In accumulating the accounting and other nonfinancial statistics within an agency, the accumulation process is obviously laid out with respect to the end product that is wanted for administrative purposes if at all within the agency. Now, very commonly you will find that Congressional committee requests call for information which involves a reclassification statistically, which cuts transversely across the manner in which it was originally collected. Now, the only way of answering that question is to go back to the original documents and reclassify them, and I have stayed up until two o'clock in the morning often enough now to be firmly convinced that a very good service will be done by Congress to itself and to the administrative agencies of the government if something of that sort could be done. Whether it should be done through appointments to the Congressional committees themselves of permanent staff members, or by way of the office of the Bureau of the Budget, or by way of the office of the Comptroller General, I don't know. But I do feel that it would be a material aid in this whole problem.

MR. GRADY: I just wanted to clarify further the point of my previous remark, and that is that accounting systems would be the thing we got back to in the answer to the question. It is a second problem, to my way of thinking. It is important, but I do not think it is of prime importance. The really important problem is the one of bringing about effective accounting organization within the agencies. It seems to me that the Bureau of the Budget can really be a better catalytic agent in that direction than perhaps the General Accounting Office, and that is the reason I addressed my question to Mr. Jones. It seems to me, even if the Bureau of the Budget perhaps does not have direct authority, it could, through an advisory function through the President's office, bring pressure to bear on these large agencies to organize themselves to perform properly their internal accounting function. I really think that is the crux of the problem.

MR. JONES: I know that the administrative management division of the Bureau of the Budget has done a great deal along that line. Mr. Manvell, maybe you have not been with us long enough to know some of the historical development there, but I know in a number of cases we put a good deal of emphasis on who shall be this accounting officer, what level he shall be, and some studies on that, and, likewise, on who should be the personnel man. Those staffs have been increased. We are not supposed to help agencies get money, but I think it is fair to say we have been sympathetic in increasing the staffs of the accounting groups within the agencies. Administrative management has been very much interested in getting the proper personnel organization, so a study of where the accountant for the agency is, what he should do, and what kind of staff he has comes directly under the administrative management division of the Bureau of the Budget. I wish Mr. Stone were here to discuss it further. Some progress has been made.

ALLEN D. MANVELL: I might comment on that. It is rather difficult to set the framework of the various efforts that you might say have something to do with that, but, while I have been in the division a fairly short time, I have seen some evidence of how you might classify it. For example, I know directly of a recent case of a rather sizable agency aware of their problem in that very definite respect, feeling that the detailed process, as well as the internal organization, was defective. They wanted to change, but they were weighted down with pressure. One man from our particular section worked with them over a period of two or three weeks, actually with changes being made, and they went along, making a reduction in personnel as an end result, but mainly speeding up the work. We have had several reports of their having wiped out a backlog of work, and of their feeling much happier about the whole setup, one mainly involving detailed procedures.

As I recall it, there were some seventy little details, specific changes, recommended; only one organizational change. That is typical.

The Bureau is limited by shortage of manpower. That takes time. On the other hand, there will be general studies trying to evaluate and encourage the proper locations as to responsibility in relation, say, to the budget function, other staff functions, and top administrators. There are efforts, also, aiming at an analysis of common procedural problems as they result from central requirements, such as those of the Bureau of the Budget or General Accounting Office where we take a given requirement and analyze what type of procedure or internal structure is most effective in respect to meeting that need. That is a recognized way of getting at this thing.

I do not think any of us would claim that as much has been done as possibly could be, but there is a definite awareness, I think, in the administrative management division of the need, and efforts are being made in various ways.

CHAIRMAN: Just for the record, I would like to make this comment: I am wondering about these uniform charts of accounts that have been prescribed by the General Accounting Office. How much has been correlated, Mr. Jones, with the work that you are doing in the Bureau of the Budget with regard to classifications in connection with budgets and appropriations. We do have the problem here of making an accountability back to Congress for moneys appropriated, and there should be a certain amount of uniformity in that over-all picture. Yet, with the varied activities of the federal government, you could hardly prescribe a uniform system that would fit in all the various activities, agencies, corporations, and whatnot of the government. There should be some leeway there built around this organizational question. I think Mr. Grady has raised a very important point. We as auditors are coming more and more to realize the importance of the whole system of internal check and control, and that one of the big things the auditor does is to check the intelligence with which that inner organization is functioning and carrying out the controls and safeguards set up to insure that the money is spent for the purposes for which it is appropriated.

The meeting is now open for discussion of any of the papers given thus far. Do you have any questions you wish to ask, particularly on Mr. Bartelt's talk?

PAUL W. ELLIS: I do not know whether this is an appropriate place to ask this question or not, but there are a couple of things that have occurred to me. I am particularly interested in handling our regular series on government finances.

In looking over the daily Treasury records and daily Treasury reports and annual reports of the Secretary of the Treasury, it is pretty difficult to tell whether an expenditure is going to be repaid. It seems to me it is of considerable importance to the public to know whether there is some probability that the expenditure will be repaid at some future time.

There is another question, too, somewhat similar to that. I think Mr. Bartelt has done some work in connection with the balance-sheet to which this relates. It is important to know whether an expenditure is a recurring expenditure or whether it is something in the nature of capital outlay. Of course, I grant that it is somewhat difficult to distinguish between those, but, if it is possible in reporting government expenditures to classify them as to loans and capital outlay and operating expenditures, it would be quite helpful to the public in interpreting the government's financial condition.

E. F. BARTELT: You noticed I did not say anything that would cause any controversy. I agree with you. I do not see any reason why the federal government should not recognize the same accounting principles with respect to classification as is recognized by accountants in the commercial field. I look upon accounts very much as one would look upon a file. Unless you properly classified accounts, you would not know where to look for a thing any more than you would if you improperly classified an item in the files.

Whether capital expenditures are included in a balance-sheet or not, I still think that in a classification of governmental expenditures that distinction ought to be recognized.

Along that line, it may be of interest to note that the Congress recognized in one instance a fundamental business requirement when it created the Commodity Credit Corporation. This corporation has a capital stock of a hundred million dollars, and the law creating it requires an annual appraisal of its assets and liabilities. This appraisal must be made by the Secretary of the Treasury as of March 31st of each year, and if there is an impairment of the capital, the Secretary of the Treasury is required to submit the amount of the impairment to the Bureau of the Budget for an appropriation through the appropriation channels. On the other hand, if there should be a surplus, that amount will be turned in to the Treasury in that year.

What that means is that the federal budget for that particular year, in the case of the Commodity Credit Corporation, reflects the real expense that the government entailed in connection with the operations of the Corporation during that year. I mean it gets away from the general idea of charging out as expenditure the full amount that you invest, whether it be in the nature of a loan or capital stock subscription.

I agree with you that there should be a classification of expenditures so that we know what we are spending the money for.

MR. SLAUGHTER: In this uniform accounting system which I mentioned this morning, a classification of accounts is provided which shows very clearly the investment of a department or governmental organization in property, in accounts receivable, in stores, usable stores, in loans receivable, and in operating expenses. The operating expenses are subject to such refinement as a particular agency desires. There is no limitation placed on how much refinement may be gone into.

WILLIAM S. WOODMAN: I have no official status here. I am just here to see if I can pick up a little information. These discussions on the control of expenditures have left a question in my mind as to what controls may be exercised at the time of inception of the expenditures. By that I mean, is there any method followed by the government similar to the encumbrance procedures followed by many of our cities in which the purchase orders are approved as to expenditures and propriety of expenditures before they become a valid obligation? Of course, after the obligation has been incurred, somebody is going to have to pay it whether it is proper or not. I just wondered if the government follows a policy along that line.

The other question is one that Mr. Bartelt touched upon—as to how the revenues are controlled. I have formed a private opinion—maybe erroneously—that the principal difficulties in governmental operations in most instances arise in the failure to control collections and revenues, and that the controls over expenditures are pretty well set up, and usually operate rather effectively. Most defalcations I have had contact with have arisen through failure properly to report and record collections.

Mr. Bartelt referred to the auditors of the customs department auditing all customs transactions, and I am wondering what other safeguards are thrown around other sources of revenue.

MR. JONES: That is exactly what we have tried to do. There is no power in the world to keep you from some day drawing the check, and it will be issued, and some day be cashed by the Treasury. You must have budgetary control. That is what we have in mind as the objective when you do this apportionment on a quarterly basis. The thing is, you cannot obligate more than has been apportioned to you. You have to submit, then, Form 3 under Regulation 1, which shows how much of that appropriation has been obligated up to date, how much has been spent, and how much is unobligated. That is what we are trying to do at the appropriation level.

MR. WOODMAN: It seems to me if that is done effectively, all this minute consideration after that point is rather ineffective, is it not? I know, for instance, of a system that was recently installed in a fairly large city. They require no approval of the expenditure after the point of approving the purchase order. If the purchase order is properly approved by the department heads and the comptroller, and by the director of finance as to sufficiency of appropriation, then no further approval is required other than the purely clerical matters of checking extensions and footings and distribution.

MR. SLAUGHTER: May I supplement your remarks on that, Mr. Jones?

MR. JONES: Please do; you are so much more familiar with it.

MR. SLAUGHTER: I have mentioned Uniform Accounting System General Regulation 100 promulgated recently. Nevertheless, that is a system and procedure which was first released in 1927. It has undergone the tests of actual operation since then, with very little modification. Briefly, the system is that when Congress makes the appropriation, regardless of the fact that Congress does not create cash at that time to fund the appropriation, the administrative office considers that the amount appropriated them is cash in the bank or cash with the Treasury, and they have set up on their administrative accounts two figures. They set up cash as an asset, and a capital account, if you please, for the same amount on the opposite side of their accounts. Under that second account, that capital account, they subdivide that administratively into allotments. The allotments are not fixed according to any particular plan, but they are allotted according to the plan of the particular organization for which the appropriation has been made. Some of them, where the activities are fairly centralized and readily controlled from a central place, are usually made, let us say, by an objective classification, that is, so much for salary, so much for travel expense, so much for rents, and similar classifications.

In other cases, where the work of the agency is in the field and has various offices, the allotments may be made according to the field offices, but it must be borne in mind that the sum total of the amounts allotted must not exceed the appropriation. So, therefore, if you do not exceed any allotment or all of the allotments, you are within your appropriation.

In the matter of staying within the allotments and obligations, it is the same thing as Congress making an appropriation to a project. They are obligated not to spend more than that amount. So the agency incurring the expenditure or responsible for the expenditure of that money proceeds to determine how much it is going to need for its various fixed overhead expenses. They will obligate the personal services, set a certain amount. It is reflected on their accounts as unliquidated obligations. So the total of allotments plus unliquidated obligations at that stage will add to the amount originally allotted.

What I have said as to obligating personal services follows through for the issuance of traveling orders authorizing an individual or group to travel, or issuance of transportation, or issuance of freight bills governing bills of lading entering into the contract, or the issuance of purchase orders. In most of those instances, it is difficult to know exactly how much is to be expended. It is approximated at as nearly an accurate figure as can be ascertained, but, nevertheless, that figure is of record, and it is recorded against this particular allotment account and is set up, as I said, as an unliquidated obligation.

Now, at that point, if these obligations have been issued or are to be issued for amounts in excess of the appropriation, there is where your administrative officer is put on notice. You haven't enough money to do it. Whether your allotment is based on a monthly, quarterly, or annual basis, or whatever your control is, as long as you record against that the obligations you actually entered into, you will know pretty well in advance of spending the money how you stand with respect to your available balances.

As these orders are billed, as these payrolls are prepared for payment and are sent to the disbursing officer, the amount of the obligation is canceled and a charge against the allotment is made for the amount. In that way you pick up the adjustments of any errors you may have made in estimating previously, and you accumulate the total of your expenditures. Therefore, if you add the total of your expenditures plus the total of your unobligated obligations, plus your unobligated allotments, you get right back to the amount originally allotted to you. As long as you maintain that control, you know that you are within the amounts available. There is nothing to stop you from issuing orders if you are inclined to do so.

MR. JONES: That was the point of the whole thing. Are the administrative officers in charge of these various activities charged with the responsibility of discontinuing the issuance of obligations when their allotments become overdrawn?

MR. SLAUGHTER: They are not only authorized, but it is their duty. It is an administrative responsibility, and not one in which the Comptroller General or the Budget or the Treasury is concerned at that time. It is entirely and exclusively administrative, and its administrative action can be taken to cancel an obligation almost as easily as to create an obligation. I say "almost," because there is this difficulty: If your vendor or your contractor has incurred expense towards fulfilling his orders under your purchase orders, you may have to buy him off, but, if he has incurred no expense, he may be willing, and frequently is, to say, "Well, you cancel your order," and the amount will be restored to the allotment account. It is all within the administrative accounts and nobody knows that except the administrative officer.

MR. JONES: Then the General Accounting Office will approve an expenditure which has resulted in overdraft of the allotment or appropriation.

MR. SLAUGHTER: What happens in the General Accounting Office is this: The order was not canceled; the voucher was paid and it comes to us six months later, or longer, and we get around to audit it. We find that the disbursing officer had sufficient money in his account to pay that voucher, that the appropriation to which that voucher was charged was properly chargeable with it, and that there was no question as far as the Comptroller General was concerned. But perhaps a year from now someone may come along with a claim and say, "Here is a bill for something I furnished the government and I did not get my money." We look at our appropriation books to see how much balance there is in the appropriation; we look at the disbursing officer's balance under that appropriation to see how much he has, and lo and behold, there is not enough money. Obviously, a deficiency has been created. The voucher is sent to the General Accounting Office and we will audit it as a claim, and then take such steps as are necessary to have the department administrative officer responsible for that go to Congress and declare that they have committed this offense, whereupon, if Congress sees fit, they will appropriate a sufficient amount to meet this bill. If there are no more of those bills, you are fortunate, but if another bill comes up and you have to go to Congress again with a sad story, you are in trouble. The point I want to go back to, however, is that it is an administrative responsibility first and last. The General Accounting Office will pass it as long as there is any balance available under the appropriation.

Mr. Kohler: It seems to me that this has summed up the problem in reverse. If you wait until an obligation has been made before you start finding out whether you have enough funds with which to pay the obligation, you are a little bit late.

I think it is an administrative responsibility, without any question, to be able to encumber no more than the funds available for the purpose, but what funds are available for the purpose in the average government agency? The limitation put upon the expenditure of funds by Congress is usually very meager. There may be one, two, or three limitations accompanying any one appropriation, and usually those limitations do not have to do with material things. Every agency, in my opinion, is remiss if it does not have a methodology whereby those who have the power to encumber know at the time they make encumbrances whether they have enough funds. You cannot do that with any method of bookkeeping I ever heard of. It does not work to keep encumbrance accounts on the books. It is too late. You then have to try, as Mr. Slaughter indicated, to get your creditor in a frame of mind whereby he will take back the goods to make some kind of settlement.

It seems to me that the proper point at which to stop the whole thing is at the source. That can only be done by a proper method of organization whereby the people who are entitled to make encumbrances against the government have those limitations well in hand before they start out doing any business for the government. That method has nothing to do with bookkeeping. It is a method that can be done by a number of different processes, and it is being done in a number of government agencies by all sorts of processes.

This is the thing that comes up frequently: Shall an agency encumber for all the jobs that are set up at the beginning of the year? You will find that some agencies do that. When at the beginning of the year the books are set up and the so-called allotments are put on the books, encumbrances will be made against them for all of the authorized positions. In other words, if a man is going to be paid $3,000 a year and it looks as though you are going to hire him throughout the year, then there will be an encumbrance entered for $3,000. That, in my opinion, is ridiculous. It does not indicate what your possibilities of organization are, and it always leads to a sort of disaster before you are through the year.

Take a question like objective encumbrances. Obviously, any agency has to apportion or divide its budgetary amount, the amount that Congress has allowed it to spend; has to divide that amount into different objectives or different activities. The people who have the power to allow those activities to go on, or those objects to be spent for, are the people, if anyone is going to keep any records on the subject, who ought to keep the records.

Take the question of travel obligation. Let us say that it seems expedient —and that is all it is, a matter of expediency—that you divide these appropriations from an operating point of view. If it seems expedient to spend $10,000 for travel in a certain agency or branch of some agency during the year, then there ought to be someone to make a determination as to who is going to travel, how many times, and where. Let's say that you can't do that at the beginning of the year, that you do not know where those trips are going to be. They are going to be emergency trips in each case. Then, if you cannot break that up into any further units, at least you can have one person either at the top of the organization, or very close to the top—a person who makes decisions or gives travel orders that shall be made out when trips shall be taken—keep a simple running record of the total travel authorizations that he has let out for that particular period, whatever that limitation applies to. In other words, if you have $10,000 set up for travel, that person can keep a simple running record of the travel authorizations that are going to pass through his hands. That can be simply a running total.

