

FINANCIAL MANAGEMENT IN THE
FEDERAL GOVERNMENT

SELECTED INFORMATION ON FINANCIAL DEVELOP-
MENTS IN THE FEDERAL GOVERNMENT AND ON
LEGISLATION, BOTH PREPARED AND PASSED, 87th
THROUGH 91st CONGRESSES

PREPARED BY THE
U.S. GENERAL ACCOUNTING OFFICE
FOR THE
COMMITTEE ON GOVERNMENT OPERATIONS
U.S. SENATE

Volume II



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S. Res. 195

IN THE SENATE OF THE UNITED STATES,
December 11, 1971.

Resolved, That there be printed, with illustrations, as a Senate document a report compiled by the General Accounting Office at the request of the Committee on Government Operations entitled "Financial Management in the Federal Government—Volume II"; and that there be printed one thousand five hundred additional copies of such document for the use of that committee.

Attest:

FRANCIS R. VALEO,
Secretary.

LETTER OF TRANSMITTAL

DECEMBER 13, 1971,

The PRESIDENT OF THE SENATE.

DEAR MR. PRESIDENT: I submit herewith, for printing as a Senate document, a report prepared by the General Accounting Office for the Committee on Government Operations, entitled "Financial Management in the Federal Government—Volume II".

This report is the second of a continuing series on the subject. It is the committee's intention to periodically update the work to provide a current record of developments in this very complex aspect of government operations.

The first volume was printed in February 1961 (S. Doc. 11, 87th Cong.). The value of the first report is attested by the wide use made of it both in and out of Government, by legislative and executive officials, and by researchers and teachers in the field of financial management. Certainly, no less use can be expected of this volume which updates the first, in view of the many important financial developments in the Federal Government over the past 10 years.

The demand for Senate Document 11 over the years has exhausted the committee supply. Therefore, for convenience, Volume I is included as an appendix to this report.

JOHN L. McCLELLAN,
Chairman, Committee on Government Operations.



LETTER OF SUBMITTAL



COMPTROLLER GENERAL
OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-115398

Dear Mr. Chairman:

Senate Document Number 11, 87th Congress, contained a history and comprehensive analysis of "Financial Management in the Federal Government," through the 86th Congress. We have now completed the task of updating material on the subject and have compiled a second volume covering the period from the 87th through the 91st Congress. A copy of the second volume is submitted herewith.

In the preparation of this volume, we have had the full and active cooperation of the Director of the Office of Management and Budget, the Secretary of the Treasury, the Director of the Congressional Research Service, and the Chairman of the Civil Service Commission. The members of the Steering Committee of the Joint Financial Management Improvement Program and various members of the staffs of all the agencies also assisted greatly in this work.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "James B. Atack".

Comptroller General
of the United States

Enclosure

The Honorable John L. McClellan, Chairman
Committee on Government Operations
United States Senate



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FINANCIAL MANAGEMENT IN THE FEDERAL GOVERNMENT

INTRODUCTION

The Legislative Reorganization Act of 1946 charged the Senate Committee on Government Operations with the responsibility for all legislation relating to budgeting and accounting measures, other than appropriations, and with exercising continuous surveillance over the execution of budgeting and accounting laws. The committee was also charged with the duty of reviewing the economy, efficiency, and effectiveness of the operations of Government at all levels. This report is submitted to the Senate under this authority.

This report is the second volume of a continuing series on the subject of financial management in the Federal Government. The first report, printed in February 1961 as Senate Document No. 11, was well received and has been widely used by legislative and executive officials, and by researchers and teachers in the field of financial management. The present report, Volume II, supplements and up-dates the original report. Like its predecessor, this volume should also prove to be of considerable usefulness to those who study and work in financial management. It is the committee's intention to periodically update this volume to provide a current record of developments in this most important area.

The following definition was used as a guide for selecting the discussion items in this volume:

Financial Management . . . [is] that part of total management which is concerned primarily with the financial affairs of an organization and the translation of actions, both past and proposed, into meaningful and relevant information for use in the management process. Depending on how an agency decides to set up its financial organization, financial management may encompass all or part of such specific functions as programming, budgeting, accounting, reporting, cash management, control of resources, cost reduction, internal auditing, systems development, and management analysis.¹

This report contains selected information on financial developments in the Federal Government and on legislation, both proposed and passed, during the 87th through the 91st Congress (1961-70). The reader's attention is especially directed to discussions dealing with program planning and budgeting, the President's Commission on Budget Concepts, and intergovernmental relations. These were impor-

¹ *The Joint Financial Management Improvement Program in the Federal Government of the United States*, U.S. Government Printing Office, Washington, D.C., 1967, pp. 14, 15.

tant concerns in the previous decade and remained timely and pressing throughout the decade of the 1960's.

The Senate Committee on Government Operations wishes to extend its thanks to the Comptroller General, the Director of the Office of Management and Budget (formerly the Bureau of the Budget), the Secretary of the Treasury, the Director of the Congressional Research Service, and the Chairman of the Civil Service Commission for their cooperation and the assistance of their staffs, as well as to the individuals in the several agencies who participated in the preparation of this report. Appreciation is also extended to the members of the Steering Committee of the Joint Financial Management Improvement Program for their support and guidance.

The Introduction to Volume I contained these words:

The committee realizes that one of the most vital requirements for the future administration of the Federal Government, if it is to cope successfully with all the vast problems confronting it, is a continual improvement in the handling of its finances. It is with this thought in mind that this document is submitted to the Senate.

Given the developments over the past decade at home and abroad and the wide (and seemingly ever-growing) array of complex problems facing Government today, the relevancy of these words remain unchanged and the challenge to financial management remains great.

Effective July 1, 1970, the name and functions of the Bureau of the Budget were transferred to a newly designated agency in the Office of the President titled the Office of Management and Budget. Because the activities of the Bureau of the Budget during the decade of the 1960's were in some measure identified specifically with the agency title or with the initials BOB (e.g., BOB Circulars), the former title is used in the report narrative. It is hoped that the reader will make the translation of Office of Management and Budget whenever he deems this to be desirable.

PART I. FINANCIAL MANAGEMENT LEGISLATION, 87th-91st CONGRESSES (1961-70)

INTRODUCTION

From 1961 through 1970, the years covering the sessions of the 87th through 91st Congresses, over 3,600 public laws were enacted. Although virtually all these acts dealt with specific matters generally unrelated to financial management, many included items which might be broadly classified within the scope of financial management.

The items in this chapter are not discussed in chronological order but have been grouped together into broad categories of reference. The provisions covered are described within the following topics:

Congressional attempts to control the budget.

Provisions of the Legislative Reorganization Act of 1970.

Budgetary and fiscal operations.

Management improvement.

Federal grants-in-aid to State and local governments.

Other financial management legislation.

Due to this type of arrangement, some public laws are discussed under more than one topic or subtopic.

It was decided that the section reporting on enacted legislation related to financial management should not include the following items, even though some of them might be considered financial management. These excluded items for the most part (1) are limited in scope or coverage, (2) involve no substantive changes in financial management, or (3) relate to policies in the fields of taxation or money and credit. These items include:

- Laws dealing with the District of Columbia.
- Agreements with Indian tribes.
- Tax laws.
- Limits on the Federal share for grant programs.
- Overall limits on grant funds to any one State.
- Pay acts generally.
- Provisions, generally in grant programs legislation, that payments may be made in advance or by way of reimbursement.
- Specific dollar limits on the amount that can be transferred from one account to another account.
- Number of years of availability for appropriations or authorizations.
- Recapture rights of the Federal Government.
- Interest rates on Federal loans.
- Laws relating to the banking community and the Government's position as overseer of the insured banks.
- Clauses in laws which provide that expenditures are to be made ". . . only from funds specifically appropriated for that purpose."

- Provisions related to relief of specific disbursing officers.
- Legislative branch items.
- Establishment of revolving funds.
- Statements of the responsibility of the Comptroller General to audit particular Federal funds.

CONGRESSIONAL ATTEMPTS TO CONTROL THE BUDGET

LIMITATIONS ON EXPENDITURES AND OBLIGATIONS

During the debates that accompanied the 1963–64 proposals to reduce taxes at a time when the Government accounts showed a deficit, the Congress was emphasizing that the prime partner of *tax reduction* is expenditure restraint. However, the topic of restraint and reductions in expenditures is by no means limited to those times when the Congress is considering tax reduction. When Congress deliberated about the necessity for a surcharge *tax increase* in 1967 and 1968, expenditure reductions received the same, if not more, attention as in the 1963–64 period.

Revenue Act of 1964 (Public Law 88-272, Feb. 26, 1964)

At a time when the economy was operating below its potential, the administration proposed in 1963 that the Congress pass a tax reduction bill in order to stimulate the private sector. Through stimulation of the private sector, it was argued, the Government would benefit by the increased Federal tax revenues that would be paid by businesses and individuals due to the increased economic activity in the country. In its report on the bill, the Senate Finance Committee pointed out:

It may be argued that taxes should not be cut while there is a budget deficit. However, this overlooks the fact that maintaining high tax rates does not produce more revenues unless the tax base expands sufficiently—and the rates themselves inhibit this expansion. It is your committee's considered judgment that with the current rates it would take longer to eliminate the deficit than would be the case with the lower rates of this bill but with the expanded economy induced by the bill.

In the first section of the bill, Congress declared that the increased taxes that would be collected through stimulation of the economy resulting from the tax reduction should be used to eliminate the deficit in the budget, and then to reduce the public debt. Turning to the expenditure side of the budget, the act stated:

. . . To further the objective of obtaining balanced budgets in the near future, Congress by this action, recognizes the importance of taking all reasonable means to restrain Government spending and urges the President to declare his accord with this objective.

The Senate proposed that this section be stricken from the bill, but in conference agreed to retain the House version of the declaration, including it in section 1 of the act.

In early debate on the bill, amendments were introduced that would have made the reduction in taxes contingent on expenditure control. In commenting on the expenditure ceiling, Representative Thomas M. Pelly (Washington) said:

So to make my position clear let me say I certainly favor a tax cut if accompanied by a reduction in Federal expenditures.

Second, I distrust a pious statement of good intention about reducing spending and will not vote for the bill unless some sort of ceiling on expenditures is included whereby the bill would be inoperative unless Federal spending estimates of the President give reasonable assurance that his expenditures for fiscal years 1964 and 1965 will not exceed \$97 and \$98 billion respectively.

At this time, Representative Thomas B. Curtis (Missouri) took a somewhat different tack on the question of expenditure restraint. In his remarks of September 24, 1963, Representative Curtis observed:

. . . These are the hard realities of trying to establish priorities in expenditures, the Appropriations Committees and all of us must have a ceiling imposed by ourselves, by Congress, to limit our expenditures. We propose such a ceiling in the tax bill, because of the desire to create this economic stimulus and to move our society forward. This expenditure control technique is available to us. It is not the best there could be but it certainly is a tremendous step forward and coupled with our newly acquired knowledge of how to use the debt ceiling for expenditure control it becomes of great assistance to our appropriations process.

President Kennedy reiterated that the Government was pledged to a course of fiscal responsibility where no wasteful or inefficient Government activities would be tolerated. Representative Wilbur D. Mills (Arkansas), chairman of the House Ways and Means Committee, in his statement on the bill, September 24, 1963, said:

I believe that given the passage of this bill, the President has committed himself to a course of true economy in Government expenditures. Of course, it can hardly be expected that this will affect his views on programs already sent to us, but I do anticipate that this new point of view will permeate the programs presented to us this next year. . . . To those of you who may not be satisfied with these assurances, however, let me point out that in any event, the President cannot spend a nickel unless Congress first authorizes it. As a result, we have in our own hands the power to limit Government expenditures and I do not believe that we will abdicate our responsibilities.

Under the provisions of the act, taxes were reduced beginning in 1964, with the full effect coming in 1965. Over a year had passed from the time that the House started hearings on H.R. 8363 until its passage in late February 1964. The following table shows the budget effect of

the Revenue Act of 1964 for the years immediately following its passage:

[In billions]

Fiscal year	Expenditures			Receipts		
	1st estimate	2d estimate	Actual	1st estimate	2d estimate	Actual
1964.....	\$98.8	\$98.4	\$97.7	\$86.9	\$88.4	\$89.5
1965.....	97.9	97.5	96.5	93.0	91.2	93.1
1966.....	99.7	106.4	107.0	94.4	100.0	104.7
Excluding Vietnam.....		(101.7)	(100.9)			

During fiscal year 1964, revenues were about \$2.5 billion above the first estimate for the year, and about \$3 billion above the 1963 total. By fiscal year 1966 (which began July 1, 1965, and for which the first estimate was made in January 1965), administrative budget receipts were over \$15 billion more than in fiscal year 1964. On the expenditure side, fiscal year 1964 spending was about \$1 billion below the original estimate, and in fiscal year 1965 was about \$1.5 billion below the first estimate.

Continuing appropriations, 1968 (Public Law 90-218, Dec. 18, 1967)

This bill, which started out as a routine measure to provide funds for those agencies without appropriations for the fiscal year 1968, was enlarged in conference to include provisions limiting obligations and expenditures for that fiscal year. The proposal was put forward by the administration in connection with its program to increase taxes through enactment of a surcharge. The conferees decided to include the proposal, with some amendments, in the continuing appropriations bill.