That is done; it works; it is effective, and there are various ways by which the thing can be done in the case of other items besides travel. Each one, I think, requires its own method, but with very little difficulty those methods can be set up, and it is merely a matter of organization as to how they shall be set up. It is a question of making your executives accounting conscious and budget conscious. My experience has been that it does not take much training on their part to be told what they can do and how they should do it; and under those limitations it works out very well. I do not believe, however, in setting encumbrances on the books of account. I think you are getting it on there too late as a rule, because it may be that you are still under the apportionment or allotment that has been set up for that particular item, but you should not have gone that far. That is, you may be three-quarters expended. Let us say that you should have been only one-half expended up to that point. You see the decision should come a long time before the record itself is posted. Records are too late. Decisions at the top are the things that should be taken into consideration in the power of obligation, so, when I say that the power should extend to the operating head of the organization or someone closely affiliated with him, I mean just that.

After the luncheon period, I saw the Deputy Comptroller of the City of New York, who, unfortunately, is not here, and I dislike quoting him. He would have a very interesting story to tell on that particular subject. His indication was that on the matter of authority to enter into a commitment, that authority resides in the Comptroller of the City of New York. There is no such officer, however, in the average federal agency. You have merely these people away down the line, who do not enter into discussions where commitments are made, who are not called in as advisers, financial or otherwise, to aid in setting up the financial picture.

The remedy lies in making your accounting people budget-accounting conscious. Without that, you cannot effectively run the financial affairs of any federal agency.

Mr. Jones: I think we are pulling out skeletons now. I would not go quite as far as you say. It does not mean a thing for an agency to have its appropriation in these encumbrances clear to the end of the year, as far as they can see it. I think in some agencies, in some areas, that has value. I am sure, Mr. Slaughter, it has value from the auditor's viewpoint, if you please, just a straight old auditing viewpoint, to see that people do not draw illegal vouchers. So I can see your viewpoint; I can see the General Accounting Office viewpoint.

Now, things have gone so rapidly in the federal government it is not enough, we feel, just to take an appropriation and encumber to the end of the year. And that word "encumber" is a legal term, as you know. It looks clear to the end of the year; it takes all its payroll and ties up that much money.

The Bureau of the Budget tried to buttress another type of control by apportionment. We are confused with these two words, "allotment" and "apportionment." Those allotments that Mr. Slaughter described so well are entered into the allotment ledgers and they become more or less the basic document. We have a common denominator in the way of documents throughout the government.

I would like to see apportionments put into accounts, but I cannot quite get them into accounts as long as apportionments will not tie up with allotments. By and large, an allotment is on an annual basis; sometimes on a functional basis. There is our basic problem. We are trying to do what Mr. Kohler explains; we are trying to get in there earlier, stop the obligating, put pressure on the people who cannot obligate except one quarter or thirty-five per cent of your appropriation in this quarter. You have to report back. If it looks like you have more than you need, there is the Bureau of the Budget taking an objective viewpoint, I trust, an over-all viewpoint, which sees changing conditions. It says, "You do not need all of your appropriations this year," and sets up these apportionments with consultation in those cases, and maybe finds some room there to set up an administrative reserve, money that will never be obligated or even apportioned.

That is another level of control. It is trying to do what you said was a good objective, to get back here early in the game and stop the obligation. I could go along with Mr. Kohler when he says heaven help you in controlling after the obligation is incurred. That is one of our skeletons.

I have been gone all summer and have not had my monthly luncheons with Mr. Slaughter and Mr. Bartelt, but I feel this personally: If allotment and apportionment were to come together, become more synonymous, then under Regulation 1 here on the status of appropriations, Form 3, the apportionment could be taken into the records and reports would flow back from the records.

I believe that Mr. Slaughter has already gone along with us in Regulation 101, and that he will call an encumbrance the same as an obligation up to the end of the apportionment period.

MR. SLAUGHTER: No. Let me explain that. We preferred to discontinue the use of encumbrances entirely as an accounting term, because too many of the administrative offices have used that term (this is looking behind the skeleton, if you please) to represent plans which they proposed to carry out. I am sure that you are implying in some of your reports from the Bureaus that you examine the accounts and that they will show no unencumbered balance in their allotment. That is about the third or fourth month of the fiscal year.

You say, "How in the world do these people expect to get by to the end of the year?" You send an investigator and he makes the discovery without any trouble at all that there has been charged against this allotment not only obligations actually incurred, but a number of other plans or programs which have been recorded as encumbrances, have reduced the balance available and caused the fear that the agency may not have sufficient money. The agency, however, merely smiles to itself and says, "Why, we can cancel that encumbrance; we have not done anything more than make a plan, an administrative plan."

Now, we say you can make your administrative plans. Do not treat them as encumbrances or obligations, but set up an allotment account for the estimated amount which you expect to spend on that plan and report that as an allotment in your statement of allotment accounts. Then, when you actually issue orders, when you actually put personnel on your roll, when you actually enter into contracts, you have entered into an obligation, and at that time the obligation is recorded to the appropriate allotment accounts.

I do not want to be misunderstood that there is ever any thought of recording an obligation after it has been incurred. The system contemplates that, before an order is released, it must be cleared through the allotments accounts, that it must be recorded. If there is not a sufficient balance to justify the order going out, then the order is stopped right there. But carelessness occurs in many instances. Orders are short-circuited, the bookkeeper gets a copy of the order and, the original having already been issued, the bookkeeper can do nothing more than record his copy and report at that time that the allotment has been overobligated. Then it becomes the administrative responsibility to catch that order if they can.

MR. KOHLER: What I was referring to, Mr. Slaughter, was not only allotments, but also apportionments as well as encumbrances. I would not put any of them on the books. I do not think they have any place there.

MR. SLAUGHTER: Mr. Kohler, probably next to my reference to General Regulation No. 100 in the uniform accounting system, the word "appropriations" has been mentioned more frequently than any other one term at this meeting. Wherever an agency is operating with one appropriation, the plan is simple. It is in its simplest terms. But where an agency has upwards of 200 different appropriations (and a number of them have), it is necessary that the administrative officers know where they stand, not with respect to the grand total of all those appropriations, but with respect to each individual appropriation.

MR. KOHLER: I do not object to that. All I am talking about is the books. I think statements, of course, have to have records of appropriations on them.

MR. BARTELT: Mr. Chairman, could I butt in a little—since they are digging out a lot of old skeletons—to refer back more specifically to your problem? Back in the relief program, Congress started out with an appropriation of 4 billion dollars, plus not to exceed about 880 millions of unobligated balances. That was later increased to about 12 billions. What the President did (and I think it probably conforms more nearly to what you have here in New York City), was to impose upon the Treasury Department the accounting responsibility for this whole relief program. It was our job to set up on our books each one of these projects. We had 56 accounting offices located throughout the country, and we had disbursing offices adjacent to those accounting offices. Of course, there were the administrative offices of the WPA. I am not relating this to advocate that kind of an accounting system; but what we did there was to make an executive preaudit, so to speak. We set up each project on our books.

Now, we had to get the so-called encumbrances. It makes no difference to me what you call a thing, but our practice in that case was that before the procurement officer would act on any of these requisitions for materials and things of that kind—incidentally, the procurement was also centralized in the Treasury—they cleared through this Treasury accounting organization, where they were given a preaudit.

We examined into the legality of the proposed expenditure as well as the amount of money available, and the procurement officer would not buy the material unless it had been preaudited.

As to payrolls, naturally we had to have some basis upon which we would record payrolls, and what we did in that case, if a project came along with, we will say, a thousand men on it (these were weekly payrolls), the project manager was required to indicate on that payroll the amount of his payroll for the ensuing week, and we would post that. In other words, we would do much as a bank would do in the case of a certified check; we would post it, so that, when we finished, these workers would be assured that there was money in the project account with which to pay them.

Now, when it came to preauditing these vouchers, we found many cases where the administrative agencies would buy, or propose to buy, things which were not at all related to the project, and they might send requisitions where the item would be proper for use on the project, but the number of items might not be proper. For instance, if they had put in a requisition for a hundred wheelbarrows on a relatively small project—we had some of those cases, which were quite absurd—and some things that had no relation to the project, we stopped those and sent them back, and they were balked.

Of course, our audit had no real legal significance. The President of the United States was given this money to be spent in his discretion, and in his wisdom; he was responsible for it. He decided to have an organization in the administrative branch, executive branch of the government, to make that audit for him, and we did it. As I say, it had no real legal significance. It was a managerial proposition. Then these vouchers and payrolls naturally had to be audited by the Comptroller General later, and followed the regular routine of audit, but, in that particular relief program, I think we had exactly what you have in mind.

MR. KELLY: I should like to add a comment, particularly with reference to Mr. Kohler's remarks. In the Food Distribution Administration, for some months now, we have been operating what is called an encumbered procedure with respect to personal services, and the bulk of appropriated money to be used is for personal services. The amounts which are set out as encumbered are the expectations for the year with respect to the existing staff.

Now, if there is any attempt to augment the staff on the part of any branch of the division within the organization, the personnel office of the Food Distribution Administration cannot engage that new employee until it receives a stamped green sheet, as we call it, that funds have been encumbered.

I think that is the basic question. You do not hire somebody and obligate the government to pay money until you find out whether the money is there. Now, that has worked pretty well, except that we have been barraged on all sides to cut it out, and the chief argument is always offered—I am going to put it in the form of a question to Mr. Jones. What do you do? You think the system has advantages and it has proved its worth thus far, when people are continuously asking, "Can you ever cite a case where the government did employ more people and did not pay them?" the argument being basically this: The job has to be done, so don't let accounting or control get in the way. We were hired to do the job. The director of Food Distribution Administration has a job; Mr. Bartelt has a job. The money will be forthcoming, because the job has to be done.

I have checked around in other agencies and find that the chief complaint is that eventually you will get the money, so you do not get the kind of moral support within an organization that you would have a right to expect ordinarily. The bag is there. Somebody will persuade Congress to reach in, and we will get paid.

I think that is the chief deterrent with respect to the problem of trying to control through accounts. We will get paid for our work. Is the Bureau of the Budget moving in any direction to overcome that kind of difficulty, Mr. Jones?

MR. JONES: I do not know, but you ought to be able to get moral support from us.

MR. KELLY: It is not in the right place.

MR. JONES: Have you told your problem to us, to the right people?

CHAIRMAN: In how many cases that you cited this morning did you have to go to the Court of Claims and then get a special appropriation from Congress, Mr. Slaughter?

MR. SLAUGHTER: I have no information on that.

CHAIRMAN: Is it a considerable total?

MR. SLAUGHTER: No, I would not say that it is. The fact that it has not happened too often indicates that somebody has found some money elsewhere with which to make these payments.

I think for an administrative organization in the performance of its duties to say, "We have only one objective to accomplish, and if we haven't enough money, we will go to Congress and ask for it," is assuming a great deal. They are taking on themselves quite a responsibility if they go ahead and obligate in excess of their known funds. They have to have more than the reasonable assurance that they can get the money, and I am quite sure that our office would not be a very sympathetic friend in a case of that kind. We say that Congress has placed a limitation on how much may be spent for that particular purpose, and if the administrative officer feels that more should be spent, that administrative officer should go to Congress, and the sooner he goes the quicker the matter can be brought to a head. But merely to say this thing must be done, however meritorious the individual may think it is, is certainly overriding Congress.

MR. JONES: I did not mean to get more funds. I just thought somebody would know where there are some loose funds.

MR. KELLY: The deficiency of appropriations in the past few years is evidence of the fact that probably the work load that was handed to an agency turned out to be underestimated, or an additional work load was dumped in its lap.

MR. SLAUGHTER: Nevertheless, Congress has, by appropriating for the deficiency, considered the merits of it and has appropriated accordingly. Congress has the right to decline to make the appropriation. Then there would be little recourse except for an officer to go to jail.

MR. MANVELL: I might mention something indirectly which I think has a little bearing on this and on Mr. Kohler's position of the lateness of relying on obligation records. Particularly, when you come to a single appropriation that inevitably is split into a large number of parts or allotments, taking a large central agency with a number of field activities, and so on, and thereby taking this one lump sum and starting to split it down. I do not know how often this has happened, but I know it has happened in quite a few cases, where an agency of that type, in need of additional funds and planning to ask or definitely asking for a deficiency appropriation, nevertheless found, after all the records were cleared (and they had been trying to obligate and spend every bit that they could of their original appropriation because they were in need of more and expected to get more through a deficiency) that they had failed to spend all of it by a considerable percentage. This indicated any one of two or three things: either that there was more of a feeling throughout the agency of awareness of that obligation restriction, or, secondly, that, whether or not it was general, the accounting controls were such as to impose it, and, finally, I would say that due to the sheer complexity of the organization and the accounts having had to be split so many times, at least they were unable to accomplish a close approximation of their goal, namely, to spend all of that money.

That is the other side of this picture as compared with the overobligation, which I think is hard to know, but in terms of actual experience of having been done, aside from using perhaps other moneys, is probably pretty rare. I would say, offhand, it is possible that the other type of thing, of agencies being unable to spend, due to the mechanics of the case, all they would like to and have a legal right to, is perhaps more common. At least it is a parallel problem, one that needs consideration. That is probably a better conclusion.

MR. SLAUGHTER: I do not think that Congress would object too strenuously to an agency not expending down to the last penny.

MR. MANVELL: The Bureau of the Budget wouldn't, either. That is why I gave the picture in terms of Congress and the Bureau, and everyone else, agreeing that finally they needed more.

MR. SLAUGHTER: There are very few appropriations which provide that not less than a certain amount shall be spent, but there are a few of them. There are other appropriations that fix a maximum limit to carry out the program which Congress has approved, and that limit stands fixed until Congress, by subsequent action, modifies it either one way or the other.

MR. MANVELL: I am merely indicating that, in addition to the absolute level which obviously should apply, there may be, through the sheer mechanics of the system, perhaps an over-effectiveness to that limit which, assuming everyone agrees that the money needs to be spent, should be as little as possible. That is, the margin of over-effectiveness should be minimized.

MR. QUIGLEY: I want to say "Amen" to what Mr. Kohler had to say. I cannot say it officially, because I must espouse the encumbering or the obligation system. Personally, I feel as he does. I want to add that the encumbering system where you encumber for the year is, I believe, a bad budgetary practice. With most of our agencies, 80 to 95 per cent of their money is apportioned, and if you encumber that to the end of the year, you cannot handle your finances rightly. Most budget officers overbudget. They know that they can budget about 10 per cent more than the actual amount they have in terms of manpower at the beginning of the year, because they pick up during the year—through terminations, leave without pay, and so on—about 10 per cent, so that if they get money for 100 people, we will say, they can put on 110. You cannot do that, however, if you follow the encumbrance system. Thus, from a management standpoint, your budget officer is in direct conflict with your accounting officer at that point, and your budget officer is generally the administrative officer—the one who usually wins the argument. As a result, you go to your books and find that, under the encumbrance system, there are deficits. This is against the General Accounting Office system, and we must take what action we think is necessary.

Yesterday I looked at a set of books in a department of ours here in New York. Time after time they have deficits. Incurring deficits forces one to break the system of accounts, in turn forcing the budget officer not to handle his funds as he would like to and as he knows he can.

Many agencies say they do not know how they can get along without the encumbering system. I came from a large agency administering about 170 million acres of land in Puerto Rico. There are 250 or 300 obligating officers. There is an obligating officer for each 400,000 or 500,000 acres of land. We made allotments in Washington to regions down through land units, down to subland units, each allotment carrying with it the authority for a man to obligate funds to the extent of his allotment. He was given a check book and was told that he could not overobligate, just as he cannot overexpend his own bank account.

It is a simple matter for the person having the allotment to keep within it through a day-to-day record. When you try to get all those obligations, particularly those of an agency widespread all over the country, into a central system of accounts or into regional systems of accounts, you have an enormous paper job which does not give you any control. In our agency we figure that we have about four million entries each year, just for the encumbering of obligations. It is essential to have the accounts near the operations; they cannot be spread down through 500 different places.

MR. KOHLER: Let me say "Amen" to that.

MR. DENIT: Either my ears are deceiving me, or I am listening to some very strange reasoning; I think I could safely say, in the light of my experience, rather strained reasoning. Today I have heard those who are going to discuss this matter of federal accounting advocating, for example, an utter disregard of the limitations placed on expenditures by Congress. In other words, if the appropriation which Congress has made is not sufficient, that should not deter us from spending whatever we need and then coming back to Congress and saying, "Well, we have done the job; give us some more money." That is not the kind of training we have in the General Accounting Office. We regard limitations fixed by a law on the spending of public funds as a really vital thing in our whole accounting procedure. I am surprised to hear a group such as this suggest that we have been wrong in that respect.

Now, with regard to the encumbering of appropriations and the obligation of funds for the purpose of seeing to it that the amount appropriated is not exceeded and at the same time for the purpose of discharging the responsibilities vested in these agencies of the government to do particular jobs, I have also been somewhat surprised.

In the accounting procedure which the General Accounting Office prescribes, we stipulate that the first control is the appropriation. If the agency, as Mr. Quigley indicates, operates a number of activities situated at different points throughout the country, so that it would be utterly impracticable to receive, currently, information with regard to the specific obligations which those agencies or field branches have created, it is not contemplated in any system of the Comptroller General that that shall flow back to Washington. Likewise, as Mr. Kohler says, that is the system which the General Accounting Office prescribes, and does not prevent the doing of the very thing which he advocates.

We maintain, as a centralized appropriation control, a system of records which will reflect, for centralized administrative control, the allotment of a fund for doing the particular job which we have to do. Periodically, the administrative centralized office, for its information, for the purpose of management, will have to require those field branches to report back the extent to which they have obligated their allotments.