The provisions of the act dealing with reductions in obligations and expenditures were as follows:

SEC. 201. In view of developments which constitute a threat to the economy with resulting inflation, the Congress hereby finds and determines that, taking into account action on appropriation bills to date, Federal obligations and expenditures in controllable programs for the fiscal year 1968 should be reduced by no less than \$9,000,000,000 and \$4,000,000,000, respectively, below the President's budget requests. The limitations hereafter required are necessary for that purpose.

SEC. 202(a). During the fiscal year 1968, no department or agency of the executive branch of the Government shall incur obligations in excess of the lesser of—

(1) the aggregate amount available to each such department or agency as obligational authority in the fiscal year 1968 through appropriation acts or other laws, or

(2) an amount determined by reducing the aggregate budget estimate of obligations for such department or agency in the fiscal year 1968 by—

(i) 2 percent of the amount included in such estimate for personnel compensation and benefits, plus

(ii) 10 percent of the amount included in such estimate for objects other than personnel compensation and benefits.

Other sections of the bill provided exceptions and limitations for various agencies and activities. Excluded from the ceiling limitations were obligations for permanent appropriations; trust funds; relatively uncontrollable items—veterans pensions, compensation, and insurance; public assistance grants; farm price supports; postal public service costs and revenue deficit; health insurance payments to trust funds; the legislative and judiciary branches; interest; and programs, projects, or purposes not exceeding \$300 million in the aggregate, determined by the President to be vital to the national interest or security. In addition, obligations for national defense were not to be reduced by an amount exceeding 10 percent of the new obligational authority (excluding special Vietnam costs) requested in the budget for 1968, as amended during the first session of the 90th Congress.

The reductions were to be made at the department or agency level, but the officials of the department or agency were to decide on the internal distribution of the reductions, subject to the approval of the President.

Revenue and Expenditure Control Act of 1968 (Public Law 90-364, June 28, 1968)

The reductions included in this act were an integral part of the administration's efforts to persuade the Congress to pass an income tax surcharge. Although expenditure and obligation limitations were enacted for the fiscal year 1968 in the Continuing Appropriations Act, action on the surcharge proposal was held up until the 1969 budget program was presented by the administration.

The bill H.R. 15414, as passed by the House on February 29, 1968, merely continued existing automobile and telephone service excise taxes which were due to drop on April 1 and provided for an acceleration of corporate income tax payments. However, during the debate on the bill in the Senate, Senators John J. Williams (Delaware) and George A. Smathers (Florida) sponsored a floor amendment adding the surcharge proposal and spending cutbacks to the tax bill. Some members of the House declared that these amendments usurped their power to initiate revenue bills. The House, on June 20, 1968, passed a motion to lay on the table the following resolution (thereby not having to vote on the resolution itself) introduced by Representative H. R. Gross (Iowa) :

Resolved, That Senate amendments to the bill, H.R. 15414, in the opinion of the House, contravene the first clause of the seventh section of the first article of the Constitution of the United States, and are an infringement of the privileges of this House, and that the said bill, with amendments, be respectfully returned to the Senate with a message communicating this resolution.

Other procedural criticism of the bill centered on the concept of limiting totals for expenditures and obligations without details by department or agency. Many Congressmen argued that although repeated efforts to pass an item veto had failed in each Congress in which they were introduced, the provisions limiting overall expenditures and obligations in H.R. 15414 would, in effect, give the President an item veto.

Actually the House had tried to provide for an overall total cutback in the amendments to House Joint Resolution 888, allowing continuing

appropriations for 1968, but on that occasion the Senate would not agree to those limitations and the percentage formula for each department and agency was adopted. Commenting on the results of the previous cutback, during the debate on H.R. 15414, Congressman Frank T. Bow (Ohio), long an advocate of spending limitations, said:

Results have not been as good as we had hoped, but we did lay the ground for the measure we hope to adopt today. This year the expenditure limitation has won recognition as one of the most important means of controlling the fiscal excesses of a spendthrift administration and an overly generous Congress. It has been adopted on four of the six regular appropriation bills considered by the House this year, on two occasions by unanimous action. Even more important is the fact that it was adopted by the other body as the Smathers-Williams amendment to H.R. 15414 when the tax extension proposal was debated.

Expenditure limitations

Section 202 provided that expenditures and net lending (referred to as Federal outlays in the budget) should not exceed \$180,062 million in fiscal year 1969, a reduction of \$6 billion from the estimate in the *Budget of the United States Government*. Excepted from this limitation were outlays in excess of amounts estimated therefor in the budget for the following programs: (1) Special support of Vietnam operation, (2) interest, (3) veterans' benefits and services, and (4) payments from trust funds established by the Social Security Act, as amended.

New obligational authority

The act limited the total for new obligational authority and loan authority for fiscal year 1969 to \$191,723 million, or \$10 billion under the estimate in the President's budget. The same activities were excepted from the limitation on obligations as those listed under expenditure limitations above.

Also, subsection (b) of section 203 provided that should Congress approve obligational authority in excess of the limitation placed on 1969 funds, the President was required to reserve amounts of obligational and loan authority in order to reduce the total to the imposed limitation. At the close of fiscal year 1969 these reserved amounts were to be rescinded. The President, at the time of submission of the fiscal year 1970 budget, was to report to Congress on the amounts reserved under this subsection.

Unobligated balances

Section 204 of the act required that the President provide for a special study and analysis of unobligated balances of appropriations and other obligational and loan authority available during fiscal year 1969, which would remain available in subsequent years, and report to Congress on the study's findings. The report to Congress was to include also the President's recommendations for legislation to rescind not less than \$8 billion of such unobligated balances.

Budget treatment of expenditure and obligation limitations—1970

In the President's budget message for fiscal year 1970, President Johnson commented on the ceilings imposed in the Revenue and Expenditure Control Act of 1968. He stated:

In limiting total outlays, the Congress departed from its traditional procedure of using individual appropriation actions as the primary means of exercising its control over the Federal budget. In contrast with normal practice, the Congress placed direct restrictions on the amount of checks that could be issued or cash disbursements that could be made in the 12-month period ending June 30, 1969.

To implement this new restriction, the executive departments and agencies have had to add to their financial control machinery. In prior years, executive control of the budget was exercised at the stage of placing contracts, hiring personnel, making loan and grant commitments, or incurring some other obligation. These obligations lead, of course, to Federal disbursements, sometimes in the same fiscal year and sometimes in a later fiscal year. Now, in fiscal year 1969, each executive establishment must also exercise direct control over the amount of disbursements it makes *within* the year.

Budget authority for fiscal year 1969 was estimated at \$194.6 billion in the 1970 budget, or \$7.1 billion less than the original estimate. The following table, from the 1970 budget, summarizes the status of budget authority for 1969, showing the adjustments made to comply with the provisions limiting new obligational authority included in Public Law 90-364. (In the 1971 budget, total budget authority for fiscal year 1969 was reported to be \$196.2 billion.)

BUDGET AUTHORITY FOR FISCAL YEAR 1969—RELATIONSHIP TO PUBLIC LAW 90-364

[In billions]

Description	January 1968 estimate	Revised estimate	Change
Programs excepted from Public Law 90-364 limitation:			
Special support of Vietnam operations.....	\$25.4	\$28.0	+\$2.6
Interest.....	14.4	15.2	+0.8
Veterans benefits and services.....	7.8	7.5	-0.3
Social Security Act trust funds.....	41.8	42.6	+0.9
Old-age and survivors insurance.....	(27.2)	(27.8)	(-0.7)
Disability insurance.....	(3.7)	(3.8)	(-0.1)
Health insurance.....	(6.8)	(7.3)	(-0.5)
Unemployment insurance.....	(4.1)	(3.8)	(-0.3)
Commodity Credit Corporation (price support and related programs).....	3.3	4.8	+1.6
Public assistance grants to States (including Medicaid).....	5.8	6.4	+0.7
Subtotal.....	98.4	104.6	+6.1
Programs covered by Public Law 90-364 limitation.....	103.3	90.1	-13.2
Total.....	201.7	194.6	-7.1

In the 1970 budget, Federal outlays (expenditures and net lending) for fiscal year 1969 were estimated at \$183.7 billion, or \$2.4 billion below the original estimate in the 1969 budget. The following table shows the status of outlays for 1969 as shown in the 1970 budget. (In the 1971 budget, total actual outlays for 1969 were reported to be \$184.6 billion, \$1.5 billion below the original estimate—consisting of a reduction of \$8.4 billion in programs covered by the ceiling and an increase of \$6.9 billion in programs excepted from the ceiling.)

10 FINANCIAL MANAGEMENT IN THE FEDERAL GOVERNMENT

BUDGET OUTLAYS IN FISCAL YEAR 1969—RELATIONSHIP TO PUBLIC LAW 90-364

[In billions]

Description	January 1968 estimate	Revised estimate	Change
Programs excepted from Public Law 90-364 limitation:			
Special support of Vietnam operations.....	\$26.3	\$29.2	+\$2.9
Interest.....	14.4	15.2	+.8
Veterans benefits and services.....	7.3	7.7	+.4
Social Security Act trust funds.....	36.0	36.4	+.4
Old-age and survivors insurance.....	(24.6)	(24.6)	(+-.1)
Disability insurance.....	(2.6)	(2.6)	-*
Health insurance.....	(5.8)	(6.2)	(+.5)
Unemployment insurance.....	(3.1)	(3.0)	(-.1)
Tennessee Valley Authority (portion financed from power proceeds and borrowing).....	.1	.1	+*
Commodity Credit Corporation (price support and related programs).....	2.8	3.6	+ .9
Public assistance grants to States (including medicaid).....	5.7	6.2	+ .6
Aid to schools in federally impacted areas (special 1968 supplemental payments made in 1969).....		.1	+ .1
Subtotal.....	92.6	98.6	+6.0
Programs covered by Public Law 90-364 limitation.....	93.5	85.1	-8.3
Total.....	186.1	183.7	-2.4

* Outlays exceeding the January 1968 estimates by more than \$907,000,000 for farm price supports and \$560,000,000 for public assistance grants are not excepted from the Public Law 90-364 limitation.

*Less than \$50,000,000.

To satisfy the reporting requirement relating to rescissions of \$8 billion of unobligated balances, a special analysis accompanying the budget reported on the results of the study of these carryover funds. The President, in his budget message, explained this separate treatment in the following manner:

I do not favor those rescissions and therefore the tables and schedules in the various parts of the budget do not reflect such action.

Second Supplemental Appropriations Act, 1969 (Public Law 91-47, July 22, 1969)

Section 401 of this act placed a ceiling, continuously adjustable by the Congress, on expenditures and net lending (budget outlays) of the Government during fiscal year 1970. The initial ceiling of \$191.9 billion was \$1 billion less than the President's projected budget outlays for 1970, summarized in "Review of the 1970 Budget," appearing in the Congressional Record of April 16, 1969, on pages E2993-E2996.

Congress controlled the fluctuation of the ceiling through its decisions affecting expenditures and net lending for specific programs and activities. Under section 401 whenever action or inaction by the Congress on requests for appropriations and other budgetary proposals varied from the President's recommendations in the "Review of the 1970 Budget," the Director of the Bureau of the Budget was to report to the President and Congress his estimate of the effect of the action or inaction on expenditures and net lending. The Director was also to estimate and report the effect on budget outlays of other congressional actions, whether initiated by the President or the Congress. The moving ceiling was to be adjusted by the dollar differences caused by congressional decisions as estimated and reported by the Director. The Director's first report was required at the end of the first month beginning after the date of approval of Public Law 91-47; subsequent

reports were to be made at the end of each calendar month during the first session of the 91st Congress and at the end of each calendar quarter thereafter during fiscal year 1970.

Section 401 provided that the initial ceiling would not be reduced until net congressional actions or inactions affecting the President's projected budget outlays in "Review of the 1970 Budget" resulted in the \$1 billion cut from the President's projections to the initial ceiling. In other words, congressional reductions were to count toward the cut rather than being in addition to it.

There were two exemptions from the initial ceiling, together not to exceed \$2 billion. One was for certain uncontrollable items, appearing on page 16 of the 1970 budget, on which the Congress does not act annually:

- (i) items designated "Social security, Medicare, and other social insurance trust funds";
- (ii) the appropriation "National service life insurance (trust fund) . . .";
- (iii) the item "Interest"; and
- (iv) the item "Farm price supports (Commodity Credit Corporation)".

The other exemption was for decline from estimated receipts (credited in the budget against expenditures and net lending) derived from:

- (i) sales of financial assets of programs administered by the Farmers Home Administration, Export-Import Bank, agencies of the Department of Housing and Urban Development, the Veterans' Administration, and the Small Business Administration; and
- (ii) leases of lands on the Outer Continental Shelf. . . .

Both of these exemptions could be exercised by the President to the extent he estimated that budget outlays for the uncontrollable items would be in excess of, and the receipts less than, his projections in "Review of the 1970 Budget." The President was required to notify the Congress in writing and give reasons for exercising the exemptions before invoking his authority to exempt. The adjusted ceilings reported by the Director of the Bureau of the Budget included the amounts exempted by the President.