I do not think that any system of accounting which the General Accounting Office has prescribed presupposes or contemplates in any respect that the detailed information shall flow back to the centralized control. The whole plan operates on the basis of spreading the accounts so that the spending points will have the details and there will only flow back through the centralized control summaries of detailed expenditures. It seems to me that is in line with good accounting principles. I am really surprised that we seem to have some difference of opinion on it.

MR. QUIGLEY: This system that I am speaking about is in line with the prescribed system at the General Accounting Office, prescribed for that agency. Under the present system, your general Regulation 100, I do not know what it will do in that case. I do not want to suggest that the General Accounting Office prescribed something here that was impracticable. In this agency, they did realize the impracticability of entering in their formal books of accounts every obligation, and they prescribed their formal books on an audit and voucher basis with monthly reports of obligations only.

CHAIRMAN: For the sake of the record, let me make a correction, Mr. Denit, unless I am terribly wrong. In your observation regarding the strained thinking of this group on the first point you made, I did not gather from the question raised here that that party was advocating that we should abandon budgetary control and allow people to overexpend and then run to Congress for an added appropriation. I think the purpose of the question was, how can we educate people to realize the importance of budgetary control, and that it is not a question of just spending whatever you wish and that somehow, some way, the bill will be paid. It seems perfectly clear, and I for one certainly would not wish to abandon any budgetary control. Just because we do not find many defalcations is no reason why, in an audit, we are not always alert to the possibility; we think that a lot of the auditing is preventive and a lot of your budgetary control is preventive of the very thing that occasionally happens. That is the reason I asked Mr. Slaughter—he did make quite an important point this morning of the fact that some of these appropriations were overspent even to the point where the contractor had to go to the Court of Claims, and even then could not collect his money, because, after the Court of Claims allowed it, he had to go to Congress—as a matter of record, to tell us, before this Conference is over, whether or not that is an important item and how often it occurs. I do not believe this Conference went on record on the point you raised in the first part of your question.

MR. DENIT: In that respect, Mr. Chairman, you misunderstand me. I am not taking the position that the Conference went on record as I stated, but, unless I incorrectly understood what the gentleman here said, it was to the effect that to exceed an appropriation was not as bad as failing to do the job—that, after all, the job was the important thing and the appropriation secondary.

CHAIRMAN: Let me correct you there. He merely said that the question was raised with him. He was quoting what others had said to him, and he wanted some help from Mr. Jones and others here as to how to combat that type of thinking in the government.

MR. KELLY: It is the operating men who throw out that question all the time. "We have a job to do, and let's not let accounting interfere with doing the job." Go into any government agency, and this is thrown at you.

CHAIRMAN: Don't we all get that?

MR. KELLY: I was asking Mr. Jones whether there is anything we can do in government, perhaps short of a long-drawn-out educational campaign, to make those people see that in this process of trying to control through accounts we are not interfering with their operations, but that perhaps, in the long run, we can really help them to operate more effectively.

CHAIRMAN: Perhaps Mr. Kohler's discussion ties in with that. If you made the administrative and the operating people a little more accounting- and budget-minded, you would accomplish much of that, because they would see the importance of it. But if that is thrown out to somebody at a distant point he doesn't become accounting-minded. We are up against that as professional accountants.

It is an educational job, but what I want to clear up for the record is that I didn't gather from any discussion here that Mr. Kohler or any of these men were advocating any such loose policy.

CAPT. PAUL W. GLENNON: I am the fiscal officer at the Office of Dependency Benefits in Newark, New Jersey. I guess most of the gentlemen present know that the Office of Dependency Benefits is a relatively new organization that takes care of a good many accounts and a good many persons, and that we do not have a great many years of history behind us.

A very good friend of Mr. Bartelt's, Colonel Johnson, is stationed there, and I work along with him. Colonel Johnson is the Chief of the Fiscal Division, whose functions are primarily concerned with disbursing. We started our little system from scratch several months ago, and I must say when I started in the field of governmental accounting (my background happens to be in teaching of accounting in a college in New England) one of the first things I had to do was to acquaint myself with 8512. During the course of my reading of 8512, I came across this word "encumbrance." I said to myself, "There is one of those words which demands that I get hold of something technical to give me a satisfactory explanation."

I went from manual to manual, Chase and Tenor, Mr. Bartelt's book, and several other manuals, and finally I hit upon the decision of the Comptroller General. I think it was the most recent volume of decisions of the Comptroller General. If I am not mistaken, it was 1940, around page 332, or in that vicinity. I think I saw for the first time what the word "encumbrance" supposedly meant. The conclusion I drew after reading it was to forget about what it means; don't ever use it. So I talked the matter over with Colonel Johnson, and he said, "Well, now, that is the guiding point. Let's not talk about encumbrances any more."

I think our agency is the largest single agency in the War Department; it handles not millions but hundreds of millions of dollars. Our administrative expenses alone run into a good-sized figure, with a payroll now in civilian personnel alone of roughly 8,000, and an officer staff of about 220. So we have our problems there.

As I look back over the last few months, I am pretty much convinced that we have been able to solve the problem not only from the point of keeping, shall I say, an exact control over our obligations and the liquidating of those obligations, but even from the point of view of making sure that the budget would not be exceeded.

We have drawn up what we call eleven financial statements. One would not think it possible to base on the allotment ledger eleven financial statements. We have drawn up eleven financial statements giving the whole picture of the allotment ledger, the entire costs of operating; how it weaves into the budget and how we stand on a monthly basis as compared with the budget; what we must do by way of taking steps to safeguard our position where we will not exceed the budget, and so forth.

I want to assure the chairman that I did not think for a minute I would hear about this word "encumbrance"—"let's encumber, let's not encumber," and what not—during the course of the Conference. So tomorrow, perhaps, if the gentlemen would like, I will bring over what we have drawn up. We can use it as part of the discussion after the Conference, just prior to coming to a conclusion, and let the individuals present give a little thought to it. Perhaps you can tie it in with what some of your well-established, old-line type of agencies offer by way of financial statements and how they tie in with budget and budget control practices.

As I say, I think perhaps the word "encumbrance" is a byword, once and for all. Certainly after reading the decison of the Comptroller General I cannot help reaching that conclusion.

Mr. Morey: Having listened to my academic colleague in the rear of the room who has just spoken, I find myself exceedingly disappointed in the way in which my publishers have been remiss in not letting him know about some of the other publications in the field of governmental accounting other than those he mentioned. If I remember correctly, there was one published back in 1927 that gave a definition of "encumbrances" which I think is still good, substantially in its original form.

Now, we may not like encumbrances, and it may be that some of us feel we can put them aside for the moment, but I believe—speaking from a good many years of experience in public financial management, a good deal of observation on the subject, and work with the National Committee on Municipal Accounting—whether we here this afternoon think so or not, you are not going to get rid of encumbrances. You are going to have them. You are going to have them always.

The problem is not whether you have them; it is the question at which level of accounting procedure you make a record of them and what kind of record is made, and just how it is employed. We have had some very interesting and valuable observations this afternoon. I suppose some of these definitions are somewhat like the reference that Fred Waring made in his program the other evening, which some of you may have heard. Being interested in good music, I listen to Fred Waring. It may sound surprising for a church organist and a continual attendant at symphony concerts and operas to listen to Fred Waring, but you will find about as much good music on Fred Waring's program as any that I know of. But the other evening reference was made to a current song title, "What Is This Thing Called Love." Fred went on to say he was not quite sure how it should be expressed. For instance, he said, it might read, "What Is This Thing Called, Love?" or it might read, "What Is This Thing, Called Love?" or it might read, "What! Is This Thing Called Love?" Maybe that applies to the encumbrance problem.

What I got up to do, Mr. Chairman, was to suggest that we get away a little bit from this detailed discussion and back to one or two fundamentals, and I would like to raise two questions. First of all, I would like to ask whether the recent regulations promulgated by the General Accounting Office, referred to as No. 100, I believe, which unfortunately I have not yet seen, were coördinated with the Treasury and Budget Bureau regulations that Mr. Bartelt mentioned a while ago, and whether the two correspond and are workable in relation with each other. If I recall correctly, the Treasury Budget regulations did bear the endorsement of the Comptroller General. The question is whether the regulations No. 100 are a logical sequence or coördinated with and a part of the general program of progress with respect to this question of accounting development, and so forth, or whether this is something entirely new or there is something entirely different; whether it again represents what seems to have happened pretty often in the United States Government, something being done by one agency without much connection with or consideration of the needs or ideas of others. I do not know that to be true; I am just raising the question. I hope it is not.

The other question I want to raise—and the two things do not have to be discussed at the same time—is as to this warrant system. Mr. Bartelt spoke to some extent about that. He mentioned particularly the fact that many, if not all, of the warrants issued in connection with receipts and disbursements, or with the allocation funds, or making credits available to the departments, have to be countersigned by the Comptroller General. Now, that would seem to be an administrative function, and yet, as I understand it, the Comptroller General should primarily be an auditing officer to pass upon the operations of activities of others, and not to make administrative approval of the individual transactions.

Now, mind you, this may be required in the law. Many times today it has been mentioned that things have to be done because the law says they must be done. But let me say again, as I said in my paper, let that not be made an excuse for indefinitely continuing things like that, if they are wrong in principle. If they are unsound from a good procedure standpoint, let us face that fact fairly, and, if that is the case, let us all get together and try to have the laws changed. Surely that is not impossible.

CHAIRMAN: Mr. Morey, with your permission, I would like to go to that second question first and ask Mr. Bartelt if he will discuss it and, either before he answers this or after, answer the other part of the question asked with regard to the control of the receipt side. Then we will go to the one on the Regulation 100.

MR. BARTELT: Do you want me to answer the one on control receipts first?

CHAIRMAN: Yes, because that was unfinished business.

MR. BARTELT: I do not know of any system that has been devised as yet, either inside the government or outside the government, which can absolutely prevent any loss through a proper accounting for receipts. Beginning with the Internal Revenue, however, which is our biggest source of revenue, as you all know, these collections are based primarily upon returns the taxpayers themselves file, and the taxes are paid on the basis of those returns. If a taxpayer, for instance, has failed to report all the income that has come into his possession, it is quite conceivable that that would go undetected, but all the returns filed by taxpayers are given a careful examination. The small returns are examined in the offices of the collectors of internal revenue. The larger returns are sent to Washington and are audited by an independent group of trained auditors. I think we can say that most of those men come from private business and have had good training in commercial accounting.

In addition to that, the Bureau of Internal Revenue has a roving staff of revenue agents who go around and examine the books and records of taxpayers.

So much for the tax assessment end of it. One of the first things the collector must do is to prepare what is called an assessment list, and that assessment list is sent to Washington, to the Bureau of Internal Revenue, to be approved by the Commissioner. He may either increase it or decrease it, but, after it is approved, it is returned to the collector's office, and is the basis for the accounts in the office of the collector. The collector is not authorized to make any change in the accounts after this tax assessment list has been approved by the Commissioner. If there happens to be an abatement, which is a reduction in the tax liability, it must be approved by the Commissioner of Internal Revenue. So, after the assessment has once been made, the collector is accountable for the collection of the money. Incidentally, the Bureau of Internal Revenue also has a staff of administrative auditors who periodically audit the accounts and records of the collector himself. Just as a certified public accountant would go into a commercial concern and make an audit of the accounts and records, the Internal Revenue Commissioner has a staff to make that audit, so you have the revenue agents making the audit in the taxpayers' offices, and you have the constant collections unit making the examinations of the collectors' offices and their records.

The collector of internal revenue is required to charge himself in an account current which he renders to the Comptroller General for all the assessments put on his books, all the collections he makes, and all the deposits, and so on and so forth. He strikes a balance, which is the balance due the United States.

The Comptroller General then makes an audit of that account current, but I think realistically the Comptroller General must rely principally upon the audits made by the Bureau of Internal Revenue in the field, both in the taxpayer's office and in the collector's office.

In addition to that, as Mr. Morey pointed out this morning, under section 312 of the Budget and Accounting Act, the Comptroller General is authorized to make local examinations and investigations. As a matter of fact, he maintains a staff for that purpose, and they go into the collectors' offices, as they do in other offices, and make examinations of the accounts and the records and the funds. In other words, that somewhat supplements the paper audit which is made by the Audit Division.

Now, as to the customs duties, which is our next largest source of revenue—it is small now in relation to the total, but in peacetime it is a rather important item—the exporter abroad is required to send to the consular officer abroad a copy of his invoice, and the consular officer is required to examine the invoice and certify that he has made the examination and that there is nothing that he has knowledge of indicating that this is not a fair statement. A copy of that invoice is sent by the consular office to the controller of customs. Then the ship's master is required to make up a bill of lading and what is called a ship's manifest. This ship's manifest is a detailed description of all the goods on board the ship. It must show even the markings on the boxes and the packages.

A copy of this ship's manifest is sent to the controller of customs that I mentioned before. There are seven controllers of customs who have the job of auditing the customs accounts. Then, when the collector of customs liquidates the entry, as they call it—and he does not liquidate the entry until he gets an appraisal by another officer known as an appraiser—all the papers, the invoice, and the appraiser's report, go to the controller of customs, who does not come under the jurisdiction of the collector. The controller of customs makes a detailed audit or checkup of all the papers concerned with that entry. After the controller reports back, then the collector of customs can close the thing and finally liquidate the entry; so, in that case, you have something in the nature of an independent check upon the customs collections.

In addition to this function of examining the detailed papers relating to each specific entry, these customs controllers are required to audit the accounts and records of the collector, that is, they move right into the collector's office and make an audit, such as one would expect a CPA to do in a commercial enterprise. Then the collector is required, pursuant to law, to render an account current to the General Accounting Office just as all other accounting officers are required to do. He opens his account with the balances brought forward from the last month, charges himself with the new moneys that have come into his hands and takes credit for the deposits that were made in the Treasury. Incidentally, the deposits on the covering warrants that have been referred to go to the Comptroller General. The Comptroller General has the facility for checking the covering warrant back against the account current.

Under the law, as I say, the controller of customs must make an administrative examination of that account before it goes to the Comptroller General, and the Comptroller General must rely in a large measure upon the audit which is made administratively by the controller of customs.

The third class of receipts would be the so-called miscellaneous receipts which come into the hands of various administrative officers of the government, such as superintendents of national parks or superintendents of national forests. These officers are required, under the General Accounting Office regulations, to turn their collections over to an authorized disbursing officer, who is required to make the deposit in the Treasury. When the administrative officer sends the money to the disbursing officer for deposit, he is required to send to the General Accounting Office what is known as a collection schedule, so that the Comptroller General gets, from an independent source, information concerning the moneys turned over by the administrative agency to the disbursing officer. Thus, as far as the disbursing officer is concerned, there is a good independent check upon those collections, but I do not know of any method which would absolutely detect every case where a national park employee or a forester might accept money for grazing fees and fail to record it in the books. I think you would have the same kind of problem in degrees, and I do not know that it is any different from what you would find in the government.

Mr. Quigley, who is in the Department of Agriculture, has had a great deal of experience. I believe he was in the Forestry Service, and it may be that he could shed some light on what the administrative agencies themselves do to prevent administrative officers receiving money which is not turned over to the disburser.

MR. QUIGLEY: They have an accounts receivable set up by each national forest, broken down by classes of receipts—grazing, timber sales, land rentals, and so on. They have what they term individual case folders for each one of those individuals. There still is no way actually to button it up entirely, because a forest ranger could sell a cord of wood to somebody and put the money in his pocket. But, through their system of planning, they know, for instance, the grazing permittees on each forest, how many cattle or how many sheep each grazing permittee is permitted to graze on the forest, and for what period. That is known also in the regional office.

Through the system of periodic audits once each year, the fiscal auditor goes through the forests' records of grazing permits on file in the regional offices and through the record of most of their timber sales, also on file in the regional offices. They can check and determine quite closely regarding the receipts, except minor sales of cords of wood, and things like that, where they must depend upon the honesty of the ranger.

We have been instructed to have the auditors read local newspapers when they get into a forest headquarters town. In those communities there are news items from outlying districts, and there may be a note that So-and-so got three cords of wood from Ranger Brown, or something like that. If we should run across such an item, we could go to the office and see if the record was there. There have been some cases of defalcation, but I think generally it is about as tight a system as you can get without an awful lot of extra work.

MR. MOREY: As to the warrants being countersigned by the Comptroller General, what is the history of that countersignature? Does that require approval, or is it purely for the purpose of audit? If the latter is the purpose, wouldn't a report to the Comptroller General satisfy all necessities in that respect?

MR. BARTELT: I think we have to go back to the very beginning of our government to answer that question. Our forefathers were very suspicious about this thing called money. As a matter of fact, they debated for a long time as to whether the Treasury Department should be set up and operated by a board or by a single man. Fortunately, I believe, they came to the conclusion that a single man at the head can operate much more efficiently than a board can. The upshot was that they created a Treasury Department with a single head known as the Secretary of the Treasury. I believe they tried to vest in that man about the same power that the Prime Minister in England has now with respect to the Parliament. In other words, he was to manage the finances of the government; manage the revenue and the public debt; exercise general supervision over all the accounting of the government.