The reports from the Director of the Bureau of the Budget furnished the Congress increased exposure to the comparison of projected estimates with actual budget outlays, especially as affected by its own spending decisions. On April 15, 1970, the Director reported that the ceiling was adjusted upward to \$195,300 million based on data as of March 31, 1970. Further, the \$2 billion allowed under the exemptions was reported to have been exceeded by \$2,605 million.

CONTINUING APPROPRIATIONS

When appropriations for the fiscal year beginning July 1 have not been provided for by Congress in advance of that date, some form of emergency legislation must be passed by both Houses in order to finance continuing operations of departments and agencies. Unlike previous years, at the beginning of fiscal year 1963 (July 1, 1962), *no* appropriations bills had been passed by Congress, largely due to disagreements on procedural matters between the House and Senate

Appropriations Committees. During that session (87th Cong., Second sess.), Congress passed four temporary or continuing appropriations bills; the last one extending authority for unfunded departments and agencies through October 31.

During the 87th through the 91st Congresses, temporary or continuing appropriations bills were enacted a total of 36 times. The first session of the 89th Congress and the first session of the 90th Congress each passed five continuing appropriations bills, with the 90th providing authority for unfunded agencies to December 20—nearly halfway through the fiscal year. The conference report on one of those bills, which became Public Law 90-218, stated :

It has become increasingly necessary in recent years to enact continuing resolutions in the latter months of each session of Congress to make funds available for departments and agencies for which appropriation bills have not been passed by the beginning of the new fiscal year on July 1. Lack of more timely annual authorizations for appropriations for many of these has been a major factor in these delays. . . .

The following table illustrates the increased use of continuing appropriations to fund activities of some departments and agencies through the period of the 87th through the 91st Congresses, as compared with the two previous Congresses.

ENACTMENT OF TEMPORARY OR CONTINUING APPROPRIATIONS ACTS

Year	Congress		Date authorized in last act		Year—Continued	Congress		Date authorized in last act	
	Number of acts					Number of acts			
1957	85th, 1st	1	July	31	1964	88th, 2d	2	Sept.	30
1958	85th, 2d	2	Aug.	31	1965	89th, 1st	5	Oct.	23
1959	86th, 1st	3	Sept.	30	1966	89th, 2d	3	Oct.	22
1960	86th, 2d	1	Aug.	31	1967	90th, 1st	5	Dec.	20
1961	87th, 1st	2	Sept.	30	1968	90th, 2d	3	Oct.	12
1962	87th, 2d	4	Oct.	31	1969	91st, 1st	3	Feb.	28
1963	88th, 1st	4	Nov.	30	1970	91st, 2d	5	Mar.	30

CIVILIAN EMPLOYMENT

A portion of the Revenue and Expenditure Control Act of 1968 (Public Law 90-364, sec. 201) enacted limitations on the number of civilian employees in the executive branch of the Government and restricted the filling of vacancies which occurred before the ceiling was achieved. Federal full-time permanent employment was to be reduced to the level of June 1966 and departments and agencies were to limit appointments due to vacancies to 75 percent. The number of temporary and part-time employees, for any department or agency, was limited to the number of such employees during the corresponding month of 1967.

Exemptions were provided for persons appointed by the President with the advice and consent of the Senate, casual employees or those serving without compensation, and up to 70,000 summer employees during any month who were hired under programs for the economically or educationally disadvantaged. Major departments and agen-

cies, however, were not granted exemptions since the conferees accepted the 75-percent-of-vacancies provision instead of the Senate amendment which would have limited the filling of vacancies to 50 percent. Provisions in later acts exempted certain activities, agencies, or bureaus from the provisions of section 201.

The Director of the Bureau of the Budget could reassign vacancies from one department to another when necessary because of a change in functions or creation of a new department, or for the more efficient operation of the Government. He also was authorized to reassign temporary or part-time positions under the same conditions as those for full-time vacancies. In addition, the Director was to maintain a continuous study of appropriations and contract authorizations in relation to personnel and was to reserve from expenditure the savings in wages and salaries which resulted from provisions in the act.

The two ceilings—part-time and full-time—were limited separately so that agencies could not substitute part-time employees for full-time employees during those periods when employment was above the June 1966 level. Moreover, the Bureau of the Budget and agency heads were expected to prevent the substitution of contract work for personal services performed by governmental employees.

In the 1970 budget message, the President stated that although the administration had been successful in enforcing the provisions of Public Law 90-364, continued arbitrary reductions in employment would interfere with effective management of programs, reduce efficiency, and increase costs. In the concluding remarks on Federal civilian employment limitations, the budget message criticized the use of employment ceilings to control Federal employment by stating:

The Congress should rely on its appropriations process—
or develop an acceptable accompanying process—to relate employment levels specifically to the work it wants done by each agency and for which it provides the necessary funds. . . .

Congress repealed the employment limitations by section 503 of Public Law 91-47, July 22, 1969. The conference committee and Senate committee reports on Public Law 91-47 gave inefficiencies resulting from the limitations as the reason for repeal.

PUBLIC DEBT LIMITATIONS

Although some critics of a public debt limitation argue that it is of no use and therefore should be abolished, others find that the process of enacting a limitation allows for an overall review of the Federal budget picture. In practice, the appropriations process makes no provision for taking a broad look at the totals authorized for obligation or at those already obligated. Appropriations and other forms of budget authority are recommended by various committees and are approved for various agencies, departments, or functions on a piecemeal basis.

Many bills have been introduced in each Congress from the 87th through the 91st (as in previous Congresses) which would provide for a system of congressional control of the overall budget picture, either through a single general authorization bill or through congressional approval of total appropriations. In addition, bills have been intro-

duced to require (1) updating of budget submissions and estimates quarterly or even on a monthly basis and (2) a budget status report.

In title II of the Legislative Reorganization Act of 1970 (Public Law 91-510, Oct. 26, 1970), provision was made for the President's transmittal of additional budget presentations and expenditure data to the Congress. Also, the act provided for open hearings on the entire budget considered as a whole.

Increases in the public debt limit

From the beginning of the 87th Congress in 1961 through the adjournment of the 89th Congress in 1966, nine temporary increases in the public debt limit were enacted. In 1959 Congress had enacted a permanent debt limit of \$285 billion, but by the time the 90th Congress met in 1967 the debt limit was at \$330 billion—composed of the \$285 billion permanent level plus \$45 billion of temporary debt limitation.

In March 1967, the Congress once again enacted an increase in the debt limit—allowing the debt subject to limitation to fluctuate up to \$336 billion. In voting the increase, the House and the Senate differed on the question of providing a temporary increase (House) or an increase in the permanent level (Senate). In conference it was agreed to provide a temporary increase and to recommend that an increase in the permanent debt limitation be considered by the House Committee on Ways and Means at the time of the next review of the debt ceiling.

Before the end of fiscal year 1967, the House and the Senate voted to enact H.R. 10867, providing an increase in the permanent debt limit. The act (Public Law 90-39, June 30, 1967) also included a section allowing for temporary increases in the limit during the fiscal year. Section 1 of the act provided for an increase in the permanent limit from \$285 billion to \$358 billion. Section 3 provided debt management flexibility by allowing the limit to rise by \$7 billion during the period beginning on July 1 and ending on June 29 of the following year, but on June 30 the debt limit reverted to \$358 billion.

In Public Law 91-8, April 7, 1969, the public debt limit was increased to \$365 billion, and for the period of April 7, 1969, through June 30, 1970, an additional temporary increase of \$12 billion was provided. The following year Public Law 91-301, June 30, 1970, raised the limit to \$380 billion and enacted a temporary increase of \$15 billion through June 30, 1971.

PROVISIONS OF THE LEGISLATIVE REORGANIZATION ACT OF 1970

The Legislative Reorganization Act of 1970, Public Law 91-510, October 26, 1970, marked the first comprehensive congressional reform measure since the Legislative Reorganization Act of 1946. Its major provisions were directed toward improvement of the committee system and better information flow for legislative decisionmaking. While both these areas are related to improved budgetary and fiscal operations, of primary interest in this document was the congressional need, recognized in the 1970 act, for the transmission of more timely and complete budget and fiscal information, as well as modern organiza-

tion and techniques, meeting the special requirements of Congress, to collect and analyze the necessary data. A basic objective of the act, particularly in title II, was increased capacity to maintain legislative authority over Government spending.

The initial version of the 1970 act was proposed by the Joint Committee on the Organization of the Congress (S. 3848 and H.R. 17873) on September 21, 1966, after extensive hearings during the 89th Congress. The major characteristics of these first bills were contained in Public Law 91-510. An identical bill, S. 355, passed the Senate early in the 90th Congress on March 7, 1967, but failed to move out of committee in the House. The Senate Government Operations Committee reported a similar bill, S. 844, in the 91st Congress. The House Committee on Rules developed H.R. 17654 which was finally enacted, after floor debates lasting several weeks in the House, with additions by the Senate covering its own operations.

THE BUDGET, APPROPRIATIONS PROCESS, AND COSTING OF LEGISLATIVE PROPOSALS

Title II of the Legislative Reorganization Act of 1970 contained several provisions governing congressional review of the budget, the appropriations process, and the costing of proposed measures in committee reports.

The executive branch was called upon for additional budget information. With respect to new or additional legislation proposed in the annual January budget which would create or expand any function activity or authority, the President was to submit to the Congress as part of the January budget a tabulation showing for each such proposal the amount proposed for appropriation and expenditure in the ensuing fiscal year and the estimated appropriation in each of the next 4 fiscal years. To update this information additional expenditure data was to be transmitted to Congress on or before the following June 1.

The President was also required to transmit on or before June 1 a supplementary summary of the budget for the ensuing fiscal year. The purpose of the summary was to provide the Congress timely information supplementing the previous January budget message. It was to contain all substantial alterations in or reappraisals of estimates of expenditures and receipts, all substantial obligations imposed on the Government since the budget was transmitted to the Congress, and certain other current financial information, including that which the President considered necessary or advisable.

In order for Congress to have an overall view of the budget, the House Committee on Appropriations, within 30 days after the transmittal of the budget, was to hold hearings on the budget as a whole. The hearings were to cover in particular the basic recommendations and budgetary policies of the President in the presentation of the budget and the fiscal, financial, and economic assumptions used in arriving at total estimated expenditures and receipts. Testimony was to be received from the Secretary of the Treasury, the Director of the Office of Management and Budget, the Chairman of the Council of Economic Advisers, and such other persons as the committee might

desire. The hearings might be held before joint meetings of the committee and the Senate Committee on Appropriations in accordance with procedures to be determined jointly by these committees.

The act repealed those provisions of the Legislative Reorganization Act of 1946 which had provided for committee study of the President's budget recommendations and the formulation of one comprehensive legislative budget. These procedures had not been used for years. The 1970 act at least offered a device for study of the budget as a unity, even though there was separate consideration of each appropriation measure.

Provisions of title II required committee reports accompanying a bill or joint resolution to contain an estimate made by the committee of the costs which would be incurred in carrying out the bill in the fiscal year in which it was reported and in each of the following 5 fiscal years (or for the duration of any program authorized by the measure if less than 5 years). In revenue measures only an estimate of the gain or loss in revenue for a 1-year period was necessary. The report was also to include a comparison of the committee cost estimates with estimates of such costs made by any Government agency and submitted to the committee. Exempted from these reporting requirements were the House and Senate Appropriations Committees, the Committee on House Administration, the House Committee on Rules, and the House Committee on Standards of Official Conduct.

Under the act legislative committees were to study continuing Government programs and activities of Federal agencies which were not appropriated for annually in order to determine whether the programs might be modified so as to be suitable for annual appropriations. Title II provided that the programs and activities were to be appropriated for annually to the extent feasible.

DATA PROCESSING SYSTEM AND BUDGET STANDARD CLASSIFICATION

Affording the Congress a tie-in to the modern information and analytical tools being developed by the executive branch under its planning, programming, and budgeting system, title II of the act provided for (1) a standardized information and data processing system for budgetary and fiscal data and (2) standard classifications of programs, activities, receipts, and expenditures of the Government.

Together, these would comprise a unified information system for all agencies and instrumentalities of the executive, legislative, and judicial branches. The system was to be developed, established, and maintained by the Secretary of the Treasury and the Director of the Office of Management and Budget in cooperation with the Comptroller General. The integrated information system was to meet the special needs and applications of Congress, and the Comptroller General was to act as an agent of Congress in order to assure this result.

This tool would give the Congress added essential capacity to comprehend the enormous and complex budgets of modern times. It would assist in cost-benefit studies and furnish access to special fiscal information.

In addition, upon the request of any congressional committee, the Secretary of the Treasury and the Director of the Office of Management and Budget were to furnish the committee information as to the

location and nature of data available on Federal agency programs, activities, receipts, and expenditures. They were to prepare for the requesting committee, to the extent feasible, summary tables of the data.

ASSISTANCE TO THE CONGRESS

Several provisions in title II and III, although not confined to acquisition of budget and fiscal information and its evaluation, provided for added assistance to the Congress from the General Accounting Office, the Library of Congress, and committee staffs.

The legislative mandates and reporting procedures in the act covering the General Accounting Office were especially relevant to budget and fiscal operations because of the agency's focus on this subject matter area.

Title II required the Comptroller General as head of the General Accounting Office to review and analyze the results of Government programs and activities carried on under existing law, including the making of cost-benefit studies when ordered by either House of Congress, upon his own initiative, or when requested by a congressional committee. The Comptroller General was directed to have available in the General Accounting Office employees who were expert in analyzing and conducting cost-benefit studies of Government programs. The head of each Federal agency was required to report in writing to the Senate and House Committees on Government Operations and to the Appropriations Committees actions taken by the agency on recommendations included in reports of the General Accounting Office. The head of the agency was to submit this report to the Government Operations Committee of both Houses within 60 days after the date of the General Accounting Office report. This report was also to be submitted to the Appropriations Committee of both Houses with the agency's first request for appropriations submitted more than 60 days after the date of the General Accounting Office report. Also, improved procedures were provided for review of General Accounting Office reports by congressional committees.

Title III provided for the strengthening of committee staffs to enable the standing committees to (1) better perform the vital function of keeping watch over the way laws were administered and authorized programs were executed and (2) intelligently determine the advisability of enacting legislative proposals and evaluate the probable results of such proposals and alternatives.

In addition, title III redesignated the Legislative Reference Service of the Library of Congress as the Congressional Research Service, which was given responsibility to assist committees in analyzing and evaluating the advisability of enacting legislative proposals submitted to the Congress by the executive branch and performing other legislative research functions.

BUDGETARY AND FISCAL OPERATIONS

During the decade of the 1960's, Congress enacted legislation which included provisions requiring that certain information be included in or excluded from the budget document and that the budget present

data in a specified manner. In addition, several acts changed the dates for payment of taxes and the methods of collecting taxes.

PRESENTATION OF INFORMATION

The annual budget document included detailed statistics on the procurement, rental, use, and disposal of passenger motor vehicles and airplanes, as required by legislation dating back to 1914 and amendments included in the Administrative Expenses Act of 1946. Since the information was used primarily by the Appropriations Committees, the Bureau of the Budget in asking for repeal of the relevant provisions stated that it could make this data available through special tabulations which would better serve the needs of the committees and could eliminate about 25 pages in the budget document. Passage of Public Law 87-774, October 9, 1962, which repealed the requirement for this information, in no way decreased congressional control over the procurement of these vehicles, since specific authorizations are required prior to purchase of passenger-carrying motor vehicles.

In the Food for Peace Act of 1966 (Public Law 89-808, Nov. 11, 1966), section 403 required that in presenting the budget the President classify expenditures under the act with those for international affairs and finance rather than for agriculture and agricultural resources. In the act providing for expansion of the school lunch program (Public Law 90-302, May 8, 1968), the new programs funded by the Department of Agriculture—school lunches served in child care institutions and the pilot breakfast program—were to be considered health, education, and welfare functions for budget purposes and not classified as agriculture programs.

ESTIMATES AND REPORTS

The Participation Sales Act of 1966 (Public Law 89-429, May 24, 1966) included a provision that required the Secretary of the Treasury to conduct a study of Government loan programs. Within 6 months of the effective date of the act, the Secretary was to submit his report, prepared in consultation with heads of Federal agencies carrying on direct loan programs, on the feasibility, advantages, and disadvantages of direct loan programs as compared with guaranteed or insured loan programs. The report was also to include specific legislative proposals for congressional action on loan programs. The Secretary's report was submitted to the Congress on November 24, 1966.

In Public Law 89-809, November 13, 1966 (Taxation—Foreign Investors—Presidential Election Campaign Fund), Congress included a provision requiring that reports be presented to clarify the national debt and tax structure. Section 402 stated that the Secretary of the Treasury should submit to the Senate and the House of Representatives on the first day of each regular session a report on the aggregate and individual amounts of the contingent liabilities and the unfunded liabilities of the Government. Although information on contingent liabilities was available in reports to specific agencies, the data were not combined and therefore were not as useful as an overall financial report would be.

Contingent liabilities were to include (1) liabilities of the Government under its various trust funds, (2) liabilities of Government-sponsored corporations, (3) indirect liabilities of the Federal Government

not included as part of the public debt, and (4) liabilities of Federal insurance and annuity programs. Data related to insurance and annuity programs were to include information on their actuarial status on a balance-sheet basis and a projected source-and-application-of-funds basis.

In addition, the report was to include data on the collateral pledged or the assets available as security for specified liabilities. The report was not to limit itself to those specific assets related to liabilities, but was also to include all other assets which were available to liquidate liabilities of the Federal Government. The Treasury Department has submitted such reports annually since fiscal year 1967.

Long-range plans

The Economic Opportunity Amendments of 1967 (Public Law 90-222, Dec. 23, 1967), included a requirement that the Director of the Office of Economic Opportunity prepare a 5-year national poverty action plan showing estimates of Federal and other governmental expenditures (and also expenditures of the private sector) needed to eliminate poverty over various periods of time. The plan was to be presented to Congress and updated on an annual basis.

By January 15, 1969, the President was to report to the Congress on a plan, to be carried out over a 10-year period (June 30, 1968, to June 30, 1978), for the elimination of all substandard housing and on implementation of the housing goals as restated in the Housing and Urban Development Act of 1968 (Public Law 90-448, sec. 1602, Aug. 1, 1968). The plan was to provide an estimate of the cost of carrying out each of the related Federal programs for each fiscal year during the 10-year period to the extent that such costs would be reflected in the Federal budget. The "First Annual Report on National Housing Goals" was issued to the Congress on January 23, 1969.

TAX-RELATED PROVISIONS

For tax years beginning prior to December 31, 1963, corporations with tax liabilities over \$100,000 paid two quarterly payments on the amount in excess of \$100,000 in the year in which the liability arose, and two payments the following year. In the Revenue Act of 1964 (Public Law 88-272, Feb. 26, 1964), Congress provided for placing corporate income taxes on a pay-as-you-go basis, gradually over a 7-year period. For taxable years beginning after December 31, 1963, an increasing percentage of a corporation's estimated liability would be paid during the year of the liability. The speedup was to be completed by 1970. The Tax Adjustment Act of 1966 (Public Law 89-368, Mar. 15, 1966), however, further accelerated the current-payments basis for corporate income taxes in excess of \$100,000 by providing for completion of the process in 1967.

These provisions to speed up the payment of corporate liabilities applied only to the amount of tax liability in excess of \$100,000. Congress substantially reduced this exemption in the Revenue and Expenditure Control Act of 1968 (Public Law 90-364), placing virtually all corporate income tax payments on a pay-as-you-go basis by 1971.

The Tax Adjustment Act of 1966 also changed the method of withholding individual income taxes. In order to insure that for most wage earners the amounts withheld would more closely approximate their total tax liability, the act provided for a system of graduated with-

holding. Effective for wages and salaries paid after April 30, 1966, taxes withheld were based on six graduated rates (instead of the flat 14-percent rate in effect at the time of enactment) and reflected the minimum-standard deduction provision.

FINANCING THROUGH SALES OF CERTIFICATES OF PARTICIPATION IN LOANS

In the January 1966 budget message, the President proposed to extend to other agencies of the Government the authority that was given to the Federal National Mortgage Association (FNMA) in the Housing Act of 1964, and earlier to the Export-Import Bank, to pool blocks of loans and sell guaranteed certificates of participation in the pools. (The FNMA acted as a trustee for its own loan program as well as for loans made by the Veterans' Administration.) The stated purpose of this method of financing was to increase private investment in loans initially made by the Government. Pooling arrangements broadened the market for most issues and provided for more effective coordination of offerings by Federal agencies.

Enactment of the Participation Sales Act of 1966 (Public Law 89-429, May 24, 1966), provided the increased authority requested by the President. Assets of the Farmers Home Administration, the Office of Education (academic facilities), the college housing program, the public facility loan program, and the Small Business Administration could be included in the loan pool. Public Law 89-751, November 3, 1966, extended authority to join in the loan pool to the student loan programs of the Office of Education. The head of the department or agency was authorized to set aside a part or all of any financial assets held by him and place them in trust with FNMA for inclusion in the pool. The agency head was required to guarantee to the trustee the timely payment of principal and interest on the assets set aside.

Section 2 of Public Law 90-39, June 30, 1967, provided for inclusion in the public debt, subject to limitation, of the face amount of certificates of participation (except those held by the issuer) of FNMA obligations issued during fiscal year 1968 and outstanding at any time. In the 1967 *Report on the Economic Report of the President*, the minority on the Joint Economic Committee commented:

We urge that participation sales, if they are to be continued, be included in the budget as part of the public debt, rather than as a reduction in spending.

Beginning with the *Budget of the United States Government* for the fiscal year 1969, the sales of certificates of participation in loans were treated as a form of borrowing. The President's Commission on Budget Concepts had recommended this treatment of the sales. (See p. 48.) Previously the method of recording the sale of these certificates as a sale of an asset allowed for the proceeds from the sale to be counted as an offset to expenditures.

Coincident with the adoption of the recommendation of the President's Commission on Budget Concepts relating to their budgetary presentation, there have been no sales of participation certificates since fiscal year 1969.

The Housing and Urban Development Act of 1968 split the Federal National Mortgage Association into two organizations. The Govern-

ment National Mortgage Association remained a federally owned agency, whereas the portion that is now named the Federal National Mortgage Association passed into private ownership. The Government National Mortgage Association, acting as the pool trustee, continued to operate the special assistance functions and management and liquidating functions, while the Federal National Mortgage Association was responsible for the secondary market operations (which were excluded from participation certificate sales).

MANAGEMENT IMPROVEMENT

A number of significant pieces of legislation relating to the way the Government does business, how it reports on its activities, and the means for reporting on its finances were enacted during the period covered by the 10 sessions of the 87th through the 91st Congresses. In enacting some of the laws discussed here, Congress was restricting the activities of the executive branch of the Government rather than expanding the means of "running the Government on a day-in-day-out basis."

ACCOUNTING METHODS AND RESTRICTIONS

Accounting for indirect costs

Payments to educational institutions for reimbursable indirect costs of research and development were authorized to be made on the basis of predetermined fixed-percentage rates applied to the total of the reimbursable direct costs, or an element thereof, by Public Law 87-638, September 5, 1962. These fixed-percentage rates might be applied in cost-type research and development contracts (including grants) with universities, colleges, or other educational institutions. This provision was enacted to simplify administration of cost-type research and development contracts with educational institutions, to allow these institutions to better prepare their budgets, and to speed up closeouts of contracts when the work was completed. In supporting this legislation, the Department of Defense stated that in the past reimbursable indirect costs of educational institutions were reasonably stable and the predetermined fixed rates that were used were quite close to those based on audited actual indirect costs.

Although Government agencies previously had used this method of determining indirect costs, the Comptroller General, in January 1956, issued a decision holding that the use of fixed overhead rates established in advance and applied to an element of direct cost under cost-reimbursable-type contracts was contrary to law. Agencies then adopted the method of reimbursing for indirect costs during the year on the basis of estimated rates with retroactive adjustments made whenever actual rates were determined for each contractor.

For foreign assistance programs (other than military assistance), separate authority to use predetermined fixed-percentage rates for reimbursable indirect costs on contracts or agreements (including grants) was enacted in the Foreign Assistance Act of 1963 (Public Law 88-205, Dec. 16, 1963). This legislation was necessary because the Agency for International Development's contracts with universities

were not covered by Public Law 87-638, since they were for technical services rather than for research and development.

Department of Defense accounting system for operations

In enacting appropriations for the Department of Defense for the fiscal year 1968 (Public Law 90-96, Sept. 29, 1967), the Senate added an amendment, which was agreed to by the committee of conference, blocking funds for the accounting system for operations (PRIME) which the Defense Department had planned to implement. Section 640 (b) prohibited the use of any funds available to the Department for the fiscal year for the installation or utilization of any new "cost-based" or "expense-based" accounting system until 45 days after the Comptroller General of the United States (after consultation with the Director of the Bureau of the Budget) reported to the Congress that in his opinion the system met certain requirements set down by the Congress.

The House Appropriations Committee had denied funds to the Defense Department for implementing the system in approving the fiscal year 1968 budget. The Department asked the Senate to restore \$3.5 million to be used for further testing of the proposed improvement in accounting procedures. Although the Senate Appropriations Committee did not recommend the allowance of the \$3.5 million, it indicated that there was no objection to the tests being funded from available resources. In a letter to the chairman of the House Appropriations Committee, the Secretary of Defense stated that internal use of the system—which was not compatible with the appropriation structure used in the Department's appropriations act, but was designed to permit transactions to be aggregated under the appropriation structure—was planned by the Department. In speaking of the Secretary's plans, Senator John C. Stennis (Mississippi), who introduced the amendment restricting the use of funds for these types of accounting systems, said:

. . . this is the implementation, at least partially, of the system for which the funds were disallowed and which the House committee and Senate committee . . . said should be tested further.

The Comptroller General completed his report on this accounting system and submitted it to the Congress on April 12, 1968. The report stated that in his opinion the system met the requirements set down by the Congress, thereby clearing the way for its implementation by the Department of Defense. The committee of conference on the Second Supplemental Appropriation Act, 1968 (Public Law 90-392, July 9, 1968), agreed to allow the Defense Department to proceed with implementation of the proposed budgeting and accounting procedural improvements with certain restrictions. In addition, the committee suggested that in collaboration with the General Accounting Office, perfecting actions should take precedence over expansion of the program.