But they also wanted a little check on him; they did not want to trust him too far, so it was originally provided that no acknowledgment of receipt of money into the public treasury shall be valid until it is endorsed on the warrant of the Secretary. That first statute did not say anything about the Comptroller.

Then it said no money may be withdrawn from the Treasury except upon a warrant of the Secretary, countersigned by the Comptroller. The Comptroller at that time was a subordinate officer of the Secretary of the Treasury. There were also an auditor and a register. The register was the bookkeeper. The auditor audited and settled the accounts. The Comptroller reviewed the settlements of the auditor, and countersigned the warrants of the Secretary of the Treasury. So in those days there were four or five sets of eyes on every withdrawal of money from the Treasury. They were not satisfied with two pairs of eyes; they wanted more. So, the law provided that the Treasurer shall disburse the moneys upon warrants drawn by the Secretary of the Treasury, countersigned by the Comptroller on certificates of the auditor, and registered by the register. Each one of those four men had a part to play. It is a requirement of law.

Now, as to the reason for the covering warrant, I have an idea that they did not want to have anyone say he had paid money into the Treasury, and get an acquittance. The acknowledgment of the money was not valid until it was endorsed on a warrant of the Secretary.

That has a very important legal significance. We have in the Treasury certain trust accounts which bear interest. I am reminded of the Smithsonian Fund, which is an interest-bearing fund. It seems quite a few years ago there was a little delay in covering some of this money in. It was probably clerical. The Smithsonian Institution claimed interest on this money from the date of the deposit because of the delay in issuing this thing called a warrant, but the Comptroller of the Treasury, who was then a Treasury officer (he is now the Comptroller General), ruled that the money was not in the Treasury until it was endorsed on one of these warrants. In this little chart that I brought with me, I have tried to bring out that legal distinction between money with the Treasurer of the United States and money in the Treasury.

Since that time I think we have progressed a lot. We have other facilities. I do not know now whether the countersignature on this warrant is so important, except the one type of warrant—the appropriation warrant. I believe that good business would suggest the advisability of the Comptroller General perhaps agreeing that it is proper to set these moneys up on the books before we get into a situation where some administrative officer down the line has entered into a lot of obligations and then finds—well, there is even some question about whether the thing was made an appropriation at all, and the requirement of that warrant does not at all interfere with administration. It is entirely different from the other warrants.

Mr. Morey: There is a point of difference, if I may suggest, Mr. Bartelt, between covering warrants with receipts and for appropriations, because appropriations are acts of Congress, and the Comptroller General is the independent agent of Congress. He could, of course, validate those, so to speak, but on the receipts you have simply the turning in of money that has been collected by authorized agencies.

Mr. Bartelt: It might be said (and I am not trying to defend it right now) that one reason why the Comptroller General should countersign the receipt would be those cases where the receipts are to go back to the credit of some account. That gives the Comptroller General an opportunity to indicate whether he agrees that that money should go back into that account and be made available for expenditures. But I think that the main function the warrant serves now is to act as a sort of anchor. It is subject to very serious limitations as far as management is concerned, but it does have that element of acting as an anchor. In other words, everything that we do is anchored to these warrants, and until the government gets a more reliable accounting system, integrated so that it can be tied in with something tangible in the way of cash, I would not be willing to endorse any departure from the warrant procedure. However, as far as countersigning the accountable warrants and these other warrants is concerned, realistically I cannot see much merit in it, although other people would disagree with me, because they would say, "Well, if the officer has not been rendering his accounts on time, and if there is anything about the condition of his accounts indicating that it would be unwise to give him any more money, it would give the auditor an opportunity to decline to approve the requisition, or countersign the warrant." I am not trying to defend it, however, because I think there are other ways.

I personally believe in vesting authority and responsibility in individuals—in selecting the right type of individual, letting him go about his business, and then checking on him to see whether he has done it; if he has not, handle him accordingly.

MR. MOREY: Certainly to an outsider this warrant system of the government does look cumbersome, if it is not actually cumbersome in some respects. It may not be as cumbersome as it looks. Incidentally, Mr. Chairman, there is a very excellent review of some of these procedures, including particularly the warrant system, in an article by Mr. Naylor of the Treasury Department, published in *The Journal of Accountancy* for November, 1943.

CHAIRMAN: We had hoped Mr. Naylor might be here, but he isn't. We have just about enough time to go to the other part of Mr. Morey's question with regard to the integration of this Regulation 100 with the work of the Treasury Department, and probably the Bureau of the Budget. I wonder if you want to talk on that, Mr. Slaughter.

MR. SLAUGHTER: As I indicated a little while ago, the accounting procedure as set forth in General Regulation 100 is not new. It is essentially the same procedure as was prescribed in Circular No. 27, issued in 1927. In the period of time since then, a number of changes have taken place, and we have endeavored in Regulation 100 to include all of those changes. I might say that I have been designated by the Comptroller General to collaborate with Mr. Jones and Mr. Bartelt in their work in connection with the Treasury Budget Regulation No. 1, No. 2, and No. 3, and that it was with full knowledge of what is required in Treasury Regulation No. 1 with respect to reporting obligations, expenditures, and the status of appropriations. In that knowledge, our system as promulgated provides for a means to furnish the information and to prepare the statements which are required. However, there are some modifications in that which we think are more desirable for administrative purposes, plus other reporting purposes. The Comptroller General, in his letter transmitting it, or promulgating it, stated he hoped the reports taken from these statements would furnish all the statement requirements of all the agencies of the government, including the Bureau.

The plan generally contemplates that allotments may be set up either on a quarterly basis or an annual basis. We do not prescribe; we say that it is administrative and that the allotments may be obligated on an annual basis or quarterly basis. However, we do prescribe a form and a procedure whereby in those cases in which the allotment is made on an annual basis, and the obligations are recorded on an annual basis through the means of a subsidiary record, you can get the information as to the quarterly apportionments for the purpose of furnishing the requirement statements. Briefly, the system is coördinated with Budget Treasury Regulation No. 1. I think that about covers it.

MR. MOREY: Mr. Chairman, may we hear from representatives of the Treasury and Budget Bureau, if they are willing to comment on whether those things are accomplished by this bulletin, whether there has been proper and necessary coördination among these different procedures?

MR. JONES: Mr. Slaughter, you know some on my side of the fence say you have achieved that. I can say that Mr. Slaughter made an honest and sincere effort to accomplish his objective, to furnish on Form 1118 everything that we want under Form 3. If we keep on calling for Form 3 and you insist on Form 1118, I am sure that any taxpayer from here to El Paso would say it is duplicated effort. He would be perhaps 95 per cent right. Mr. Slaughter, you agree 1118 is an awkward form to get both objectives? Is it awkward to the agencies? You did a master stroke there to get all the information that we wanted under Form 3 in 1118 and reconcile the obligation and encumbrance concepts. Is it fair to say that 1118 will not give us funds available broken down to the extent that 3 does?

MR. SLAUGHTER: I don't know.

MR. JONES: Anyway, gentlemen, it is still a government by law, and I do not know what the answer is going to be. It will come up from the agencies. They are going to squawk like the deuce if they are not furnished with both Form 3 and Form 1118. I am willing to give and willing to take on this kind of affair, but I am not willing to stand up and tell the people, the taxpayers of the United States, that we are instrumental in duplicating work in a period of short manpower. There is no sense to that. You can see then that I am going to explore in the next few weeks or months the possibility of 1118 serving everybody's needs.

MR. SLAUGHTER: As a matter of true fact, I do not think now is a fair time to ask you the question. The regulation is fresh off the press, so to speak. You people have not had time to study it, that is, to make an analytical study of it and to see how every condition which you have set forth in your Form 3 is to be taken care of in Form 1118.

MR. MOREY: Mr. Slaughter, may I ask if this Regulation 100 was reviewed by and discussed with the Budget Bureau and the Treasury before it was issued?

MR. SLAUGHTER: A copy of it was furnished informally to each of those bureaus.

MR. MOREY: In advance of its being issued?

MR. SLAUGHTER: Yes.

MR. MOREY: Was its issuance held until you had the expression from those agencies concerning it?

MR. SLAUGHTER: No.

MR. MOREY: Why, if I may ask?

MR. SLAUGHTER: We felt there was nothing there of a controversial nature, that the Comptroller General had the sole authority to issue it.

MR. MOREY: That is simply taking advantage of authority, is it not, when you do that?

MR. SLAUGHTER: No, it is not.

MR. MOREY: I mean these agencies obviously are vitally interested in the nature of the systems and procedures that are promulgated. Was it not a matter of courtesy to which they were entitled, to get their view of it?

MR. SLAUGHTER: If you will bear with me a minute—

MR. MOREY: I am going to be perfectly frank on this, just as I was in my paper. I think this looks like another evidence of failure to coördinate among the different agencies that are equally concerned in this, even though their authority may not be equal.

MR. SLAUGHTER: The system as prescribed is essentially the same as that which has been in effect since 1927.

MR. MOREY: That does not necessarily make it good.

MR. SLAUGHTER: We believe it has stood the test of time.

MR. MOREY: Has it, or has it not?

MR. SLAUGHTER: We believe it has.

MR. MOREY: You believe it has. What about the people who have to work with it, the departments, the Treasury, the Budget Bureau, that have to make use of the material?

MR. SLAUGHTER: There has been no information furnished, so far as I know, that the system is not practical. It has not been worked in many instances, due to lack of understanding. It is not our duty and responsibility to police it, but, in those agencies where the system has been worked, it has worked to such degree of satisfaction that the Comptroller General had no hesitancy in promulgating it as a uniform accounting system to be observed by all agencies of the government. He prescribed certain forms which are to be rendered to his office. He did not say these forms shall take the place of all other forms, but he expressed the hope that the information furnished to him on these forms would satisfy the needs of the other agencies.

MR. MOREY: In other words, the forms and system are prescribed primarily for the use of and service to your department, and not with full regard for the needs and interests of the agencies themselves.

MR. SLAUGHTER: Oh, no. It is for the use and to meet the needs of the agencies whose responsibility it is to keep the accounts.

MR. MOREY: That is what you concluded, but did you base your conclusion on conferences with the agencies to a degree that would warrant you in reaching that conclusion?

MR. SLAUGHTER: We did not go around to each agency and say, "Are you satisfied with this?" In promulgating the systems, in installations throughout the government service in the past ten or twelve years, we have worked with the agencies. We have in a measure, a large measure, shall we say, sold them the system. They are apparently satisfied with the system as being comprehensive and reflecting the proper information.

MR. MOREY: We on the outside seem to have had a good many indications or suggestions that the last conclusion is not a fully correct one, that many agencies have been dissatisfied and have had to supplement the systems and procedures you prescribed with others essential for their internal administration. We have here the evidence that there is at least some degree of duplication, or lack of coördination between the needs of the executive division and the needs of your department as represented here.

MR. SLAUGHTER: So far as the needs of our department are concerned, this is an administrative accounting system for the needs of the administrative agencies. As I have said, the Comptroller General has prescribed it for the last thirteen years, and it has now been re-prescribed, with all the modifications that have been found to be necessary to bring it up to date and to coördinate it with the requirements of reporting under budgetation.

MR. MOREY: I think it would be interesting, if it is possible, to determine whether the agencies which have to work with the thing share in that conclusion.

CHAIRMAN: May I make this observation? I have had some luncheon meetings in Washington, I think with these three groups and their various representatives, and I had rather gathered that probably some study and research was being carried on (I know Mr. Jones was doing something on the matter of classification of accounts before he was sent away on a special mission that kept him in North Africa most of the summer, and from which he has just recently returned), and that we were heading toward what we think in governmental accounting should be raised to the federal level, that is, working more and more completely and harmoniously in the lower levels. There should be complete integration between the classification from the budgetary end of it down through the accounting end and through the reporting end.

If there are studies of the kind going on, I was a little afraid you had frozen something which might delay this forward step, if we are really going ahead to put the whole governmental accounting on a proper basis where we do integrate these three important things —and there should be a uniformity there. Your office was kind enough to send me a copy of Regulation 100, which is a big bundle to carry around. But I did carry it around, so that I could read it some time between one and two o'clock in the morning, which is when I have to do a lot of my reading.

If the Budget Bureau is working on that, and the Treasury Department is working on reports, and so forth, should not there have been a little bit closer coöperation on the part of your agency not to have frozen this thing at a time when perhaps we are probably in a state of flux and might have moved forward?

You sent me quite an outline of the whole history of this movement and what you are trying to do, and I don't mind saying that it is one of the most archaic things I have seen in my whole experience. You are attempting to do certain things which are right and proper, but you are doing them in the most bungling way that I know anything about. It is high time that we got together on a program and a plan which would form the basis for some necessary legislation, on which we as an accounting profession could take a position, and get it out of the realm of politics, so that we can get behind what a group agrees upon as a proper program. The reason that some of these legislative attempts have fallen by the wayside in the past is that they have got into the realm of politics. We in the accounting profession should be able to stand out and take an authoritative position, but we have not been able to do so because we have been unable to reconcile the points of view of you various folks who are all working for the same boss and for the same corporation.

Mr. Morey: Excuse me, Mr. Chairman. I do not mean to imply party politics, but politics within the government organization.

Chairman: I think the time has come when there should be an educational program on which disinterested parties, that is, disinterested from a political angle, as is the accounting profession, could say from an accounting standpoint and from a proper organization standpoint that this is sound and proper. Yet other similar groups would have a basis for an opinion to do the same thing.

I think we have a right to ask you on the inside of government to cooperate and not have one come out on something that is going to stymie the other fellow, until we can agree on a program that we can all get behind and push. I was a little afraid when I saw this rather exhaustive treatment with charts of accounts and prescribed forms, and so forth, that probably we are stymying some of the other types of study and research work going on in the other divisions.

Mr. Slaughter: On the contrary, I think exactly the opposite effect was intended to be produced. If we had done nothing until those of the accounting profession could have got together on what they wanted to do, Lord knows when we would have ever got anywhere.

The outside accounting profession, so far as government accounts are concerned, has not, in my observation, bothered very much with or contributed very much to governmental accounting procedures. The reason is that in most cases it is predicated and based on federal statutes.

You speak of politics. We cannot avoid politics when we are dealing with the federal government, which is politics itself. The Congress, with its many, many ideas, with its changes in individuals, in chairmen of important committees, cannot be herded into restricted channels. It is going to appropriate in whatever manner it pleases, regardless of what any profession thinks of it.

What we endeavored to do was to establish a standard to outline a procedure, but that does not necessarily imply, and it is not intended to imply, that no improvements can be made. You have something to shoot at. That is the position of the General Accounting Office, I believe.

Chairman: I do not think you are quite correct in saying that the accounting profession has not made a contribution. I will say it has been a terribly hard job to get in to do anything, simply because the government itself is broken up into so many different groups and so many different opinions. What we are attempting to do, and one of the real reasons for calling this conference, is to try to get these various viewpoints together to see if we can reconcile them.

As to the idea of saying that government itself is politics, I do not think that is true from the standpoint of party politics. In the lower levels of government, more and more, we are separating the administrative side and the accounting and finance side from the political arena and putting it into the hands of trained men who are making it a career to do this type of thing. I think you have some of that in the federal government and, more and more, as you set up a proper system that can be approved by those who have a basis for expert opinion, will you get it out of the hands of petty politics.

True, in appropriations you will have the pressure groups, and in the local government you cannot blame the finance officer if the City Council appropriates money for some crazy-fool things. Once it is appropriated, however, he picks it up and sees that it is spent at least for the purpose for which it was set up and that there is proper accountability to the taxpayers. More and more are they developing a report that shows the taxpayers not that we received x millions of dollars or thousands of dollars and spent them, but to give them an accountability of what we accomplished by the expenditure of that money. Another thing that we are leaning toward more and more in government is to give an accountability on the basis of the quality and quantity of the service. In other words, the profit side of a profit-and-loss statement in government is this intangible thing of service, and we are trying to show the citizens of a particular group what it is they are getting for their money. The thing that we need to do with this widespread activity of the federal government getting into every field of our life's activity is to have an accounting system from which will flow a proper report that will make an accountability to the citizens of this country for the tremendous expenditures being made, and then let them get behind it and send the right kind of politicians to Washington to spend the money the way they want it spent.

Mr. Slaughter: Let me say that the accounting plan as prescribed is not restricted in any manner to any particular appropriation, or appropriation peculiarity or purpose. If Congress makes the appropriation, it is immaterial as far as we are concerned what purpose it is made for. A procedure is outlined whereby the administrative office may know how much they have to start with and how much they have currently to obligate at the end of the year or at the end of the month; how much they have expended, with those expenditures classified into whatever arrangement the administrative office desires.

Mr. Morey: In other words, Mr. Slaughter, the system that you have devised is not devised in accordance with any particular laws.

Mr. Slaughter: No.

Mr. Morey: Not circumscribed by any special laws.

Mr. Slaughter: No.

Mr. Morey: It is a matter that could have been worked out by cooperative discussion, and while your office has the authority to put the final stamp on it, it could have been worked out to meet the needs of the different departments and agencies to be sure that all of those needs were met.

Mr. Slaughter: I will say that it was worked out with the cooperation of most of the agencies, not all; we would never in the world hope to get a hundred per cent cooperation from all the agencies.