The Defense Department started implementation of the system on July 1, 1968. On March 4, 1970, the Comptroller General submitted a report to the Congress on the status of implementation, indicating that certain problems were being encountered, but that the system was basically sound and, if properly carried out, should result in im-

proved financial management. The military services and the other Defense agencies were refining the system to meet the problems which had been encountered and thereby were trying to perfect the system in a deliberate manner. For example, the House Appropriations Committee was informed at hearings on the Defense Appropriation Act for 1971 that the Navy was reviewing its accounting system in detail on a 5-year plan basis, including, but not limited to, the accounting system for operations. The Air Force had commenced a program for testing additional features which might be included in its accounting system for operations.

Uniform cost accounting standards

During the second session of the 90th Congress the House passed H.R. 17268, authorizing the General Accounting Office to develop uniform cost accounting standards for all negotiated prime contract and subcontract defense procurements over \$100,000. After 1 year the GAO was to report on the standards to be used and recommend legislation for their implementation. Senator William Proxmire (Wisconsin) introduced a similar amendment in the Senate, but excluded the requirement that legislation must be enacted if the GAO determined that uniform standards would be beneficial to the Government.

The Senate Banking and Currency Committee, in reporting the bill to extend the Defense Production Act, made no provisions for the implementation of uniform cost accounting standards. However, the Senate overrode the committee and adopted another Proxmire amendment which called for a study of cost accounting standards. In speaking during the floor debate on the bill, Senator Proxmire stated:

. . . The GAO also goes on to point out that the disadvantages may exceed the advantages. However, in the absence of a definitive study, the GAO was unable to conclude that uniform cost accounting standards would not be worthwhile. Thus, in view of this GAO testimony, a feasibility study seems all the more justified. . . . Then, on the basis of that finding as to feasibility by the Comptroller General, Congress would then decide whether to go ahead and ask the Comptroller General to establish uniform accounting standards. At a later date, Congress would decide whether to enact it.

Section 3 of Public Law 90-370, July 1, 1968, amending the Defense Production Act, provided that the Comptroller General, in cooperation with the Secretary of Defense and the Director of the Bureau of the Budget, study the feasibility of applying uniform cost accounting standards to all negotiated prime contract and subcontract defense procurements of \$100,000 or more. The Comptroller General was directed to consult with representatives of the accounting profession and with representatives of companies engaged in defense-related production. The Comptroller General was to submit a report at the earliest practicable date, but no later than 18 months after the date of enactment.

The General Accounting Office completed the feasibility study and the Comptroller General transmitted the report to the Congress on January 19, 1970. The report, bearing the title of "Feasibility of Applying Uniform Cost-Accounting Standards to Negotiated Defense

Contracts," concluded that it was feasible to establish and apply cost accounting standards in negotiating and administering procurement contracts.

Because of the significance of this study, the conclusions and recommendations reported to the Congress are set forth below.

1. Feasibility.—It is feasible to establish and apply cost-accounting standards to provide a greater degree of uniformity and consistency in cost accounting as a basis for negotiating and administering procurement contracts.

- It is not feasible to establish and apply cost-accounting standards in such detail as would be necessary to ensure a uniform application of precisely prescribed methods of computing costs for each of the different kinds of cost, under all the wide variety of circumstances involved in Government contracting.
- Emphasis should be directed to disclosure, consistency, and establishment of criteria for the use of alternative cost-accounting methods.
- To the extent that contractors or divisions of contractors could be grouped on the basis of similarities in the nature of their operations or in contracting situations, the standards for such groups could be stated in more specific terms.
- The cost-accounting methods to be used in the reporting of costs in support of the bid proposal and interim administrative actions and in the settlement of the contract or contracts of a particular contractor could be specified in greater detail by the use of advance written disclosure agreements. In essence, these agreements would further elaborate upon the cost-accounting standards and thus would better ensure a mutual understanding as to the cost-measurement methods to be employed.
- More explanatory material and better criteria for identifying and measuring direct and indirect costs and for the allocation of indirect costs should have high priority in establishing cost-accounting standards in the interest of providing a better understanding among the users of cost data as to their meaning and significance.

2. Coverage.—Cost-accounting standards should not be limited to Defense cost-type contracts. They should apply to negotiated procurement contracts and subcontracts, both cost type and fixed price. They should be made applicable governmentwide.

3. Benefits and costs.—Cumulative benefits from the establishment of cost-accounting standards should outweigh the cost of implementation.

- Cost-accounting standards for contract costing purposes should evolve from sound commercial cost-accounting concepts and should not be incompatible with generally accepted accounting principles. Therefore extensive modifications to present accounting systems would not seem to be necessary in most cases. Although some modifications to existing systems may be necessary, we do not see the need for new or separate accounting systems.
- Costs which might be incurred directly by the Government will depend largely on:

- a. The capability of the agency to which the responsibility for establishing and maintaining cost-accounting standards is assigned.
- b. The recognition of the need for continuing research into the use of cost-accounting standards to keep pace with changing technologies.
- c. The cooperation of the accounting profession, of industry, and of other Government agencies with the designated agency.

—Cost which might be incurred by contractors in implementing cost-accounting standards, whether they are ultimately borne by the Government or by the individual contractor, will vary from contractor to contractor and will depend largely on :

- a. The cooperation and capabilities of individual contractors' organizations.
- b. The extent to which present cost-accounting and management-information systems can produce cost data for negotiated contracts in accordance with cost-accounting standards.

4. *Responsibility for development.*—New machinery should be established for the development of cost-accounting standards. The objective should be to adopt at an early date the standards of disclosure and consistency and to strive for the elimination of unnecessary alternative cost-accounting practices—alternatives not required for equitable recognition of differing circumstances.

- This should be a gradual process building upon past experience.
- Considerable research in actual operating situations will be necessary and should be done in close cooperation with contractors, procuring agencies, and professional accounting organizations.
- Cost-accounting standards should not be developed under the same mechanism or procedures now used for section XV of ASPR. Since they should be applied to procurement by all Government agencies, it is important that new machinery be established to develop the cost-accounting standards and to perform the continuing research and updating that will be required for effective administration. Cost-accounting standards should be issued as a separate document rather than as a part of or amendment to FPR's or to ASPR. However, such standards could be incorporated by reference in those regulations.
- Periodic reports to the Congress should be made to keep the interested members and committees informed as to the progress and status of the assignment.

5. *Need for disclosure.*—Contractors should be required to maintain records of contract performance costs in conformity with cost-accounting standards and any approved practices set forth in a disclosure agreement or be required to maintain the data from which such information could be readily provided.

Cost Accounting Standards Board

Emerging from consideration of the feasibility study, an addition to the Defense Production Act of 1950 by Public Law 91-379, Au-

gust 15, 1970, directed to the establishment of the Cost Accounting Standards Board as an agent of the Congress independent of the executive branch. The Comptroller General was designated Chairman of the Board and was authorized to appoint the other four members. The law specified that two were to be from the accounting profession, of whom one was to be particularly knowledgeable about the cost accounting problems of small business; one was to be a representative of industry; and one was to be from a department or agency of the Federal Government.

The Board was to promulgate standards designed to achieve uniformity and consistency in the cost accounting principles followed by defense contractors and subcontractors under procurements in excess of \$100,000. Exempted from the standards were contracts or subcontracts the prices of which were negotiated in accordance with established market or catalog prices of commodities sold to the general public in substantial quantities or prices set by law or regulation. The cost accounting standards were to be used in the pricing administration, and settlement of relevant procurements. Board regulations were to require covered defense contractors and subcontractors to disclose in writing their cost accounting principles, including methods of distinguishing direct costs from indirect costs and the basis used for allocating indirect costs.

In addition, the contractors and subcontractors were to agree to contract price readjustment, with interest not to exceed 7 percent, for any increased costs the United States paid to the contractors because of their failure to comply with the standards or consistently disclose their cost accounting practices in pricing contract proposals and in accumulating and reporting cost data on contract performance. Disagreements over compliance and cost adjustments demanded by the United States were to be settled under the contract disputes clause.

Affected parties could make comments on Board-proposed cost accounting standards, rules, regulations, and modifications thereof up to 30 days after publication in the Federal Register. The Board was to consider the comments before promulgating its proposed measures. Further, the standards and related regulations and rules were to be effective no earlier than 60 days after the Board transmitted them to the Congress. By concurrent resolution during this period Congress might reject them.

THE COMMISSION ON GOVERNMENT PROCUREMENT

The Commission on Government Procurement was established under Public Law 91-129, November 26, 1969, to study procurement governmentwide and make findings and recommendations to the Congress. It was to be composed of 12 members, 11 of whom would be appointed by the President, the President of the Senate, and the Speaker of the House. The Comptroller General was a member *ex officio*.

The Commission was to direct its attention to the 12 policy clauses in Public Law 91-129, relating to such matters as effective and efficient Government procurement at reasonable prices and fairness between parties in the procurement process. The law specifically required the Commission to study and investigate the present statutes affecting Government procurement; procurement policies, rules, regulations,

procedures, and practices; and the organizations by which procurement was accomplished in order to determine the extent to which the 12 policy clauses were being facilitated.

The tenure of the Commission was limited by Public Law 91-129, to 2 years after enactment, and its final report to Congress was due at the end of this period, that is, November 26, 1971. [NOTE.—It is anticipated that the life of the Commission will be extended.]

The day-to-day work of the Commission staff has been divided among a number of study groups specializing in a designated subject matter area and staffed by professionals from Government, industry, and universities in such fields as engineering, law, procurement, finance, small business, and auditing. A subject matter of particular interest to financial management is "controls over the procurement process," which includes funding restraints and the budget process. Also, a study group on cost and pricing information has been formed.

CONTRACT PROFIT STUDY BY THE COMPTROLLER GENERAL

Near the end of the first session of the 91st Congress the Comptroller General, in the Armed Forces appropriation authorization for 1970 (Public Law 91-121, Nov. 19, 1969), was directed to conduct a study and review on a selective, representative basis of the profits made by contractors and subcontractors on negotiated contracts entered into by the Department of Defense, the National Aeronautics and Space Administration, and the Coast Guard. Defense-related contracts of the Atomic Energy Commission were also included. Congress was to receive a report of the results.

The Comptroller General submitted his report to the Congress on March 17, 1971. It recommended that the Office of Management and Budget take the lead in interagency development of uniform governmentwide guidelines for determining profit objectives in negotiated procurement. According to the report, the guidelines should emphasize as a profit criterion, when price competition is not effective, the total amount of contractor capital required for performance of the contract.

INDEPENDENT RESEARCH AND DEVELOPMENT AND RELATED COSTS IN DEFENSE PROCUREMENT

The 91st Congress sought increased control and visibility of defense procurement cost allowances for independent research and development, bid and proposal preparation, and other technical efforts undertaken by defense contractors.

The Department of Defense considers these items indirect costs (overhead). Contractors doing business with the Department of Defense accumulate the costs for this work in various overhead accounts and allocate them by various methods to the work they perform for both Government and commercial clients. Independent research and development (IR&D) is basic and applied research and development increasing the scientific and technological capability of the contractor generally but not directed toward a specific procurement objective.

When the purpose of the contractor is to include the results of development in a specific procurement offer, the cost is for bid and proposal preparation (B&P). Other technical effort costs (OTE), closely re-

lated to IR&D and B&P, pertain to a variety of technical and engineering overhead items.

Members of Congress questioned the fairness of portions of these contractors' costs allocated to defense procurement. They considered many of the Defense Department's payments excessive. As a result, a limitation of IR&D, B&P, and OTE costs was attempted by provisions in the Armed Forces appropriation authorization for 1970 (Public Law 91-121, Nov. 19, 1969). Costs incurred for these items and paid from funds appropriated for fiscal year 1970 were not to exceed 93 percent of the amount contemplated for such purposes in the 1970 defense procurement and research, development, test, and evaluation programs. Specifically exempted from this provision were contracts under \$100,000, formally advertised contracts, and firmly fixed price contracts competitively awarded.

More refined control measures were enacted in the Armed Forces appropriation authorization for 1971 (Public Law 91-441, Oct. 7, 1970). It provided that after December 31, 1970, the Secretary of Defense was not to make payments for IR&D and B&P unless in his opinion the work for which payment was made had a potential relationship to a military function or operation. Public Law 91-121 had contained a provision, covering only fiscal year 1970 appropriations, which prohibited payments for any defense research project or study unless it had a direct and apparent relationship to a specific military function or operation. This limitation proved impracticable with respect to IR&D because as an overhead item it bore no direct relationship to a specific defense objective. Consequently, the restriction was broadened in Public Law 91-441 to include a potential relationship between IR&D, B&P, and a military function or operation.

Public Law 91-441 also required the Secretary of Defense, after December 31, 1970, to negotiate advance agreements establishing a dollar ceiling on IR&D and B&P in the case of companies receiving more than \$2 million, or their product divisions receiving more than \$250,000, in their preceding fiscal year. The negotiated ceilings were to be based on Department of Defense technical evaluations of plans submitted by the companies. If agreements on ceilings were not reached after negotiations, IR&D and B&P payments were to be substantially less than the company or product division would otherwise receive. In order to make IR&D and B&P payments more visible, the Secretary of Defense was required to submit on or before March 15 of each year, beginning in 1971, a report on the operation of these provisions. It was to include the companies with which negotiations for ceilings were conducted, the results of those negotiations, statistics on IR&D and B&P payments made to major defense contractors, the manner of compliance with the provisions, and proposals for major policy changes. These control and reporting provisions applied only to contracts for which the submission and certification of costs or pricing data were required in accordance with section 2306 (f) of title 10, United States Code (generally negotiated procurements expected to exceed \$100,000).

GOVERNMENT PROCUREMENT

The 87th and 90th Congresses enacted legislation detailing the process to be used in contracting for military services and goods for the

Armed Forces. Although some of the procedures were already in use by the Department of Defense through issuance of the Armed Services Procurement Regulation, there were no comparable provisions in the law.

Public Law 87-653, armed services—procurement

In amending title 10 of the United States Code, Congress expressed its intent that formal advertising should be used for all purchases of and contracts for property or services (for the Department of Defense and the National Aeronautics and Space Administration) wherever such method was feasible and practicable under the existing conditions and circumstances. Only if it was not practicable or feasible could the agency head negotiate a purchase or contract. The General Accounting Office favored enactment of the provision into law, rather than allowing regulation of the process through the Armed Services Procurement Regulation, so that the procedure could not be revised without notice or review by the Congress.

Section 1(c) added a new subsection to procurement law. It required (with certain exceptions) that oral or written discussions be held with all responsible parties submitting proposals within a competitive range for any negotiated procurement of more than \$2,500.

Although the Armed Services Procurement Regulation required certification of cost and pricing data, the General Accounting Office reported that its examination of major military procurement activities disclosed that many noncompetitive procurements were being negotiated without obtaining required certifications from Defense contractors and subcontractors. This act specified that certification was required for negotiated prime contracts of more than \$100,000, contract modifications expected to exceed \$100,000, subcontracts over \$100,000 where the prime contractor and each higher tier subcontractor were required to furnish such certification, and changes or modifications to subcontracts involving more than \$100,000.

Exceptions from the required certification were limited to negotiated contracts and subcontracts where the price was based on (1) adequate price competition, (2) established catalog or market prices of commercial items sold in substantial quantity to the public, (3) prices set by law or regulation, or (4) a determination made in exceptional cases by the head of an agency that the requirements should be waived, stating, in writing, his reasons for such a determination. The head of an agency may prescribe that certification requirements be met for contracts and subcontracts in amounts of less than \$100,000.

Prime contracts and modifications to those contracts requiring certification were to contain a provision that the Government's price should be adjusted to exclude any significant amounts by which the head of the agency determined that the price was increased because the cost or pricing data furnished was inaccurate, incomplete, or not up to date.

Truth in negotiations

The 90th Congress enacted legislation enlarging the provisions of the so-called Truth in Negotiations Act (Public Law 87-653, Sept. 10, 1962) relating to cost and pricing data. Public Law 90-512, September 25, 1968, added to title 10 of the United States Code a section which stated that for the purposes of evaluating the accuracy, completeness,

and currency of cost or pricing data that were required, any Federal employee who was an authorized representative of the head of an agency should have the right, until the expiration of 3 years after final payment under the contract or subcontract, to examine all books, records, documents, and other data related to the negotiation, pricing, or performance of the contract or subcontract.

At the time of enactment of this provision only the General Accounting Office had the authority to audit all negotiated contracts and subcontracts. The GAO recommended that all contracts negotiated on the basis of cost or pricing data include a clause giving Defense officials the right to examine all data related to contract performance in addition to the data available at the time of certification of the data. The GAO concluded that post-award audits of actual records of performance often provided the best means of verifying the accuracy of the data submitted.

SIMPLIFICATION OF THE DISBURSEMENT PROCESS

Examination of disbursement vouchers

Public Law 88-521, August 30, 1964, provided for the use of adequate and effective statistical sampling procedures in the examination of disbursement vouchers for amounts of less than \$100. The sampling process was tested in the Departments of Agriculture and Health, Education, and Welfare prior to passage of the legislation and it resulted in significant savings to these Departments.

Certifying or disbursing officers acting in good faith were not to be held liable for improper payment on a voucher which was not subject to examination under the prescribed sampling system. A payee or beneficiary continued to be liable if improper payment was received, and the agency concerned had the responsibility to pursue collection action. The General Accounting Office has prescribed regulations and the statistical standards to be followed by agencies in implementing the act. (See p. 66.)

Payments to individuals

On December 2, 1963, the Comptroller General ruled that payment by means of a single check drawn in favor of a financial institution for credit to the accounts of several individuals was contrary to law, but stated that he did not object to enactment of legislation to allow Federal agencies to use this method of payment. Agencies interested in passage of the legislation maintained that the procedure would reduce the costs involved in making payments through a reduction in the number of checks drawn and processed and in the reduced postage costs involved.

At the request of the Air Force, the House and the Senate during the first session of the 89th Congress considered bills (H.R. 4653, S. 1309) authorizing Federal agencies to send one check instead of individual checks to financial institutions designed by employees or retirees for credit to their accounts. As enacted, Public Law 89-145, August 28, 1965, allowed for payment to any bank, savings and loan association or similar institution, or Federal or State chartered credit union, as designated by an employee or a person entitled to a pension, retirement, or similar payment from the Federal Government.

Three years later on June 29, 1968, Congress enacted Public Law 90-365 (Federal Employees—Payroll Deductions), which provided for an expansion of the payment procedures established in Public Law 89-145.

Prior to passage of Public Law 90-365, the head of each agency had the authority to authorize payroll deductions as he deemed appropriate. No uniform system for all Federal employees existed and, in the case of most civilian employees, payroll savings were not permitted except for Federal savings bonds. A payroll deduction bill applicable only to Federal credit unions was introduced by Senator John J. Sparkman (Alabama) on February 27, 1967. In committee the bill was expanded to authorize payroll deductions for other depository-type financial institutions. As finally passed, the law authorized payment to an employee in the form of one, two, or three checks sent to a designated "financial organization," drawn in favor of the organization for (1) credit to the checking account of the employee, (2) deposit of savings, or (3) purchase of shares for the employee. The issuing agency was not to be reimbursed for the cost of sending the first check for an employee, but only, for the additional cost of sending more than one check. Reimbursement was to be made by the financial organizations designated to receive checks.

If more than one individual designated the same financial organization, the agency was authorized, subject to regulations of the Secretary of the Treasury, to make payment by sending one check drawn in favor of the financial organization specifying the amount to be credited to the account of each employee.

Duties of disbursing officers

Disbursing officers in the Army and Air Force have been permitted to advance funds to other officers of the same services to act as their agents in paying troops and for other authorized disbursements. This authority dates back to the National Defense Act of 1916 (section 9a), as amended by the act of June 4, 1920. No provision was made for the performance of these functions by an officer of one service for an officer of another service, so that unnecessary duplication of effort and expense existed in the execution of administrative functions. Common use of disbursing facilities was provided for in the National Security Act of 1947, as amended.

An officer of an armed force, accountable for public money, was authorized to entrust it to another officer of an armed force to make disbursement as his agent through enactment of Public Law 87-480, June 8, 1962. The act removed the need for more than one disbursing officer in any one area, resulting in increased efficiency especially in areas where only a few members of one service were stationed with a large number from another service.

Public Law 89-265, October 19, 1965, provided for the advance of funds by an officer of the Army, Navy, Air Force, Marine Corps, or Coast Guard accountable for public money to cashiers, disbursing officers, or members of an armed force of a friendly foreign nation. Advances could be made for payment of pay and allowances or for purchase of necessary supplies and services. Previously, only through the exercise of war powers by the President, could an Armed Forces disbursing officer make advances to members of friendly foreign armed forces. Supporters of the legislation pointed out that some allied forces

already had authority to make advances to the Armed Forces of the United States and the act would permit reciprocity to those and other friendly nations. In addition, many situations short of war have resulted in the quick assembly of troops of several nations and sometimes these troops have not had a sufficient disbursing capability of their own.

The act required that funds advanced must be reimbursed by the nation whose military forces had received the payment. In addition, any nation benefiting from the authority to advance funds was to agree to make advances to the Armed Forces of the United States on a reciprocal basis. Advances could be made only after the President had entered into an agreement with the country concerned to provide for reimbursement and for reciprocity. The authority was intended for use only to advance funds to members of foreign armed forces who did not have their own disbursing facilities.

REIMBURSEMENTS, TRANSFER OF FUNDS, AND REVOLVING FUNDS

Agency reimbursements

The General Accounting Office suggested that a necessary improvement in budgetary and accounting procedures relating to accounting adjustments between appropriations be enacted into law. The suggestion was an outgrowth of the study and activities of the Joint Financial Management Improvement Program of the Bureau of the Budget, the Treasury Department, and the General Accounting Office. Legislation was necessary because the provisions of law as explained in decisions of the Comptroller General did not permit intra-agency reimbursements or transfers between appropriations in the absence of expressed statutory authority. Such authority had been previously obtained by a relatively small number of Federal agencies.

Enactment of Public Law 89-473, June 29, 1966 (Government Operations—Reimbursement Between Appropriations), permitted each appropriation account available to any executive department or independent establishment of the Government, or any bureau or office thereof, to be charged at any time during the fiscal year for the benefit of any other appropriation available to such department or establishment. The funds could be used for the purchase of materials, for the financing of services, or for other costs for which funds were available both in the financing appropriation to be charged and in the appropriation receiving the funds. All expenses so financed were to be charged on a final basis during or as of the close of the fiscal year, with appropriate credit to the financing agency appropriation. The provision was designed to facilitate accounting for and payment of common types of service activities and make unnecessary the estimating, precharging, and settling up of various accounts and appropriations.

Previous legislation specifically authorized reimbursement within appropriations of the Census Bureau, the Agriculture Department, the Agency for International Development, and the Atomic Energy Commission. The Senate report on the bill to allow reimbursements between Census Bureau appropriation accounts stated that the purpose of the legislation was to authorize the Bureau to make appropriate adjustments so as to permit the installation of cost accounting procedures,

enabling the Bureau to allocate the cost of general administration to the proper appropriation. Authority to permit these reimbursements originally was included in the 1960 supplemental appropriations bill but the provision was deleted because it was held to be legislation in an appropriations bill and the proposal was referred to the Post Office and Civil Service Committee.

Authority for the Department of Agriculture to charge one appropriation for the benefit of another appropriation available to the Department had been provided in Public Law 89-106, August 4, 1965. In its report on the bill, the Senate Agriculture and Forestry Committee stated:

... Authority for the Department of Agriculture to finance materials and services from one fund of an agency and later during the same fiscal year charge benefiting funds of the same agency with the correct costs would permit improved record-keeping and cost accounting practices. . . .

Other reimbursements

In 1966 and 1967, Congress passed legislation providing for the use of Veterans' Administration and Public Health Service hospitals and staff by other hospitals and medical schools on a reimbursable basis. These provisions, included in the Veterans Hospitalization and Medical Services Modernization Amendments of 1966 (Public Law 89-785, Nov. 7, 1966) and the Partnership for Health Amendments of 1967 (Public Law 90-174, Dec. 5, 1967) made the highly specialized and costly staff, procedures, and equipment located at VA and PHS hospitals available to the community in which they were located.

The facilities were to be available to the community during those periods when the immediate needs of the Government did not require maximum utilization of the equipment and staff. Shared use of VA and PHS hospitals with affiliated or local hospitals would allow for more efficient utilization of diagnostic or treatment facilities at a lower unit cost for all.

In addition, the Veterans Hospitalization and Medical Services Modernization Amendments of 1966 provided for exchanges of medical information and techniques with the surrounding medical community, particularly in remote areas. Although availability was intended on a fee basis, the Administrator in establishing the fee was to take into consideration the financial status of any user of such services.

Transfer of funds

Public Law 89-500, July 12, 1966 (Post Office Department Appropriations—Transfers), provided permanent authority to the Post Office to transfer funds between appropriations. Temporary authority was first included in the Second Supplemental Appropriation Act, 1948, and since 1954 the transfer authority had been renewed annually.

This act was designed to overcome procedural objections to including the transfer authority in an appropriation act by separately authorizing the inclusion of the transfer authority in appropriation acts for the Post Office Department. Still, no transfers could be made unless the annual appropriation act provided for such transfers. In addition, the Bureau of the Budget was to approve any transfers between appropriation accounts. Any request for this approval was to be

furnished to the respective Committees on Appropriations and on Post Office and Civil Service of the Senate and House of Representatives. No appropriation could be increased by more than 5 percent.

General supply fund

The General Services Administration administers the general supply fund—a revolving fund used to finance the centralized procurement of supplies, equipment, and nonpersonal services for Federal agencies, the District of Columbia, mixed-ownership Government corporations, and, in certain cases, non-Federal agencies. Prices are fixed so that GSA recovers those costs involved in procurement, handling, and distribution of supplies. Although GSA had been charging the entire cost of transportation to the ultimate distributing depot by including that cost in its billings to the agencies, the Comptroller General on March 11, 1960, ruled that the wording of section 109 of the Federal Property and Administrative Services Act of 1949, as amended, limited transportation costs to those incurred to the first storage point regardless of ultimate distribution.

GSA allowed certain warehouses to purchase and store particular items and ship them to another regional warehouse for distribution when the need arose, since centralized purchasing and storage for all of its 10 regional warehouses reduced overall costs. Since the Comptroller General's objection to the practice of charging transportation costs to the distributing warehouse was based only on the literal reading of the relevant section of the law and not on his judgment of it as a business management practice, he recommended that the General Services Administration secure clear legislative authority to continue the practice. This resulted in enactment of Public Law 87-600, August 24, 1962, which authorized the General Services Administration to use the general supply fund to pay transportation costs and obtain reimbursement on a delivered price basis for supplies distributed through the fund.