Mr. Morey: We realize that points will come where a decision has to be made, but it is on some of those points where perhaps the advice of outside persons, such as the members of the American Institute of Accountants, might be of help. May I point out that several years ago the American Institute's committee on governmental accounting submitted to your office and the other fiscal divisions of the government some observations on these points and offered to help by considering any material you might wish to submit. Nothing along this line has ever been submitted to the committee, to my knowledge.

Mr. Slaughter: I am quite sure it would not be. I think it would belittle the authority of the Comptroller General to pass around from one group to another for the approval of everybody outside the office as well as in.

Mr. Morey: If the General Accounting Office is going to set itself up as heaven itself, there is no use trying to consider a program that might be solved from opinions, and expert opinions, elsewhere. That is not my idea of public service that an office of that kind can render. Service means to take account, to try to determine the best ways of doing things.

Chairman: We are the stockholders of that corporation, and why should people lower the dignity of one of our servants—and that is all the Comptroller General is, one of our servants—to submit to a group trained and expert in a particular field when it is being done as a public service?

Mr. Slaughter: You as taxpayers have elected a board of directors, namely, your Congress, and have empowered that Congress with authority to pass certain bills. I refer particularly to the Act of 1921, wherein the authority was given by the Congress to the Comptroller General that it is his responsibility to prescribe the forms, systems, and procedures for government accounting.

Chairman: You are misinterpreting what that power is. I as a public accountant am often engaged to put in a system for a large corporation, and I have found some of the finest suggestions for certain controls, and so forth, coming from the most lowly person, even from the janitor of the place.

Mr. Slaughter: I think we have, too.

Chairman: I do not think it is below his dignity to ask a group of this kind to review. You might be interested to know that governmental units, from state units on down, up and down these United States, are submitting through the National Committee on Municipal Accounting for review and criticism hundreds of them every year, just to get the expert opinion of a group of that sort. I think that the Comptroller General can make great progress if he will give us an opportunity to be helpful.

The reason we have not done more, perhaps, is that we have been unable to get in. Some of the other agencies of government have worked with us, and we have worked with them, but on the whole we have not had very much cooperation from the Comptroller General.

MR. ANKNER: I understand from listening to the papers and discussions at this conference that the Comptroller General is responsible for prescribing the system of accounts of the governmental departments and agencies and that the question which has arisen from time to time is, whether or not he intelligently discharges that responsibility, that is, whether he meets with the requirements of the actual operating agencies or whether he merely arbitrarily prescribes this sytem.

I would like to suggest for consideration of the conference that in an analogous situation, namely, in the field of public utility regulation where an administrative agency has the power to prescribe a system of accounts for public utility companies, it is usually the custom to hold public hearings before issuing the orders. At these public hearings all interested and informed persons are allowed to present briefs and testimony, and professional societies like the American Institute of Accountants have that privilege, or the interested public utility companies on whom the order would apply. If the Comptroller General does not follow such a procedure, it might be a desirable one for him to adopt before prescribing the audits.

CHAIRMAN: Would you like to answer that, Mr. Slaughter?

MR. SLAUGHTER: Yes. I would say in the final analysis that the Comptroller General arbitrarily prescribes the accounting system, but that arbitrary prescription is not just something that is put over by a wave of the hand. It is the practice of the Office to survey the accounting conditions and the accounting situations in particular agencies, to work with representatives of particular agencies to decide what their accounting needs are, and to select from a group of general or uniform accounting classifications, let us call them, those that seem best to fit the needs of the particular agency, the purpose being to develop uniformity in government accounting.

If the Comptroller General had to call a public meeting and very lengthy discussions and papers were presented, we would never accomplish anything. The government is so tremendous and the viewpoints are so numerous that it is impossible to undertake such a program as an open forum to see whether these actions with respect to which the Comptroller General is directed by the Congress to prescribe meet the pleasure, shall we say, of the agency for whom they are prescribed. So, in summarizing, I would say that in the final analysis it might be viewed that the Comptroller General's action may be considered arbitrary to the extent that he prescribes certain accounts within a uniform field.

MR. ANKNER: I think that procedure is as I understood it. I would merely like to suggest that the information which the Comptroller General now gathers is his private information, whereas the other procedure would merely spread that information on the public records, so that all could see what the other people had to say.

MR. SLAUGHTER: Mr. Ellis, if I may, I would like to supplement Mr. Quigley's comments with respect to a general disbursing fund. He spoke of the large number of accounts which, under the statutes, he is now required to maintain with each disbursing officer for each appropriation.

That brings us back to the provisions of the certifying officer's account on which we had some discussion yesterday. But prior to the enactment of the certifying officers act, unfair and unfortunate and all the "uns" you might care to impose on the situation, the Congress in its statutes prescribed a personal responsibility for the disbursing officer whose duty it is to spend public funds. In the first place, he is required to take these amounts into his accounts according to the appropriations from which they were advanced, and to render his accounts showing the balances in his custody under each separate appropriation. Mr. Guy Allen, I imagine, must have about twenty-five or thirty balances in his accounts, representing sums in larger or smaller amounts under different appropriations.

The responsibility was for the disbursing officer to see that only legal payments were being made. The administrative office was probably viewed as being careless in some instances, overbearing in others, and overly enthusiastic in still others.

Regardless of the viewpoint of the administrative or spending officer, Congress put as a barrier between that administrative officer and the public funds an individual known as the disbursing officer, who was a little deity with respect to his responsibility and position. The administrative office could yell its head off, "Why don't you pay this?" and "Why don't you pay that?" and the disbursing officer need only sit tight and do nothing. As unfair and as unreasonable as it seems, that was the law, and it is not old law. It was one of those which I sketched this morning.

In the early days, the disbursing officers were usually designated from the employee group at the spending agency. They had in each department an officer called a disbursing clerk, but they had special disbursing agents with every bureau, and in every field office, the idea being that the disbursing officer was just that much nearer to the spending operation, and he would naturally know whether these expenditures were good, bad, or indifferent. The disbursing officer was charged with the responsibility of knowing all of the laws—all the general laws pertaining to the accountability of public funds, all the special laws pertaining to the appropriation from which he might be called upon to disburse, and all the limitations in the appropriations from which he might be called on to disburse. I do not know how they have got by as well as they have.

I might add to this volume of information which they are supposed to read from the law the innumerable decisions of the accounting officers of the government, the Comptroller General's decisions which run into volumes, and frequently copies of those decisions were not sent to disbursing officers. But be that as it may, the situation became so, as was suggested yesterday, that one of the reasons for consolidating disbursing into a central point was to economize, to make more efficient, more rapid, and more accurate the payment of the government's obligations. When that occurred, the proximity of the disbursing officer to the spending point disappeared. In other words, he was so far removed in most cases from where the expenditure actually took place, from where the old special disbursing agent used to be, that the central disbursing officer could under no stretch of the imagination have knowledge of all the facts by which he was called upon to determine whether this was legal payment and should be paid or not; it was impossible and unthinkable, and, moving with the precision with which government sometimes moves, the certifying officers act came into effect. By that act, the responsibility was transferred from the disbursing officer to the administrative officer for all phases of legality, except that an accurate accounting shall be made by the disbursing officer for the money which he spends.

The legality as to whether the things for which payment is to be made were received, or whether the appropriation shown on the voucher is properly the one to be charged, was deemed and declared to be an administrative responsibility. The certifying officer was and is an employee in the administrative branch of the government.

When Congress did that, they took in my opinion a tremendous burden of responsibility off the disbursing officer, but, nevertheless, they did not go quite far enough. They still required him to carry balances under all the different appropriations from which he would be required to disburse, and to render his accounts according to those appropriations.

In the Army, it was found that, due to the far-flung activities of troops in the field, it was impossible for sufficient funds to be available under all the government appropriations so the disbursing officer would always have enough money to pay any voucher; therefore, an Army account of advances was authorized. In other words, moneys were advanced to these disbursing officers, not from any particular appropriation in the Treasury, but from an Army account of advances, which you may view as an overdrawn appropriation account. As the expenditures were made, the disbursing officers rendered reports showing the classifications under which the expenditures were to be charged, that is, the appropriations, and an adjustment was made between the overdrawn advance account and the appropriation account.

The same thing followed through with the Navy, and for the same basic reasons. The disbursing officers were too far-flung to be able to have sufficient balances under all the appropriations, so the Congress passed a statute known as the General Account Advances of the Navy which operates similar to the Army's account of advances.

The State Department, in its far-flung activities all over the world, saw that there was definite merit in the procedure of advance account and they requested Congress to give them an advance account (the State Department disbursement officers), which is working very satisfactorily.

The next step that I want to develop is this: Here we have the disbursing officers in the civilian branch of the government who were not responsible for the appropriations chargeable with the vouchers, but who were responsible only for an honest and accurate accounting for that expenditure. The Comptroller General has written a letter, as I recall, to the Secretary of the Treasury, and probably to Mr. Harold Smith, Director of the Bureau of the Budget, in which it was suggested that further study be given by the three agencies—the Budget Bureau, the Treasury, and the General Accounting Office—with respect to a proposition whereby moneys could be advanced to the disbursing officer, that is, to the civilian disbursing officer, without reference to appropriations and adjustments to be made upon the subsequent reports of those disbursing officers. That proposition would reduce the accounting work which the agencies now have with respect to disbursing officers to a ridiculously low level of one account with the disbursing officer.

I cannot report on what has been the progress of that, but it is a very live subject, and we see that there are possibilities for material economies. If the vouchers are properly chargeable in the administrative accounts of the agency before they are sent to the disbursing officer and assurance is given that there is a sufficient balance in the appropriation, I think the government will be far ahead from where it is now without loss of any of its control features. That is merely a new expansion on the general disbursing procedure, and the simplification of the numerous accounting setups which we now require with respect to a disbursing officer.

J. Arthur Marvin: I have a few questions. One is: I want to know whether the General Accounting Office has coordination of accounting systems, accounts, and reports? Do they have such a division? The second question which I have in mind is this: I did not get it very clearly, but Mr. Quigley mentioned that in this recent bill which was either introduced or enacted—I did not quite catch it—there was a description of general auditing procedure with respect to commercial auditing. I was wondering whether that was worked out and developed in conjunction with any special committees of the accounting profession.

MR. SLAUGHTER: I will answer the first question first. The Comptroller General's organization at the present time does not provide any separate unit or group for coordinating accounts, but, in the division of investigations, which is part of the office of the Comptroller General, the footwork of making accounting surveys and prescribing systems is under the supervision of the chief of investigations.

As we said before, these surveys are for the purpose of determining the accounting needs of the particular agency. Based on those surveys, the accounts are selected and the procedure described and prescribed for the accounts. The only centralization of accounts we have is in the bookkeeping and accounting division, where the appropriation accounts are maintained and where the accounts with the disbursing officers are maintained.

Mr. Denit, would you care to elaborate further on the accounts which you keep with respect to the over-all picture of government?

MR. DENIT: Yes. As I listen to the questions and the answers, I am getting just a little bit cagey about undertaking to answer them, for this reason: When I am asked the question, "Is there in the General Accounting Office a coordinator of government reports and the like?" I think I could say that, since we do not have an office so designated, the answer would be no. On the other hand, when you consider the function of the General Accounting Office as we interpret our function, you get a little different picture. For example, I happen to represent the accounting and bookkeeping division. The order creating that division stipulates that it shall make recommendations looking to the complete coordination of the accounting system of the government. Now, to me, that might mean one thing, and to you it might mean an entirely different thing. I shall undertake to tell you only what it means to me, and then you can proceed to find such fault with it as you deem proper.

If the government is to have a system of centralized control, it seems to me, the initial step would be to establish that control on the basis of the authorizations that the government vests in its agents to collect the revenues of the government. Now, for example, Congress passes many revenue acts and passes a great many acts providing for activities of the government from which revenues of various kinds flow. At the same time, Congress generally appropriates greatly in excess of the revenue programs which we establish. That means that, to complement the expenditure program, Congress must also authorize borrowings.

I feel that if there is to be for the government any kind of centralized accounting control, it would have to be predicated upon the principle that somewhere in the government there must be a record of what we have authorized the agents to do. On that theory, we are undertaking to establish in the accounting and bookkeeping division, first, an account which we have tentatively designated "Unapporpriated Funds." Now, the contra to that account, we establish one as well in two principal factors. One would be authorized borrowings, and the other would be estimated receipts or estimated revenues.

At the outset, those two accounts theoretically would be in balance. You would have your authorized borrowings, and you would have your expenditure program, and there would be an exact balance, if we assume that we have estimated revenue and authorized borrowings equal to what we propose to spend.

Then, proceeding one step further, as we make the appropriation accounts, we take from the unappropriated status into the appropriated. By the same token, we analyze this estimated revenue account into the different forms of revenue which Congress has authorized to be collected. Then, carrying through the principle of control, we undertake to see that, through the various agencies authorized to effect collection, we get information which will enable us to determine that they have collected that particular class of revenue. That takes us into considerable detail and into thousands of different receipt accounts. I think now we probably run between eight and ten thousand different receipt accounts for that purpose.

Carrying through on the expenditure side, we have still another problem. The money of the government is not paid over the counter or to a cashier, as we find in a great many small organizations. It comes through thousands of agents of the government. For the purpose of proper accounting control, we undertake, so far as it is possible, to get from independent sources, that is, sources independent of the individuals who receive this money, information with respect to the amount of money they should receive or have received. We set up those records in accountable officers' accounts. Then we get from the Treasury Department covering warrants reflecting the amounts of money that have been turned over to the Treasurer, and for which the Treasurer holds himself accountable, as a covering receipt.

We have elements of receipts entering into all those transactions, so that if I should say to you that we do not have a coordinator of the record, that would not be exactly right. I think the accounts which we are maintaining and undertaking to establish (it is rather a slow process, but we are moving along in the accounting and bookkeeping division) will in the long run constitute an effective and adequate accounting control for the federal government. I do not know whether that answers the question or not, but that is what we have and what we are working toward.

F. F. Lovell: I wonder if we can have an answer to the second part of that question, that is, about the bill that is purported to be pending on audit, and whether that, in Mr. Quigley's understanding, would take the form of an internal independent audit or a postaudit by the General Accounting Office, or perhaps the right to employ outside accountants.

Mr. Quigley: I will try to clarify it: "The financial transactions of the Corporation beginning with the period from July 1, 1944, shall be audited by the General Accounting Office in accordance with the principles applicable to commercial corporate transactions and under such rules and regulations as may be prescribed by the Comptroller General of the United States: Provided, That the Corporation shall continue to have the authority to make final and conclusive settlement and adjustment of any claims by or against the Corporation or the accounts of its fiscal officers: Provided further, That a report of such audit shall be made to the Congress, together with such recommendations as the Comptroller General may deem advisable, and that each such report shall cover a period of one fiscal year: Provided further, That a copy of each such report shall be furnished the Secretary of the Treasury and that the findings contained therein shall be considered by the Secretary in appraising the assets and liabilities and determining the net worth of the Corporation," as he must do under provisions of another law, and does now on a different basis. "Provided, however, That nothing in this section shall be construed as modifying legislation authorizing the use of funds of the Corporation for administrative expenses and requiring accountability therefor."

Now, when the General Accounting Office were approached on this bill, they felt that they had to have authority from Congress to make this type of audit. We wanted originally to put into the law that the General Accounting Office would create a division of corporate finances or corporate audit, whatever the term may be, to handle this specialized type of audit on a commercial basis, and that the Comptroller General be authorized legally also to employ competent auditors—certified public accountants, if necessary—in order to give the right kind of audit.

If the bill goes through (and we hope it will), then we have a very large job in working out with the Comptroller General the type of audit and his systems of audit, and so on, that will be applied under the bill. Does that answer the question?

MR. MARVIN: Will you show how that alters the procedure?

MR. QUIGLEY: In supporting the provisions in this bill and the reasons for it, House Report No. 846 explains the present audit procedures by the Comptroller General for appropriated moneys, and then goes on to show what type of audit we desire under this law.

MR. MARVIN: The point I was making, on that particular type of audit, was whether there had been any consultation on that with any committee on accounting procedure or audit practice and procedure of the American Institute of Accountants.

MR. QUIGLEY: Not so far as the department has been involved. I do not know what the General Accounting Office did on it, but we had a series of conferences between a committee designated by the Comptroller General and a committee designated by the Secretary of Agriculture. The bill is HR 3477.

MR. MARVIN: That report becomes quite a substantial background for the bill if it is passed, does it not?

MR. QUIGLEY: That is right.

MR. MARVIN: That is the reason I raised the question. I thought perhaps there might be some very effective cooperation between the American Institute and you gentlemen.

MR. QUIGLEY: That is right. If this goes through, I think the Comptroller General has a wonderful opportunity in the corporation field, particularly in the auditing of corporations.

MR. KELLY: On this same comment, I believe right now there are forty government corporations; the last list I saw contained that number. Almost all of those government corporations were created precisely for the reason that the government was going to carry on activities which heretofore had been within the purview of private enterprise. The Reconstruction Finance Corporation is doing a commercial banking business. Some of the corporations in agriculture are doing a small loan business on a large scale. The Federal Surplus Commodities Corporation is engaged in carrying on the world's largest wholesale grocery business.