Department of Agriculture working capital fund

The Department of Agriculture maintains a working capital fund of \$400,000, without fiscal year limitation, for payment of salaries and other expenses necessary for central administrative services for all agencies of the Department. The services were furnished only on a reimbursable basis until enactment of Public Law 89-106, August 4, 1965, which allowed for advancing funds to the working capital fund when firm orders were placed for specific services within the same fiscal year.

The authority to advance funds was sought because it had become difficult for the fund to operate pending reimbursement. The legislation was designed to allow the working capital fund to continue providing the same services, as well as other services that might be initiated in the future, without an increase in its appropriation.

Department of Defense working capital funds

Congress, in 1966, authorized the Department of Defense to reduce cash balances in working capital funds to the amount necessary to cover day-to-day cash disbursements from the funds, and to transfer amounts between such funds as determined by the Secretary of Defense

with the approval of the Bureau of the Budget. Prior to enactment of the Supplemental Defense Appropriation Act, 1966 (Public Law 89-374, Mar. 25, 1966), the Department, by regulation, was required to maintain cash balances in working capital funds equal to the total of the accounts payable. These changes allowed for greater use of available cash. Without this legislation Congress would have had to appropriate additional money in order to provide the funds with necessary capital.

The authority granted in the 1966 Defense supplemental appropriation specified that it was applicable only to fiscal year 1966 (the House had provided permanent authority, the Senate voted for annual review). However, appropriation acts for the Department of Defense for fiscal years 1967 and 1968 included provisions extending the original authority for those fiscal years.

SETTLEMENT OF JUDGMENTS AND CLAIMS

Public Law 87-187, judgments and settlements—payment

This act, dated August 30, 1961, made final judgments of State and foreign courts payable, where appropriate, from the permanent indefinite appropriation established by the so-called Automatic Payment of Judgments Act (enacted in 1956). The Attorney General had to certify that it was in the interest of the United States to pay the judgment, and at the same time consider if the judgment had been properly rendered.

The Automatic Payment of Judgments Act allowed for payment of judgments rendered against the United States not in excess of \$100,000 from a permanent indefinite appropriation instead of withholding payment pending a specific appropriation act. However, if payment could be made from the affected Government agency's funds or appropriations, these were to be used for making payment. Payment from available funds, instead of by means of a specific appropriation act, shortened the time between the entry of judgments and their satisfaction, thereby reducing interest charges accruing upon judgments against the United States.

Public Law 89-506, tort claims—agency consideration

Prior to passage of this act on July 18, 1966, authority for agency settlement of tort claims against the Government was limited to cases where the claim was \$2,500 or less. Instead of requiring the instigation of a suit before any settlement could be made, and then only by the Attorney General of the United States, this act provided for presentation of all claims to the appropriate agency for consideration and possible settlement before a court action was instituted.

Amending the Federal Tort Claims Act, passed in 1946, the legislation authorized the head of each Federal agency to settle or compromise any tort claims presented to him which arose out of negligent or wrongful acts of employees acting within the scope of their employment. Authority of the agency head was exclusive for settlements up to \$25,000. Above that amount, the settlement was to have prior written approval from the Attorney General of the United States, or his designee, as well as the agency head.

Public Law 89-508, Federal Claims Collection Act of 1966

Prior to enactment of this legislation on July 19, 1966, when an agency could not collect an amount it believed was due the Government, it could only refer the action to the General Accounting Office for collection. No agency could compromise a claim (accept a lesser amount in full settlement) even if such a settlement was in the best interests of the Government.

This act, however, provided for the compromise of claims not exceeding \$20,000, exclusive of interest, by the head of an agency, or his designee, pursuant to regulations issued in conformity with standards set by the Attorney General of the United States and the Comptroller General. It also permitted termination or suspension of collection action where it was apparent that the person did not have the ability to pay any significant amount, or when the cost of collection would probably exceed the amount of recovery. The General Accounting Office was given the same authority over claims referred to it for collection.

The authority to compromise claims could not be used if the claim involved fraud or misrepresentation, or was based in whole or in part on conduct in violation of the antitrust laws. Claims based on exceptions by the General Accounting Office in the account of an accountable officer could be compromised only by the Comptroller General.

Public Law 90-616, claims—executive agencies—overpayment of pay

This act, dated October 21, 1968, provided that a claim of the United States against an employee of an executive agency arising from the overpayment of pay (salary, wages, pay, compensation, emoluments, and remuneration for services) up to a maximum of \$500, might be waived by the head of any agency when collection would be against equity and good conscience and not in the best interest of the Government. The Comptroller General, however, might waive any claim of the Government for overpayment of pay. Excluded from the waiver authority were those cases where the claim was the subject of an exception made by the Comptroller General in the account of an accountable official.

The authority to waive a claim was limited to those cases where there had not been fraud, misrepresentation, fault, or lack of good faith on the part of the employee or any other person having an interest in the claim waiver. In general, it was found that claims for overpayment of pay were small and usually resulted from administrative error.

FOREIGN AID PROGRAM

The Foreign Assistance Act of 1968 (Public Law 90-554, Oct. 8, 1968) included a provision designed to improve the management of the foreign aid program. Congress stated that U.S. foreign aid funds could be utilized more effectively by applying advanced management decisionmaking and information and analysis techniques such as systems analysis, automatic data processing, benefit-cost studies, and information retrieval to the program.

The President was to establish a management system that would include the definition of objectives for the foreign assistance program. The system was to be designed to provide information to the agency and to Congress relating agency resources, expenditures, and budget

projections to objectives, and to assist in the evaluation of program performance, the review of budgetary requests, and the setting of program priorities.

As required by the act, in July 1969 and 1970, annual reports were made to the Congress on the steps that had been taken and the progress made in implementing the management system.

POST OFFICE REORGANIZATION

The Postal Reorganization Act (Public Law 91-375, Aug. 12, 1970) provided for the establishment of the U.S. Postal Service as an independent establishment in the executive branch. Its purpose was to modernize postal operations, make them more efficient, and provide high quality service throughout the Nation.

Postal operations were to be financed largely from postal revenues. Postal rates and fees were to provide sufficient revenues so that total estimated income and limited appropriations to the Postal Service would equal as nearly as practicable its total estimated costs. Congress was to provide decreasing annual appropriations, beginning with an amount equal to 10 percent of the fiscal year 1971 appropriation for the Post Office Department for each of the fiscal years 1972 through 1979. These appropriations were for reimbursement of public service costs required by the Postal Service to maintain effective and regular service nationwide and were necessary because many communities could not at present be adequately served on a self-sustaining basis.

The Postal Service was authorized to borrow on its own credit an amount not to exceed at one time \$10 billion. At the request of the Postal Service, the Secretary of the Treasury, if he determined the public interest would be served, might make the United States liable for its obligations, including the guarantee of interest and principal payments. The Secretary of the Treasury was authorized to purchase obligations of the Postal Service.

FEDERAL GRANTS-IN-AID TO STATE AND LOCAL GOVERNMENTS

At the beginning of the 87th Congress, Federal aid to State and local governments totaled about \$7 billion a year. Before the close of the second session of the 91st Congress, the total for Federal aid to State and local governments had increased to almost \$24 billion for the fiscal year 1970. During this period Congress enacted several major pieces of legislation dealing with the methods of appropriating, transferring, accounting for, and managing Federal aid payments.

INTERGOVERNMENTAL COOPERATION ACT OF 1968

During the 89th Congress the House Subcommittee on Executive and Legislative Reorganization reached agreement on H.R. 17955—Intergovernmental Cooperation Act—but the Committee on Government Operations was unable to act on the legislation before the end of the session. (The Senate had passed a similar bill during the 89th Congress.) Introduced in the House in the 90th Congress (first as H.R. 16718, succeeded by H.R. 18826 which included rural areas also) and

in the Senate (S. 698), the Intergovernmental Cooperation Act of 1968 (enacted as Public Law 90-577, Oct. 16, 1968) covered many aspects of Federal-State-local cooperation.

Section 602 of the act authorized the Comptroller General to study a grant program upon the request of a committee having jurisdiction over that program. The study was to include analyses of the extent to which the program conflicted with or duplicated other grant-in-aid programs, and whether more effective, efficient, and economical administration of the program could be achieved by changing the requirements and procedures applicable to the program.

In reviewing grant-in-aid programs the Comptroller General was to consider the budgetary, accounting, reporting, and administrative procedures applicable to the programs and then submit reports on these studies, together with his recommendations, to the Congress. Reports on expiring programs, to the extent practicable, were to be submitted in the year prior to the date of expiration.

State accounting for grant-in-aid funds

The Intergovernmental Cooperation Act of 1968 included a provision (sec. 202) relating to the method of accounting for grant-in-aid funds by State governments. A State was no longer required to deposit Federal grants-in-aid in a separate bank account apart from other funds administered by the State, but it still was to properly account for all Federal grants-in-aid as Federal funds in the accounts of the State. The State agency administering the grant was to make regular reports to the appropriate Federal agency on the status and application of funds, liabilities, and other obligations on hand. The Comptroller General and the head of the Federal agency responsible for administration of the grant were allowed access to books, documents, papers, and other pertinent records for the purpose of audit and examination of the State's use of the grant funds. [Note.—The act of 1968 referred to only *State* governments. However, the language of the bill, which if enacted would become the Intergovernmental Cooperation Act of 1971, makes clear that it is the intent of the Congress that local governments are also covered.]

Transfers of funds

Section 203 of the Intergovernmental Cooperation Act of 1968 directed Federal departments and agencies to schedule the transfer of grant funds so as to minimize the time elapsing between the transfer from the Treasury and the disbursement of the funds by the State. By so scheduling the transfers, the Federal Government reduced its borrowing needs.

At the time of passage of this act, Federal agencies already had initiated procedures which were designed to decrease the time between the transfer of a grant from the Government and its disbursement by the State. Following a recommendation by the Steering Committee of the Joint Financial Management Improvement Program, the Treasury Department issued regulations (Department Circular No. 1075—Regulations Relating to Timing of Payments for Federal Grants, Contributions, and Other Programs—May 28, 1964) detailing the procedures for use of letters of credit in making payments of grants to State and local governments and to educational and other institutions. This method of payment—which allowed certain grantees to draw funds

when needed, within authorized dollar limits, through their commercial bank and the Federal Reserve System—was put into general use during fiscal year 1965.

A provision of the Mental Retardation Facilities and Community Mental Health Centers Construction Act Amendments of 1965 (Public Law 89-105, Aug. 4, 1965) also aimed to prevent the accumulation of funds by grantees. Section 6 provided for the establishment of accounts on the books of the Treasury in which all or part of any grant awarded by the Secretary or any other officer or employee of the Department of Health, Education, and Welfare was to be deposited. From time to time payment was to be made to the grantee from these accounts to the extent necessary to carry out the purposes of the grant.

Interest earned on grant funds

Congress also included in section 203 of the Intergovernmental Cooperation Act of 1968 a provision that States were not to be held accountable to return to the Federal Government the interest earned on grant-in-aid funds. With the timely transfer of grant funds, the short interval between receipt of grant funds and the disbursement thereof reduced the possibility of grantees earning substantial amounts of interest on those funds.

A ruling by the General Accounting Office requiring grant recipients to reimburse the Treasury for all interest earned on advance payments of grants (grants to universities and colleges were paid in a lump sum at the beginning of the year) led to enactment of section 205 of the 1965 appropriation act for the Department of Health, Education, and Welfare. The act provided relief for recipients of certain types of grants by excusing them from liability for interest earned on grant payments made before July 1, 1964. The provision was enacted mainly because it was considered unfair to require the payment of interest retroactively.

ADVANCE FUNDING

In the 1967 health and education message, President Johnson asked for early enactment of appropriations for education so that schools and colleges could plan effectively for the coming year. During the 90th Congress, legislation was enacted which allowed appropriations for grants, contracts, and other payments to assist education to be included in the appropriation act for the fiscal year preceding the fiscal year for which they would be available. Since schools must commit themselves in March or April for the school year beginning in September (two different fiscal years), advance funding should allow for adequate notice to State and local education officers of available Federal funds while planning for the coming year.

Both the Elementary and Secondary Education Amendments of 1967 (Public Law 90-247, Jan. 2, 1968) and the Higher Education Amendments of 1968 (Public Law 90-575, Oct. 16, 1968) provided for inclusion of funds for programs under those acts in advance of their availability. In amending the relevant section of the Elementary and Secondary Education Amendments of 1967 (sec. 401 of the act), the Vocational Education Amendments of 1968 (Public Law 90-576, sec. 301(a), Oct. 16, 1968), expanded the programs covered to include vocational education activities by stating that the provisions of the title applied to any program for which the Commissioner of Education

had responsibility for administration (Title I—Provisions for Adequate Leadtime and for Planning and Evaluation in Elementary and Secondary Education Programs).

Public Laws 90-247 and 90-275 provided that the designated appropriations for grants, contracts, or other payments to educational institutions might be made available for expenditure by the agency or institution on the basis of a school or academic year differing from the fiscal year. Public Law 90-576 extended this provision to any program for which the Commissioner of Education had responsibility for administration, as above.