In recent hearings before the Economy Committee which Senator Byrd heads, I noted that Secretary of Commerce Jones pointed out that the RFC has for years engaged firms of practicing certified accountants to make an independent audit. RFC also has the distinction of having more certified accountants on its staff than any other agency in the government. I believe Mr. Jones engages some 178 of them. That brings to my mind this question: In view of the fact that independent audits by professional accountants are sought precisely for the reason that those accountants have a wide variety of experience with respect to those particular types of business, I ask this question of Mr. Slaughter as an individual—not speaking for the General Accounting Office: How would the Comptroller General feel about the general proposition of continuing the practice of the RFC with respect to all of our government corporations, precisely so that he could get the advantage of audits by public accountants who are continuously meeting in a wide variety of circumstances the kind of businesses that those corporations are carrying on, rather than establishing a staff within the General Accounting Office to look after corporate matters? I think we will all admit that to some degree within government there is the same "ivory towerness" that there is in academic life.

The people in government accounting for a long, long time cannot help thinking always of allotment accounts and the peculiar problems in government, whereas the work carried on by these corporations is of a sort in which we ought continuously to have the advantage of contact with their problems.

Mr. Slaughter: Under the statutes as they now exist—I expect you will get very tired of hearing me constantly refer to the statutory limitations under which we operate, but they are our guides and we must stay within the four corners of those statutes—under the present statutes, there is no authority for the employment by the Comptroller General of certified public accountants, or for having audit work performed by other than personnel on his staff. There is certainly no objection, no disqualification for employment, if a man is a certified public accountant. We have a number of them on our payrolls. However, I believe that if this program of the Commodity Credit Corporation, and possibly some of the other corporations, goes into action, the Comptroller General will find it necessary to ask the Congress to authorize him to employ such public accountants as he may select to perform these audits. That is my opinion.

Mr. Kelly: Under those circumstances, Mr. Slaughter, do you think they will be employed in the same way that General Motors Corporation would employ a firm of public accountants?

Mr. Slaughter: I cannot say.

Mr. Kelly: Or will they become employees of the federal government, taking their directions for their work from the Comptroller General? I think there is quite an important distinction with reference to the end results.

Mr. Slaughter: I cannot answer that one. I'm sorry.

Chairman: It is very nice of our friends from the government to mention the public accounting profession. I do want to emphasize here, however, that our interest in this conference, and in the things we have been discussing these two days, is not that we have the idea that governmental auditing should be done by the accounting profession. That is an entirely different subject. What we are interested in here is trying to separate from this agency of the Congress the accounting and bookkeeping functions from the auditing functions, and to aid, if we may, in helping them to do a job of auditing. That is the thing, as a public service, in which we are interested. The General Accounting Office now, except perhaps in some certain exceptions, is not making an audit as we, as public accountants, understand auditing. The idea is, once they approve the payment, they do not give a continental about the goods or services. I am speaking technically now. Maybe in their own hearts they have a different idea, but they do not follow through, and, to us who have been in accounting, it does not make any difference whether the value is in a bank account, in currency, or whether it is in steel or lumber, it is a value to be accounted for until that gets to its end use, and that is not being done. I think the public and Congress do not have the protection they think they have.

I think there is nothing more dangerous than to try to fool ourselves that we have something when as a matter of fact we do not have the protection that we seem to have. That is what we are interested in at this particular conference. I know Mr. Slaughter constantly comes back to us on the matter of the legal situation, and we have to agree with him in many of those things. We are not attacking these folks because they have to do some things that the law requires. What we are trying to do, and what we hope to get from this record, is a pattern whereby we can set forth the ideal that we should have, and then strive to have the laws changed as rapidly as we may so that they will conform to what is right and proper. That is the aim of this conference.

It is very nice—I appreciate Mr. Kelly's raising the question—and it may be that the Comptroller General in his wisdom will see the necessity for augmenting his own staff if he takes on this added responsibility in these days of short personnel. I do not know where he will get additional accountants. I know we in the practice are having a time trying to keep up. When a prospective client comes into our offices now, we practically snub him. If any kind of accountant comes in, we almost kiss him.

Any further questions or discussion?

Mr. Grady: I was interested in the statement of Mr. Slaughter that the General Accounting Office is now undertaking a program of auditing these cost-plus-fixed-fee contracts in the contractors' offices, because I think that is the only place that it can be done. I should like to ask, however, in view of that development, and since the contractors' own records are to be audited, why is it necessary to continue sending in all the original documents in support of the vouchers?

Mr. Slaughter: I am sorry I cannot answer that question. That is a matter of administrative requirement, and I frankly do not know what the proper answer should be.

Mr. Denit: I think I can answer the question in this way: We have in the General Accounting Office what we call a claims division. Just before I left Washington the other day, the claims division was bent upon an examination of records having to do with expenditures made shortly after the War of 1812. We were having a terrific time trying to rebut some claims that had been made against the federal government on account of transactions taking place at that time.

Very often we are asked why we bring into the General Accounting Office all these records. This has specifically to do with your inquiry; why we should ask, for example, that the vouchers and supporting papers, after we have audited those papers, be sent in to the General Accounting Office. They are sent there for filing, because they constitute the permanent record of the government's fiscal transactions. A large part of them from time to time are put in the archives of the government. It would surprise all of you, I know, if you realized how often it is necessary to go back and look into those old records in order that the government might have some defense against the many claims that are being presented.

I think that would be one good reason why there should be some concentration of these records for such subsequent use as we shall be called upon to make of them. We have considered that, too, very seriously, in the General Accounting Office, and have for years been undertaking to secure some legislation to outlaw claims against the government, in the same manner that we outlaw claims in private business. We have statutes of limitations for everybody's protection except for our own in that respect. If we are going to have any protection at all against inroads in the form of these claims, we are bound to have some records with which we can rebut those claims. That is our principal reason for keeping them, now that there is not a statute of limitations that prevents citizens from filing against their government. Unless the government is able to do something about it along those lines, I think we will have to continue to bring those records in. We do not use them after we bring them in because, the auditing having already been finished, they are ready for our closed files.

Mr. Slattery: There may be one

little adjustment of that answer: when in the emergency shipbuilding program the project audit is announced, from that moment on the papers do not have to come to Washington, but, under a cost-plus contract, one of the clauses states very clearly that all of the records of the contractor are the property of the United States Government. When the contract is concluded, they will all be shipped to Washington and then presumably repose in the General Accounting Office. But they do not require the papers to be sent, as they do in other contracts, if a project audit has been announced and takes place at the site.

I would like to compliment Mr. Quigley for the remarks he made. As far as I am concerned, I think they are the most constructive and perhaps the best statement of the government problem that I have heard.

Mr. Grady: Just to be sure that the point of my remarks is understood, I recognize fully that the government should have the original statement of claims supporting the voucher, and, on these cost-plus-fixed-fee contracts, I think the statement of claim should be the statement of the contractor who is performing the work. Then at the termination of the contract there will be some evidence of final settlement.

I should think those certified statements of claims setting forth the costs and the fee that the contractor is entitled to, would constitute adequate support for the relationship between the government and the contractor.

The thing for which I see no necessity is going back beyond the contractor to his purchases and insisting on accompanying the vouchers with all of the original vendor's invoices that the contractor bought, his payroll records, and all such information. It seems to me that that is carrying it to a second level, which should not be necessary.

Mr. Morey: I want to express appreciation of the papers of Mr. Slaughter and Mr. Denit, because they help to give us on the outside of the immediate government circles a better understanding of the detailed procedures that are followed. Obviously, such an understanding is essential if we are going to be able to criticize constructively.

The general conclusion, however, that one gets from these papers is that, having stated the procedures, the only justification offered for them is the fact that they are based upon applicable laws and regulations—without any further comment as to whether in the judgment of those who are working with them they are the best procedures and the most suitable means of accomplishing the objectives, and, if not, whether consideration could properly be given to securing changes in the laws that would make it possible for the office to apply the procedures that would be most effective. For instance, on this matter of submitting vouchers for audits, a reason has been given for having them available for future reference. But, the vouchers could be sent directly from the agencies to the archives just as well as being routed through and filed temporarily in the General Accounting Office. Emphasis is placed upon the fact that the audit of expenditures is limited to a voucher audit, the implication being that the limitation is prescribed by statute—yet it is indicated that the audit of collections has to be made and is made at the point of the transaction. If that is the case, why should not the audit of expenditures be made at the point of transaction in the same way? If changes in laws are needed, what has the General Accounting Office itself done to secure these changes? One or two rather minor things have been mentioned; for instance, setting a limit on claims against the government, but that is not an item that has to do particularly with the procedures in the Office.

All through these discussions there has been continual emphasis on the authority of the General Accounting Office, that it is set up under a special act of

Congress, that it is independent from the executive agencies of the government, and must operate in a completely independent way. Now, we all recognize that it has authority; so do other agencies of government have certain realms of authority. We also recognize that in its operations it is independent of the executive branch of the government, but I submit the General Accounting Office is accountable to Congress. It is not independent and accountable to the people of the United States in the way that Congress and the President are as their elected representatives in the government. Admitting that it has certain authority, therefore, is it not at least under moral obligation to use that authority with discretion, to use it cooperatively to endeavor to work with the agencies constructively rather than dogmatically?

I am sure that our friends are sincere when they say that they have made an effort to determine the needs of the agencies, but the evidence is, as presented so effectively here this morning by Mr. Quigley and supported from many other sources, that the measure of cooperation and attempt to set up systems and procedures that would be most effective for all the purposes they should accomplish has certainly not been carried to the extent that might reasonably be expected. That leaves us, therefore, with the grave question as to whether the General Accounting Office, through the years, has proceeded with the greatest wisdom that might be expected of it, even admitting that it has authority to do things.

After all, as has been so well brought out, authority will not accomplish the result unless the conclusions reached by that authority are conclusions that are sensible and reasonable, and which accomplish the objective. The only way that that can be determined, it seems to me, is by thorough and careful discussion with all the agencies that are involved, so as to consider all of the needs that are concerned and not merely those of the central agencies.

Finally, I believe that too much emphasis all the way through here has been put on the needs of the central agencies of government, and not enough on the needs and utilities essential to those who will actually have to do the work and bear the responsibility on the firing line of government, all the way from the smallest unit to the largest central offices of the various operating agencies.

We may have here an illustration of a point indicated in a story I heard of Uncle Joe Cannon who was so long in Congress, from an area near where I live in central Illinois. It seems that Uncle Joe was at a social affair with a young lady one evening. They happened to walk out, and the young lady, evidently interested in astronomy, or in romance, or something of the sort, referred to the bright stars in the heavens, and asked Uncle Joe if he had ever thought who might be living on those various planets.

"Well," he said, "I have never given much thought to it."

She said, "Do you mean it never has bothered you as to who those people may be and what they might be doing?"

No, he didn't believe it had.

She said, "Why is it that you haven't given any thought to that subject?"

"Oh," he said, "I suppose it is just because those people are not in my district."

Alvin B. Jennings: I would like to have a point cleared up. I gathered that the suggested type of examination which was described in that bill was to be limited to the incorporated agencies. If that is so, I would like to inquire why.

Mr. Quigley: The Commodity Credit Corporation does not have an independent audit. It did have an independent audit by Reconstruction Finance Corporation auditors, but, due to a change of accounting, due to the change of relationship, they lost that to a large extent. The corporation and the department felt that it should have the services of an independent audit. We went to the General Accounting Office and worked it out, but we could accomplish it only through the law, and that proposal was put in the Commodity Credit Corporation bill to extend its life. It was limited to the Commodity Credit Corporation as far as we were concerned, because that was our interest. Congress may, in its wisdom, change it to all corporations, or the Budget Bureau or the General Accounting Office could recommend that, but, as far as we were concerned, our interest was in securing by the public auditor a commercial type of independent audit in that corporation.

MR. SLAUGHTER: I think it might be made clear that this bill was not sponsored by the Comptroller General; that the Comptroller General is not asking Congress to make any changes in the present statutory outline under which he is now auditing the cash accounts of the government. When an agency comes to the Comptroller General and says, "We want a different kind of audit from that which you make of the cash transactions of other agencies," the Comptroller General says," I have no authority to do that." The agency says, "Then we will get the authority." The Comptroller General says, "I have no objection; we will go right along with you and will do the best we can to accomplish the purpose which you want." But that is a submission by the agency whose accounts are to be audited in a separate manner from the manner usually followed.

MR. QUIGLEY: And we could not sponsor from our point of view an independent audit for all corporations—I mean from a department standpoint we could not sponsor an independent audit for the Reconstruction Finance Corporation.

MR. JENNINGS: I understood that the bill had relation only to your corporation, and I also thought I gathered that the Comptroller General had concurred in the submission of the bill. But I gathered further from Mr. Quigley's remarks that it was hoped that this would be the basis for extending this approach to other corporate agencies. I wonder if he really meant only the agencies that were incorporated, or any other agencies that might now be under the jurisdiction of the Comptroller General.

MR. QUIGLEY: I am hoping if this goes through, and experience shows that it is the right type of audit, the whole philosophy of government audit may be changed thereby. It is a bench mark from which to start, I believe, and we will have experience under this which may widen as we go along.

MR. SLATTERY: I think it may add something to the record, Mr. Chairman, to state that the Merchant Marine Act of 1936 directs the Comptroller General, in auditing the accounts of the Maritime Commission, to conduct the audit according to commercial principles, and further to state that the Commissioners have the power to direct payment and to incorporate methods in the same way that a board of directors have in running a corporation, and that those will be conclusive. It does say, also, however, that this commercial audit which is directed as a Comptroller General's activity will be based on a further act of 1922, I think it was, which was part of the Emergency Fleet Corporation's practice. So, there is some precedent, and, although the thing is badly defined and not very well worked out, it exists as a precedent, at least.

CHAIRMAN: We are very glad to have that in the record as one other thing that might be studied when we get to it.

Thank you, Mr. Kohler, for a very excellent paper and one that is loaded with much food for thought. I am sure it will play a very helpful part in the summarization of this conference after we get the full record before us. Do you wish to ask Mr. Kohler some questions, or make any comments on his paper? If there are further questions you wish to raise on the previous papers, you are free to do that, also.

Mr. Slattery: Mr. Kohler, how do you reconcile your favor of accrual accounting with the appropriation setup you are presented with at the start? That is, you must have a cash account, and I do not see how you can depart from it. It must be very simple, but, in the way that you are given your money in the government, I do not see how you can ever get away from keeping it just exactly as you are given it and reporting it back that way. For purposes of management, of course, you do want accrual accounting. In my opinion, you must have both.

Mr. Kohler: I simply cannot conceive of any reason for keeping a cash basis. I do not know what the reason is, I am sure. Maybe there is a reason—I do not know.

Mr. Slattery: It is due principally to the tools with which you have to work. You cannot find qualified double-entry bookkeepers everywhere.

Mr. Kohler: I thought all government books were on the double-entry basis.

Mr. Slattery: Not at all.

Mr. Kohler: I did not know that.

Mr. Slattery: Nothing like that. In other words, you would not have had Executive Order No. 8512.

Mr. Kohler: I have seen the books of half a dozen agencies in Washington and have not seen any that are not on a double-entry basis. Old ones.

Mr. Slattery: I have seen some pretty old ones.

Mr. Kohler: I would be very glad to be instructed by someone as to why you need a breakdown on the cash payments. I never knew it.

Mr. Bartelt: I do not care to get into any controversy, but I have lived with this thing pretty long, and I am in general agreement with the philosophy of Mr. Morey and, I think, of Mr. Kohler, but on the basis of all the government accounting records that I have seen (and I speak on the basis of experience) I do not believe it would be safe for the American people ever to get too far away from a hard fiscal cash proposition. Of course, our appropriation system, as you know, is based primarily upon the accrual idea, or the obligation idea, not on the cash idea. That is to say, an appropriation is made available for a particular fiscal year, and that means that that money may be obligated within that particular fiscal year. It need not necessarily be disbursed in cash during that year. So, basically, our books are, I would say, on an accrual basis. Any bills that are received after the close of the fiscal year may be paid within an additional period of two years. In other words, the government keeps its books open under the law for two additional years. At the end of that time, the money is written off the books. This is technically known as being carried to the surplus fund of the Treasury. Then, if claims should arise, they must be settled by the General Accounting Office and certified to the Congress for a new appropriation. But if we are ever to get a complete and over-all picture of our financial operations and conditions, which we have never had—the Budget and Accounting Act requires the President to report to the Congress the financial condition of the government—and that has never been done—but I do believe that it would not be very safe to get away from the cash as an anchor. In other words, I believe that all these accounts should be integrated in some way, and they ought to be anchored to the cash.

Now, the TVA, just speaking of that all by itself—I do not doubt at all that they have as good a control over their activities as General Motors, for instance, but we have in the government, I assume, about 3,000 different agencies obligating government money; I have not seen any place or any standards which have been set up for the purpose of making entries in the books.

I believe I said yesterday that substance was more important than form, and until we can get something very reliable to depend on, I do not believe that it would be safe merely to take an aggregation of ledgers or reports, or whatever you want to call them, and try to put them together and say, "Now, this is the financial condition of the federal government." I do not know how much interest there is in a picture of the financial condition of the government as a whole. I have not seen a great deal of interest manifested in that particular thing. I have heard a lot about the financial condition of a particular organization, such as TVA, or some other organization. I have not seen much interest in this problem as a whole.

There are a couple of other questions I would like to raise, but I do not want to raise them at this point.

MR. KOHLER: I might say that the agency that I happen to be associated with at the present time makes no distinction between the cash and the accrual basis. All accounts payable are put through on the last day of the month, and, if you look in the last reconciliation statement that we have to furnish you, Mr. Bartelt, you will find some of those things listed, unfortunately. I do not know whether you like that or not, but there are not very many of them, I can assure you.

MR. BARTELT: But I am saying, Mr. Chairman, that the only place the American people can get a statement today of the revenue and the expenditures of the government is through the daily statement of the United States Treasury. It is the only reliable statement that is available to show what the government as a whole is doing. You simply cannot get them from these agency records, and, until we get a better accounting system, I think we had better explore this thing pretty carefully.

CHAIRMAN: Would you care to express yourself as to whether you think at least it should be an ideal toward which we should go?

MR. BARTELT: Surely we should work for that ideal, but I do not see why we should eliminate the cash. I think we should take in all of these things. My own personal opinion is that every federal agency should be required to render a formal accounting of some kind, according, of course, to prescribed standards.

Now, I do not mean to say that the Treasury should prescribe those standards, or that the General Accounting Office should prescribe them; I would be perfectly willing to have the American Institute of Accountants prescribe them, but I do think that there should be prescribed standards.

I will use the superintendent of a national park or a national forest as an illustration. As the superintendent of a national park, I do not see why I should not be required to render a periodic accounting. I will not say that that should be monthly, or quarterly, or for what period, but there is no reason at all why I should not report the revenues that come into my hands and the expenditures that I make, based upon a proper standard. What may be an expenditure to Mr. Kohler may be something else to someone else.

I want to be tolerant; I want to get everybody's views as to just what is an expenditure to begin with. Then I have property in my custody; I should have another accounting for the proprietary items that are under my jurisdiction, and I would begin with the cash; I would take the accounts receivable; I would take my equipment, my materials, and so on down the line. I would take those things that are recognized in commercial accounting today. I would do the same thing on the budgetary side. I would have an accounting for all of my budgetary activities.

I believe that we can eliminate a lot

of this warrant procedure and a lot of this so-called cash procedure, but I think we all ought to know a little more clearly what we are talking about before we decide to eliminate cash from this particular picture.

MR. CUNNINGHAM: Mr. Ellis, the general statement that Mr. Kohler raised is, of course, fundamental. If proper reports are ever to be made for governmental agencies, for the agency and the government as a whole, you will certainly have to subordinate the cash element in your accounts and in your reports. Take the State of New York, for example; the State of New York operates on what they call a cash basis. At the end of the year they will announce a surplus of forty or fifty millions and at the same time they may have twenty or thirty millions of actual obligations outstanding. In other words, by depending on a cash basis, they fail to give a complete statement of what their actual operations are, and what their positon is at the end of the year.

In New York City our accounting and our reporting are not based primarily on cash. The basis of the published report of the Comptroller is a combination of a cash plus the accrual basis, although it is practically a modified accrual basis. Cash is considered, accounts mostly with banks; operations are reported and controlled through the accounts on a complete accrual basis. In our annual report, for example, we show cash receipts and disbursement statements. We show our operations on an accrual basis, but the detail is on the cash basis. We reconcile the two, which we are able to do. We reconcile the cash on an accrual basis through statements and footnotes. So, in general, I would say that the accrual basis of accounting is perfectly proper, can be properly matched up with your appropriations, and does give a report at the end of the year which correctly summarizes both the cash position and the obligations position.

MR. BARTELT: I certainly do not want it to be understood that I do not favor accrual accounting. I think all the papers I have written on that subject show very conclusively that I do, but my point is that somewhere these things must be integrated, and the safe place to do it is through the United States Treasury, where the cash is handled. We get the cash from the collectors of customs and internal revenue. We pay it out. It ought to be integrated, and it ought to be tied up to cash, because, if you do not do that, you will have a set of statements that will be unreliable, and will be duplication.

Mr. Quigley this morning referred to just one small situation where there was a duplication of reporting of cost in connection with some telephone business, I believe. I think it is very important. I might say, too, that I believe the United States Government more fully informs its people in a straightforward manner of what it receives and what it pays out than any other government that I know of. If anyone has any other information to the contrary, I would like to know about it.

MR. MOREY: Mr. Bartelt, is it correct that in your present daily statements of the Treasury you include only as receipts or revenues the items that have been covered into the Treasury? There may be many items in process and outstanding. For example, this morning there was reference to cash transactions that involved fifty days, I believe. Would those things be outside of the Treasury report? Is the same thing true as to disbursements, that is, are your disbursements on a warrant basis, which means that if advance is made to a disbursing officer that is treated as a disbursement, and, therefore, on the face of it, as a government expenditure as of that date?

MR. BARTELT: That is the reason I say let us be very careful that we know what we are talking about, because these statements that I referred to are not based upon the warrant basis that

Mr. Morey refers to, and there is no fifty-day delay. These statements that I am talking about are based upon the current flow of money into and out of the federal depositaries. But again I say that at the end of the month or the quarter, or whatever period you may choose, there should be a complete accounting which will bring into the reports all the amounts due to the United States Government and all the accounts payable and any other liabilities. I might say that in the Executive Order No. 8512 that is exactly what the President has made provision for.

I would like to have you read the terms of the order and point out to me wherein that order does not take care of the things that you are talking about here today, and also let me know if there is anything not in there that should be in there.

MR. SLATTERY: I want to make myself perfectly clear, too, on this matter. I recognize the desirability, as an end result, let us say, of accrual bookkeeping, but I do think that we first have to make a start on a general statement of all the government's income and expenditures.

As to the objective of this whole movement, I will settle any time for Executive Order No. 8512; I think it is the best document ever issued by the government. Everything is in there, if it can be done. It will take a long time to do it. In the meantime, I cannot get over the hump of opinion that is in accrual bookkeeping. Your accrual bookkeeping will be somebody's opinion, and judgment will be used. When you issue statements of that kind, they are subject to debate, and there are all sorts of reflections cast upon them. Cash is something you cannot argue with.

MR. BARTELT: It is the only reliable thing I have seen in the government as long as I have been there, but I have seen a lot of figures. Recently the War Department, for instance, has furnished a report to Senator Byrd's committee on the status of its appropriation, and I was told by the committee that the figures in that report were not reliable. In connection with the reports that we are now getting under Executive Order No. 8512 on this so-called Form No. 3, it takes my boys about sixty days to reconcile those things, and we must make large adjustments in the figures. You cannot take these figures without tying them in to some central place where you are holding the money.

CHAIRMAN: I do not like the inference of the remark Mr. Slattery made, and I am not getting into this other controversy at the moment, but, if what you say is true, that the moment you go to accrual bookkeeping you get merely in the realm of opinion, then God help the commercial and industrial interests of these United States, because our accounting is on that basis.

I think there is opinion in this because it does not tell the story. Suppose you buy something that is going to be used for several years to come. The only true accounting we can have that gets away from estimate, and intelligent estimate, is a joint venture where we start out with $100,000 in cash and eventually liquidate it and get back to whatever is left over. That is the only way you get an absolute, accurate profit.

This whole convention of the annual cycle of accounting, and so forth, we all realize has shortcomings, because we do not know the period of time. The project is from start to finish before you really know what it is, and we try to get cut-offs here, months and quarters and years, and so forth, when we need a whole cycle to know exactly what has to be done. Therefore, you have got to introduce a certain amount of estimate, and I would not think it was an estimate to set up the accounts payable and accounts receivable that you know.

MR. SLATTERY: It is not an estimate.

CHAIRMAN: I do not want to give the idea that we here in this conference think that we are doing a lot of guesswork when we go to accrual accounting. Does anyone else wish to speak on this?

MR. SLATTERY: Let me clarify it a little more. Again we have got to cut this thing up into the various segments in which it belongs. I think that what we have heard here this afternoon about the Tennessee Valley Authority is absolutely proper, and the way it should be done, because it is going to wind up in a profit or a loss. The difference between ordinary government and commercial life is the existence of profit in one and not in the other. The profit motive is in one and it is not present in the second.

As I see most of the devices of accrual bookkeeping, they are devices of the profit motive to ascertain equities until we arrive at the proper profit at the end of any period. Now, there is no profit in the government. The Post Office, I think, should be on a commercial accrual set of accounts.

CHAIRMAN: I would like to debate that question with you, because we are moving in that direction, and in the municipal field much is being done. It is slowed down at the moment because of the war, but they are working on research. What we need above all in government is to get some standards of measurement to make you men in government show that you are producing something in quality and quantity of service instead of just giving a lot of dollars which you spend and say, "We got so much and we spent so much." If you spent it, what did you produce? What did you give us in services? If you spend a million dollars for a thing and another governmental unit spends a million dollars, we need some basis of comparison, because the fellow who spent a million and a half may have spent less real money than the fellow who spent a million, on the basis of what he produced in services and what not for his community.

With government taking on more of the functions that we formerly did for ourselves through private enterprise, we must have an accountability on that type of thing. In our local government we have added more functions in the past twenty years than we had previously added in three-quarters of a century or more. We are taking on those things and other activities that should, in the opinion of many, be by private contract. It is the biggest business going on. We must come to the profit motive, and we must get a profit side to governmental accounting.

MR. SLATTERY: I will go along with you, but when it comes to depreciation and the distribution of overhead, I have reservations.

MR. KOHLER: May I say this? I do not see any connection between what I have been talking about here and the profit motive. It is true that TVA undoubtedly takes pride in the fact it is making a profit on its power operations. However, the great bulk of the work done by TVA has no relation to the profit motive. There is no income for the bulk of the work that it does.

Of the material that I presented to you here this afternoon, possibly one page has to do with anything that pertains to power. The rest of it has to do with the same type of operations that we find in Washington. The activity notion, for example, is something that does not work out very well, as a matter of fact, in the power operation, but it does work out beautifully in the spending part of the agency that has no income connected with it.

As a matter of fact, I am amazed at this statement as to the accrual basis. I did not know there was any argument on that. As a matter of fact, I cannot for the life of me understand how anyone is going to arrive at unit cost or make comprehensive comparisons of his results with prior years, or with other agencies, if he doesn't put his accounts on the accrual basis. It simply cannot be done.

If you can show me how the cash basis has the magic that permits you simply from the outpouring of cash to determine what your costs are and how you have been running this year as compared with last, or this month compared with last month, I would like to see it. I have something to learn, I am afraid, in accounting.

Mr. Slattery. I did not say that.

Mr. Bartelt: I do not think anyone ever contended that, Mr. Chairman. We are only contending, I think, that we should not disregard entirely the principle of requiring this cash accounting. I agree with Mr. Kohler. As a matter of fact, I think you have to go even a little further than accrual accounting, unless he means by that that you determine your cost on the basis of the use of the material and supplies, rather than merely the matter of incurring a lot of bills and piling up the storehouse. I do not think there is any disagreement on that principle at all.

I might also say that the accounting people in the government are not responsible for this condition. I have often said that if there is to be a development of the government's accounting system, it must come from the outside. I think there must be a greater interest manifested by the citizens, by people on the outside. I am reminded of the little experience that I had recently when I appeared before the Appropriations Committee in executive session with the Comptroller General of the United States. This whole question under Executive Order No. 8512 was thoroughly thrashed out.

We were all apparently in agreement with the fundamental principles laid down in this Executive Order. The whole bone of contention was whether we were encroaching upon the prerogatives of the Comptroller General. I assured the Committee that we were not doing so. Everything was lovely, apparently. The leading Republican Congressman, the minority leader of the House Appropriations Committee, unfortunately, was in the hospital at that time.

The Committee asked me if I would give them a letter assuring them that the Treasury did not intend to encroach upon the Comptroller General's duties. I said, "I will do better than that; you will get a letter from the Secretary of the Treasury that we would not encroach upon his duties." Then the Committee decided that even that was not necessary.

About two days later I received a call from the Appropriations Committee Chairman to the effect that Mr. Taber of New York had come back from the hospital and was going to oppose this. Well, he brought Mr. Keefe of Wisconsin, and the two of them got on the floor of the House of Representatives and started lambasting me and the Treasury. There was no one from the outside—from the American Institute of Accountants or elsewhere—who had enough interest in that to clarify it for the Congress. Thus, all the work done so far has been a sort of uphill fight by a few people in the federal service who are trying to make available to the American people a little more information about the financial operations and conditions of the government.

Mr. Morey: I am wondering if some confusion may exist here between the necessities for appropriation accounting and the needs of operations accounting of the different agencies. An appropriation from the standpoint of an operating agency is pretty much like cash in a private concern realized from capital or from borrowing. In other words, it is a resource out of which disbursements can be made. Now, the disbursements against an appropriation must be for all items for which cash is paid out, and charged against that appropriation, and yet not all of these items may be operating expenditures of a particular period of the operating agency.

For example, a purchase of supplies is made that will be useful over a considerable period of time out of a central stores supply. That has to be charged as a reduction of the appropriation for that period, but it is not necessarily an item of expenditure for the immediate period of the operating agency.

The same thing may be true of insurance, perhaps maybe even a better illustration, where insurance may be paid for covering a period of years. How far that extends to capital expenditures, of course, is another and somewhat more difficult question, but all those items of necessity must be charged in full to an appropriation within the fiscal period.

All this means that the accounting of the agency needs to be on a cost basis, that is, cost of operations, but at the same time its accounting must also include a complete accounting for its appropriations, which, for the most part, has to be on a cash basis.

That brings me back to a reference to Mr. Kohler's plan of handling encumbrances. I feel sure his accounting plan is very workable, probably not only in TVA but in many other places. But I think his statement is too broad when he says he has discarded and thrown away some of the procedures of governmental accounting that are more or less generally used, particularly with respect to this question of appropriation and encumbrance control. He has not thrown those away; he is still recording encumbrances; he is still making use of his records of encumbrances in his financial reports. His method of carrying them in relation to the accounting system is a little different from that followed in many places. I still think there are, in many instances—maybe not in the particular one he has described—sound reasons for putting on the general books the record of original appropriations, especially in an agency that has the power within itself, as frequently exists in state agencies; for example, to allocate those appropriations. Therefore, the agency wants to know the extent to which those allocations have been made and the free or unallotted or unappropriated balance of its total resources.

The question of encumbrances offers many complications and possible variations, but in his outline Mr. Kohler indicated the necessity of an accounting for encumbrances in some form. The important thing is to determine where that accounting will be most useful, where it can be carried out with the greatest dispatch, and furnish the information most simply and most easily without a complete disregard or elimination of the appropriations or encumbrance records and control.

Mr. Slattery: Mr. Chairman, I do not like to speak so often, but this question is so important and the confusion that surrounds it is so deep that I just thought of an example which probably illustrates what I mean. I said what you said in your remarks just now. I said that when I first spoke up. I have in mind something like this: What we are talking about, as far as I can make out, is what we are going to report to the American people. Well, I think we can report to the American people somewhat as the banks of the country report to the American people—in a simple, easy-to-understand statement of income and expenditure in the form of a balance-sheet.

Every bank answers the call of the Treasury and then finds it good advertising to publish that statement in paid advertisements. That is what they do for the public. Internally, of course, they have much more in their system of bookkeeping and they go down minutely into their costs. But the thing they report and the thing in which they gain the confidence of the people is simple.

Mr. Kohler: I do not think there is any great difference, Mr. Chairman, as I understand it now, although I thought so at first. The principal point in my emphasis was in methodology and the practical uses to which accounts are put. Obviously, a well-kept system of accounting can be adapted to almost any purpose. The more flexible the accounts, and the greater the number of people who can understand the accounts and make use of them, obviously the more worth the accounts have. The sole emphasis I tried to make was that so much depends on methodology, so much depends on the practicality that you give just to the account form, if nothing else, in order that you may put it to actual use. We should get down to a simple statement of accounts on the accrual basis, which can be used intelligently by more people than accounts on any other basis. That is simply a matter of experience on my part. It originated, of course, in business. Certainly the businessman thinks in terms of accrual accounting; even a person who knows nothing whatever about books thinks in terms of accrual accounting.

For example, if you knew nothing about accounting and were asked to state your living expenses for one month, you would not stop to find out whether or not you paid your rent this month or last month; you would give us the statement of what your rent was going to cost you per month, that is, you would undoubtedly give a rate of expenditure.

Everyone thinks in terms of the accrual basis of accounting; consequently, it seems to me that is what should be emphasized from the standpoint of putting accounts to the greatest use, whether it be in business or in government.

I am not sure how far Mr. Bartelt wants to go. If the statements he gets out at the present time have usefulness —and I know they have—it is furthest from my thought to suggest that those statements be discontinued. I am talking about something else; I am talking about statements produced within an agency, and made use of by people within and outside that agency; statements that could be put in the hands of operating people and from which they could derive definite notions of what their operations are costing them. The same statements should be put in the hands of persons having no connection with any governmental unit at the present time; for example, Mr. Ellis, so that he himself could get into the question of what the different governmental operations are costing.

No matter what system of accounting you use, you must apply a degree of intelligence in connection with it. I believe that intelligence can be most dangerously applied, no matter what the degree of intelligence, to the accounts when they are on an accrual basis.

That is the only emphasis I wanted to put on it. Of course, everybody, a business enterprise and a governmental enterprise, should be able to give a summary statement of cash receipts and disbursements. I am not ruling that out at all. I am talking about the formal system of accounts as the basis for accounting statements, for accounting analyses, managerial judgments, and methodologies of control rather than about whether those items of control are exercised by people within the agency or people in the three supervisory fiscal agencies of the government, or by organizations entirely outside the federal government who are interested in federal operations and want to find out what is going on and why.

Mr. Denit: Mr. Chairman, I have been listening with considerable interest to this discussion with respect to maintaining the accounts of the federal government on the accrual basis. I wonder whether it might be possible, from what has been said, for the group to get the impression that TVA is the only place in the government service where the system of accounting which Mr. Kohler has described will be found, and whether they might get the impression that it is a new thing in the government service.

TVA is a comparatively new organization of the government. We have many that operate from the standpoint of identical accounting needs. We have the reclamation service, the procurement division, the arsenals. We have cost accounting in hundreds of activities of the government, where it has been recognized for more than thirty or forty years, to my knowledge, that accrual accounting is an essential factor to the determination of costs. It is found not only in TVA; it is found everywhere where it is necessary in the operation or the activity that is being carried on to have information with respect to cost. It has general application throughout the whole government service under Section 601 of the Economy Act, which provides that working funds may be established for doing certain work on the part of one agency for another. Wherever that takes place, the agency rendering the service is required to submit a statement of cost for the performance of that service.

We have had considerable discussion in the federal government with respect to what those factors of cost shall be—whether they shall include, for example, the element of depreciation. I merely want to bring out that we have had this problem for a long time. It is not found throughout the government service, and wherever cost accounting is necessary, the general system of accounts prescribed by the Comptroller General makes provision for it. In other words, any agency for the purpose of determining cost on a purely administrative operation would find the accounts for that purpose in the system of accounts prescribed by general regulation No. 100.

CHAIRMAN: This discussion is all very helpful. I am sure that when we get the record of it and study it, there will be much benefit gained from it. Mr. Bartelt, you said that you had one or two other matters you would like to speak of. But, first, will you relieve me of a question that I was requested to ask you, that is, to define the difference between the use of the term "refund" and "reimbursement."

MR. BARTELT: I am not responsible for this thing, understand.

CHAIRMAN: Somebody wanted help on it, and is honest in the request.

MR. BARTELT: There is a difference, but I am not responsible for it. A "reimbursement," generally speaking, is money representing a reimbursement to an organization for work done, as distinguished from a "refund" to an appropriation on account of erroneous payment, or something of that kind. Does that answer it?

CHAIRMAN: I hope it answers the one who asked me. I wasn't wrestling with it.

JOHN C. MURPHY, JR.: I raised the question, Mr. Bartelt, and the reason I did was this: OEM, by way of explanation—or rather I should say the Division of Central Administrative Services of OEM—performs services for many of the war agencies, and among these services is the letting of contracts and the obtaining of various contractual services for the agencies. Many of the bills submitted contain, as a result, charges which are applicable to more than one of the agencies. For example, it is common practice for us to rent space and house in that space four or five agencies. We have received recent instructions to charge as a refund, or to process as a refund on Form 1080, credits resulting from the payment of rent bills for those agencies. For some of the agencies, we may maintain the accounts, and for others we may not. For example, we do not have the accounts for the War Production Board and the Office of Price Administration. However, we do perform the services; that is, we rent the space, we get the telephone service, and so forth. When the bill comes in, it contains charges for them as well as agencies we do have the accounts for, and we have to pay the bill and later seek reimbursement.

I do not consider such a transaction as being erroneous under any consideration, in that we plan to handle it the way it is handled before we do it, and yet we do enter the credit as a refund rather than a reimbursement.

MR. BARTELT: I did not know, of course, what was behind that particular question, but that is essentially a question for the General Accounting Office, and it may be that Mr. Slaughter or Mr. Denit would like to answer it. Talking about reimbursements on 1080—that is the GAO.

MR. SLAUGHTER: A refund does not necessarily mean that an expenditure has been erroneously made. A refund is intended to be a return for an expenditure made from the appropriation which was not properly chargeable to the appropriation. When you pay this bill from your appropriation for the entire amount, knowing full well that a portion of that bill was chargeable to other agencies' appropriations, I say that, as far as your act of charging your appropriation is concerned, it is just as much an improper charge as if you had done it deliberately with malice aforethought. But by the fact that you reimburse or cover back, or recoup that amount, you have put your expenditures on the same basis as though you had only charged your accounts with the amounts properly chargeable.

MR. MURPHY: The reason the question was raised at all was because 8512 gives exactly the definition that Mr. Bartelt gave; it uses the word "erroneously," and we know there was no error involved in those transactions. We did it deliberately.

MR. SLAUGHTER: It is not properly chargeable to your appropriation, following usual appropriation technique.

MR. BARTELT: I was using the word "erroneously" in that sense. It was not a proper charge. That is to be distinguished from a case where, for instance, the Comptroller of the Currency would make an examination of a bank and the bank would reimburse the Comptroller for the expense.

CHAIRMAN: Do you wish to go on with your other points?

MR. BARTELT: Mr. Morey's excellent paper of yesterday morning raised, I think, quite a number of questions that have not been answered. I shall not attempt to repeat the questions. He may bring some of them up later on. But I think we might look at this accounting problem from a little higher plane than that of some of the things we have just been discussing. We have been getting into a lot of details, it seems to me. I would like to hear comments not from the federal people but from the professional group here as to what might be done about it.

The first thing is from the standpoint of the President of the United States. We know that these governmental expenditures have an important effect on the economy, and we know that in order to control these expenditures we must have executive direction from the top. It cannot be divided.

My question is this, and I think it has some rather far-reaching implications: What can be done to encourage the President of the United States personally to take a more active place in financial management? Would it be possible to encourage him, through some means or other (I do not know just what they would be) to bring his Cabinet members together at least once a week, or every two weeks, or every month, for a discussion of the financial operations and conditions of government from an over-all standpoint, requiring the heads of the various agencies to bring into that meeting over-all financial statements relating to their respective departments?

The Secretary of the Treasury would be required to bring into that meeting a statement concerning the financial condition of the United States Treasury. He would have another function which would be similar to the heads of other departments, namely, he would bring into that meeting a statement of the financial condition of his own bureaus, separate and distinct from this over-all financial condition of the Treasury. Likewise, the Secretary of Agriculture would be required to bring in his financial statement relating to his department, so that there could be discussion.

Now, that, in my opinion, would not only make available to the President of the United States more adequate information concerning what is going on financially in the government, but it would have this effect, which I think is equally important: It would require the heads of the various departments to be familiar with the financial operations and conditions of their respective bureaus. Since the head of the department would be required to be familiar with the operations of his department, it would mean that the head of each bureau would be required to be so informed. I have an idea that, with that requirement, we would naturally have as an outgrowth an improved system of government accounts.

That is just one thought on the higher level. I am not trying to run the other man's business; I have enough worries of my own. My interest in this accounting problem is on the higher level; it is not down there on the project of TVA. I know that has to be taken care of, but that is another thing.

The other thing is from the legislative angle. What can be done to have the Congress take a more active interest in the running of this government—I mean the financial end and what we have been discussing? Mr. Slaughter said (and I suppose quite rightly) that the Comptroller General is solely responsible to the Congress. My first question is, just what does that mean? Who in Congress? To 435 members? I raise the question as to whether it would be advisable to encourage Congress to appoint a joint committee, composed of the outstanding members of both Houses—it should be an honor to be on this particular committee—who would receive reports from the Comptroller General. They would get, not piecemeal reports, but a complete audit report at least once a year. This committee would bring before it the administrative agencies. It would be an opportunity, it seems to me, for airing some of these problems and settling them, instead of trying to handle them through clerks and officials by means of correspondence. It seems to me that that involves quite a bit of expense and I do not believe we get the results that we would get if we had that kind of system.

The other thing is, would there be any merit in an accountancy and audit board established by law which would be composed not of federal officials, but of members of the accountancy profession, members of this organization? This accountancy and audit board would become acquainted with the accounting problems, and it would make an annual report, possibly to the Congress, on the adequacy or the inadequacy of government accounts, reports, and audits, and things of that kind. It would make recommendations to the Congress as to what needs to be done. That is the third thing I had in mind.

The fourth is, whether it might not be advisable to suggest to the Congress the enactment of an alternate budget. The reason I suggest that is because I believe that it would be the best way to get before the Congress something that it would use. You will recall that in the Budget and Accounting Act provision was made for an alternate budget. Personally, I think they missed the boat when they prepared that audited budget; they gave too much attention to a mere rearrangement of appropriation items. I think what they should have done was to go right down into the appropriations and revamp them, and then set up the appropriations on a sound functional basis as nearly as practicable, and have those functional appropriation accounts represent the basis upon which we will build the other.

Another question I had is whether it would be advisable to have a statute of limitations, we will say, on the audit. We have difficulties in the government now, having to answer exceptions that are raised ten or fifteen years after expenditures have been made. Sometimes they are in small amounts. I feel it would be a healthy thing from the standpoint of audit; it would make the auditor have his work more current, and I believe in the long run it would be conducive to efficiency in administration.

Those are a few of the more important things I would like to hear discussed, not so much from the inside of the government as from the outside. There are a number of other questions I would like to raise if we have time, but those I have mentioned are the important ones, as I see it.

MR. SLAUGHTER: I would like to ask Mr. Bartelt one question to clear the record. A few moments ago he made a statement which surprised me to such an extent that I could not rise at the time. He says that even now he receives notices of suspensions for expenditures incurred ten to fifteen years ago. I think he meant months. I merely ask whether he meant years or months. Months are bad enough.

MR. BARTELT: I am very happy to say that I do not receive any of those things. I only know what people tell me. I am something like Will Rogers. I used to have a man working right next to me by the name of Peterson. He had been out of the Farm Credit Administration at least ten years, and while he sat next to me (he is now in the Navy), he got some of those suspensions, and I think that is right, that they are still getting them ten years after the expenditures were made. I think there should be a statute of limitations on the audit.

MR. MURPHY: Mr. Chairman, I have had some personal experience on that, which might be interesting. I am located here in New York. This morning in my mail were twenty-five exceptions by the General Accounting Office. They were taken on a certifying officer who had them in our office since July, 1922. Every one of the twenty-five were on the same man. They were vouchers paid in March, 1922. To answer those exceptions presents a terrible problem.

MR. MOREY: I would like to call to the attention of the group here, and to include in the record, reference to a bill, just brought to my notice this morning, known as Senate bill 1551. It is a bill to limit the suspension of items or disallowances on disbursing officers to a period of three years; to require that all such items be cleared within three years, and that any items which are now as much as three years old shall be disposed of and dropped from the record. Whether Mr. Slaughter or anyone else can give us any more information on the background of that bill, I do not know.

MR. SLAUGHTER: I am sorry, I cannot add anything to that.

MR. MOREY: At least there seems to be an attempt on the part of somebody in Congress to carry out the objective suggested by Mr. Bartelt.

MR. BARTELT: I think that bill is rather limited in scope. I do not think it is broad enough to cover the general proposition.

CHAIRMAN: Would it be possible to get behind the bill and have it broadened?

MR. BARTELT: More power to you.

CHAIRMAN: I do not know anything about it. This is the first I have heard of it, but it is worth looking into. It is in the record and we will make some investigation.

MR. DENIT: I was just going to suggest that while I as an individual subscribe in principle to the desirability of having these government accounts settled promptly, and believe that the bill mentioned here fixing three years affords ample time, there is much to be considered, however, from the standpoint of the government. So, before your organization gets on the wagon for a bill to limit the time of settlement to three years, I think it would be well to investigate rather carefully.

CHAIRMAN: We never get on the

wagon before we investigate thoroughly.

MR. DENIT: There are a good many reasons both ways.

MR. BARTELT: In order to keep the business of the government moving every day, is it unreasonable to inquire whether the auditors could not be just as prompt in the examination of the vouchers as we expect disbursing and certifying officers to be in approving these vouchers? Of course, I do not mean to imply that if there is any evidence of fraud there should be any such limitation. I am talking about merely any errors that may exist in those vouchers, whether they be because of judgment, inadvertence, or something else. I am talking about honest errors.

CHAIRMAN: You have been an excellent audience, a wonderful group to work with. You have been cooperative, you have been courteous, and you have made this conference a success. We who have had anything to do with calling it could only arrange for the meeting. The men who took the time to prepare these papers, and you who took the time to spend these two days with us and took such an active part and expressed your opinions, have made a great contribution, and we will try to use this for a constructive purpose.

Personally and for the committee—and I think I may speak for the American Institute of Accountants—I say we are very, very grateful to each and every one of you.

Closing Remarks

By George P. Ellis, Chairman

This program provides that the chairman make a summarization at the end of the Conference. There has not been much time in which to make a summary of all the discussion of these two days. However, a brief summary should be made.

Mr. Morey designated as part of his paper the title "an overview." He raises some very important questions, —definitely the question as to whether or not certain determinations regarding expenditures should be made within the executive branch rather than the legislative branch. Also, as to whether the General Accounting Office as an arm of the Congress should be an auditing function or an administrative function. These are fundamental questions that must be answered before we can develop a worth-while program.

Mr. Morey's paper was followed by Mr. Jones' discussion from the viewpoint of the Bureau of the Budget.

Next on the program, Mr. Bartelt discussed accounting and reporting from the standpoint of the Treasury, emphasizing the necessity for the various groups to cooperate and the importance of a budget properly classified to enable accounting to be properly correlated therewith.

Many of us interested in governmental accounting are strongly of the opinion that there should be a uniform classification running through the budget, the accounting, and the reporting. If this were done, it would be possible to do what Mr. Kohler said they did in TVA, i.e., take reports from their books without the necessity of rearranging and rebuilding the accounting data.

Mr. Slaughter and Mr. Denit outlined to us the problem of the General Accounting Office and the things they are attempting to do. They did not, however, indicate what was in their thinking regarding what should be done. They told us what had been done. They referred to all the laws for 150 years back, or more, and, of course, they are bound by them at the present time. What we are hoping to do is to take what should be and then aim toward the necessary changes in legislation.

We then listened to the excellent paper by Mr. Quigley of the Department of Agriculture, which gave us the viewpoint of a man dealing with one of the large agencies of the government and his ideas as to what should be done to improve the accounting of the federal government.

We have heard the very excellent paper by Mr. Kohler as to what one of the governmental corporations has done and the extent to which they have introduced business practices and procedures into a governmental agency.

I think we are fairly well agreed upon the objectives to be obtained, and that in the matter of controlling cash to see that appropriations are not overspent, there are no fundamental differences of opinion. There seems, however, to be a wide difference of opinion as to the means to attain this end. I think the present program of the federal government leaves much to be desired.

Now, the very question that Mr. Bartelt raises as to the relation of the Comptroller General to the Congress and the fact that he is responsible to 435 Congressmen, with no one in particular designated to take even his annual report and do anything with it, is perhaps one of the fundamental weaknesses of the whole program that was started as a result of the passage of the 1921 Act. But the same problem they face, we are facing in attempting to get before Congress in order to persuade them to give us the legislation necessary to make the requisite changes.

In an interesting discussion with Mr. Slaughter between meetings, I suggested that perhaps we should make a first step. If we could get all interested parties together on a program to sponsor legislation creating a joint committee and to do the necessary educational work to influence Congress to make that first forward move, we would at least have a start toward a definite program. If such legislation were passed, it would not only provide a group before whom the General Accounting Office and the Comptroller General could appear and to whom they could report, but it would also provide a group with whom we could work in building a constructive program. If we had such a committee whose responsibility it was to maintain liaison between Congress and the executive branch, it might be possible through this committee to persuade Congress to pass the necessary legislation to put into effect the best principles and practices of sound accounting.

What I hope may come out of this conference after we get the record and have an opportunity to analyze it is that a representative group of men like yourselves may be formed into a committee to use the information presented here as a basis for working out a constructive program.

It is my thought that we should not let this program die with this excellent two-day meeting, but that we should use this meeting as a basis for working out and determining a real program. Mr. Bartelt spoke of the difficulty that he faced in the matter of Executive Order No. 8512, and said that no one helped, not even the American Institute of Accountants. Well, we have been most anxious, and I think I can assure you that we have been honest in our intention to try to get in on this program and to be helpful. We have no motives other than to make a contribution to our government, and we think that the accounting profession is a group of men who know, if anyone does, something about accounting and auditing. We have been eager to give our government the benefit of this fine body of talent, but it has been most difficult to know where to start.

Various bills presented before Congress are watched and analyzed for us, and, wherever possible, we like to appear at these hearings. We want to continue this work. Perhaps if we got a program started, it might enable us to get in on these things at a time, for instance, when testimony by some member of the Institute would be helpful to you in putting over a constructive program in the interest of our government.

We will follow up this matter as quickly as we can, and we may call on some of you to sit down with us to see what may be worked out by way of a worth-while program.