JOINT FUNDING

The Economic Opportunity Amendments of 1967 (Public Law 90-222, Dec. 23, 1967) and the Juvenile Delinquency Prevention and Control Act of 1968 (Public Law 90-445, July 31, 1968) included sections which provided for the designation of one Federal agency to act for all in administering funds advanced by more than one agency for a single project. In cases where the local share requirements varied among the agencies, a single local share might be established according to the proportion of funds advanced by each agency. The agency designated to administer the program might waive any technical grant or contract requirement which was inconsistent with the requirements of the administering agency or which that agency did not impose.

THE DEVELOPMENT OF AUDIT STANDARDS

The 91st Congress considered two bills (S. 2479 and H.R. 7366) that were identical in their provision for effecting improvements in the Federal requirements for accounting systems and financial reporting of State and local governments. The bills also contained a requirement that the Office of Management and Budget with the cooperation of the Comptroller General would develop a body of audit standards that could be used for determining the reliance that could be placed on the audits of federally assisted programs that were performed by or for State and local governments. These bills were not enacted and similar bills were considered by the 92d Congress.

Also, in March 1969, the President issued a statement that contained a requirement that the administration of the assistance programs would be improved through streamlining, simplifying, and employing resources at State and local levels to the greatest degree possible. This was interpreted as applying to the accounting, financial reporting, and auditing areas. The improvement in the first two, accounting and financial reporting, was considered by two task forces operating under the direction of the office of Management and Budget and the Department of Health, Education, and Welfare. The improvements in the area of auditing were considered by a work group directed by the Comptroller General.

This work group, composed of members of the Federal departments and agencies with the largest grant programs was assisted by three part-time members from State, county, and local governments and two part-time members from university faculties. Professional advice was provided by the Federal Government Accountants Association; the

Municipal Finance Officers Association; the Institute of Internal Auditors; the American Institute of Certified Public Accountants; and by a group of State auditors who were members of the National Association of State Auditors, Comptrollers, and Treasurers.

The audit standards, which early in 1971 were in their fourth draft, were generally patterned after those established in 1963 by the American Institute of CPA's. There were numerous modifications, however, to adapt the standards to an audit process that had as its objective the determination of the manner of performance by grantees as to efficiency, economy, compliance, and effectiveness rather than the attestation of financial statements of a client. Thus, the proposed standards emphasized the compliance and performance aspects of audits in place of a single emphasis on financial aspects.

This expanded audit operation required a broader scope of audit effort and correspondingly a broader base of audit skill and experience and a vastly different and more informative type of audit reporting.

Along with the development of the proposed standards were several implementing projects that were seen as necessary if the standards were to become effective parameters for governmental auditing. These included the development of an intergovernmental audit council, the establishment of audit guides for areas of intergovernmental auditing, the training of audit staffs to conduct the more demanding types of auditing, the designation and operation of an organization at the Federal level to implement the standards and coordinate the intergovernmental audit effort, and the establishment of a pilot project to test the concepts being developed.

OTHER FINANCIAL MANAGEMENT LEGISLATION

FOREIGN CURRENCIES AND THE BALANCE OF PAYMENTS

The Secretary of the Treasury was authorized by the Foreign Assistance Act of 1961 (Public Law 87-195, Sept. 4, 1961) to establish the exchange rates for all foreign currencies or credits that all agencies and departments were to use in reporting foreign currencies. The Secretary was responsible not only for valuation of foreign credits (including currencies), but also for central accounting for all such credits owed to or owned by the United States.

The act also required that each agency or department report to the Secretary of the Treasury an inventory as of June 30, 1961, showing the amount of all foreign currencies on hand acquired without the payment of dollars. The Secretary of the Treasury was to consolidate these reports and submit a report to the Congress. The report, which was to be done semiannually after the initial date, was to include a breakdown of foreign currencies by agency, by country, and by units of foreign currency, as well as the dollar equivalent of the currencies.

The Interest Equalization Tax Extension Act of 1965 (Public Law 89-243, sec. 6, Oct. 9, 1965) included a section detailing the requirements to use foreign currencies owned by the United States. The Comptroller General reported to Congress that dollars were being expended to meet U.S. obligations abroad in those same countries in which the United States held substantial amounts of local currencies.

The act provided that, under the direction of the President, the Secretary of the Treasury should ascertain, by country, the amount of funds required by the Government to pay its obligations in foreign countries, including obligations payable in foreign currencies. Agreements, other than those related to agricultural sales and aid, under which currency of a foreign country accrued or would accrue for the use of the United States should include provisions allowing for the payment of obligations of the United States in that country with those foreign currencies. In addition, if the currencies were not needed for use in the issuing country they should be convertible to other foreign currencies or to dollars for use in paying any obligations of the United States in any foreign country. The Secretary of the Treasury was designated to determine the amounts considered necessary for the requirements of the United States. However, in deciding on currency conversions, the Secretary was to consider the capability of a country to have its currency converted, as well as the impact on the balance of payments.

The Secretary was also directed to report annually to the Senate Committee on Finance and the House Committee on Ways and Means on (1) the expenditures in dollars and foreign currencies used in the preceding fiscal year to pay the obligations of the Government in foreign countries, (2) the amounts of foreign currencies available for use by the United States, and (3) the amounts of foreign currencies convertible to other foreign currencies or to dollars at the close of the fiscal year. The report was to show these figures by executive agency and by country.

Requirements to use foreign currencies accruing from agricultural sales for payment of U.S. obligations abroad were included in Public Law 88-638, October 8, 1964, which amended the Agricultural Trade Development and Assistance Act of 1954. The 1964 law required that foreign currencies:

. . . be convertible to dollars to the extent consistent with the effectuation of the purpose of this Act, but in any event to the extent necessary to permit that portion of such currencies made available for payment of the United States obligations to be used to meet obligations or charges payable by the United States or any of its agencies to the government of the importing country or any of its agencies.

Other sections of Public Law 88-638 dealt with convertibility and use of foreign currencies, as did two later acts—the Food for Peace Act of 1966 (Public Law 89-808, Nov. 11, 1966) and Public Law 90-436, July 29, 1968, which amended the Agricultural Trade Development and Assistance Act of 1954.

RESERVED FOREIGN CURRENCIES

Federal agencies were granted authority to use reserved foreign currencies in lieu of dollars for payment of current expenditures provided that (1) reimbursement was made to the Treasury from applicable appropriations of the agency concerned and (2) foreign currencies so used were replaced when needed for the purpose for which they were reserved or set aside. The act providing this authority on a continuing basis was Public Law 89-677, October 15, 1966 (Balance

of Payments—Foreign Currency). Temporary authority was previously provided for using foreign currencies when reimbursement was made to the Treasury in public works appropriation acts (Public Laws 87-880, 88-257, 88-511, and 89-299) beginning with fiscal year 1963. The Treasury reported that this authority to use reserved foreign currencies made it possible to defer or avoid the purchase for dollars of a considerable amount of foreign currencies, thereby aiding the balance of payments.

A provision contained in the Public Works Appropriation Act, 1965 (Public Law 88-511 Aug. 30, 1964), and repeated in the acts for following years, was related to reserved foreign currencies. Section 508 of the act stated:

During the current fiscal year, any foreign currencies held by the United States which have been or may be reserved or set aside for specified programs or activities of any agency may be carried on the books of the Treasury in unfunded accounts.

COINAGE

In a message to Congress on June 3, 1965, President Johnson said, "Silver is becoming too scarce for continued large-scale use in coins." At that time silver consumption far exceeded production, and the silver stocks of the Treasury were declining. New sources of silver could not be developed quickly enough, if at all, to meet the long-range needs of industrial users as well as the continued use of fine silver in coins at predicted levels of coin production.

The Coinage Act of 1965 (Public Law 89-81, July 23, 1965) authorized the Secretary of the Treasury to coin and issue half dollars, quarters, and dimes ". . . in such quantities as he may determine to be necessary to meet the needs of the public." The coins were to be clad coins with the weight of the cladding and additional specifications detailed in the act. Coins of 900 fine silver were to be minted only until such time as the Secretary determined that adequate numbers of coins authorized by the act were available; in no event were these coins to be minted later than 5 years after enactment of Public Law 89-81. No standard silver dollars were to be minted during the 5-year period following the date of enactment of the act.

The authority granted to the Secretary in Public Law 88-580, September 3, 1964 (Coins—Date of 1964), to continue using the same date on coins while they were in short supply was made permanent law in the Coinage Act of 1965. The act stated that any coins minted after the enactment of Public Law 89-81 from 900 fine silver were to be inscribed with the year 1964. Continued use of a date other than the actual year of coinage was designed to discourage the withdrawing of newly minted coins from circulation. Other coins were to be inscribed with the year of coinage or issuance unless the Secretary of the Treasury directed that coins of a particular denomination be inscribed with the last preceding year inscribed on coins of that denomination in order to alleviate or prevent a shortage of coins in that denomination.

Legislation passed prior to the coinage measures had made available an amount of silver for use in subsidiary coinage. In enacting Public Law 88-36, June 4, 1963 (Silver—Purchases—Bullion), Congress au-

thorized the issuance of \$1 bills as part of the overall supply of Federal Reserve notes, replacing the \$1 silver certificate. Silver certificates had to be backed by an amount of silver equal to the face value of all outstanding silver certificates, whereas Federal Reserve notes did not need to be backed by silver. The act also repealed provisions in the law requiring the Treasury to purchase newly minted domestic silver at 90.5 cents an ounce and authorizing the Treasury to purchase foreign silver and sell foreign or domestic silver at not less than 90.5 cents an ounce.

Enactment during the first session of the 90th Congress of Public Law 90-29, June 24, 1967, provided authority to the Secretary of the Treasury to write off silver certificates that he determined had been destroyed, irretrievably lost, or held in collections and never will be presented for redemption, thereby freeing for other uses the silver held against those certificates. Any outstanding silver certificates for which the holder wished to receive silver had to be presented for exchange within 1 year of the date of enactment of the act. After that time the certificates were considered to be legal tender, but could not be exchanged for silver.

Joint Commission on the Coinage

Section 301 of the Coinage Act of 1965 authorized the President to establish a Joint Commission on the Coinage composed of the Secretary of the Treasury; the Secretary of Commerce; the Director of the Bureau of the Budget; the Director of the Mint; the chairman and ranking minority member of the Senate Banking and Currency Committee and four Members of the Senate, not members of such committee; the chairman and ranking minority member of the House Banking and Currency Committee and four Members of the House, not members of such committee; and eight public members, none of whom were directly interested as such in the composition, characteristics, or production of the coinage of the United States.

The Commission was directed to study the progress made in the implementation of the coinage program established under the act and to review such matters as the needs of the economy for coins, the standards for the coinage, the availability of various metals, the renewed minting of the silver dollar, and the time when and circumstances under which the United States should cease to maintain the price of silver. The Commission, from time to time, was to give its advice and recommendations with respect to these matters to the President, the Secretary of the Treasury, and the Congress.

PART II. DEVELOPMENTS IN GOVERNMENT-WIDE FINANCIAL MANAGEMENT, 1961-70

Several highly significant undertakings toward improving the budgetary process and providing better information systems Government-wide occurred during the past decade.

THE PRESIDENT'S COMMISSION ON BUDGET CONCEPTS

In March 1967, a Commission on Budget Concepts was established by the President to examine the methods of measuring the Federal budget and other issues of budget presentation. The Commission consisted of 16 persons—nine private citizens, four Members of the Congress, the Director of the Bureau of the Budget, the Secretary of the Treasury, and the Comptroller General of the United States.¹ Membership included persons identified with both major parties.

The Commission, on October 10, 1967, presented its recommendations "on what we believe to be a truly modern and progressive budget presentation for the Federal Government."²

The Commission identified 13 "major recommendations" in the first chapter of its report. Observations, comments, and suggestions of a less major nature appeared throughout the report; while they were not separately numbered, the Commission's views were thus made known on 117 different points.

Three annual budgets have been presented to the Congress since the Commission's report appeared. Most of the Commission's major recommendations were followed closely in the budget documents.

There follows a summary and discussion of the 13 major recommendations, divided into three categories—those intended for prompt adoption in the annual budget and related reports, those requiring some "leadtime" for adoption in the annual budget and reports, and a recommendation which was focused more upon other matters of budget presentation than on the annual budget.

Possible legislation in relation to the Commission's report is also discussed.

Finally, there are discussed some other changes in budgeting and financial management practices which are related, directly or indirectly, to recommendations by the Budget Commission.

¹ The purposes of the Commission were set forth in a White House press release of Mar. 3, 1967, reproduced as exhibit A (p. 105) in the Commission's report. Although the press release referred to a Commission of 15 members, 16 were appointed. For a list of the members, see p. 109 of the Commission's report.

² Quoted from the letter of transmittal, reproduced on p. vii of the report. The Commission's work resulted in two printed volumes: (1) *Report of the President's Commission on Budget Concepts*, U.S. Government Printing Office, 1967, 109 pages, and (2) *Staff Papers and Other Materials Reviewed by the President's Commission*, U.S. Government Printing Office, 1967, 512 pages.

RECOMMENDATIONS IMPLEMENTED IN THE ANNUAL BUDGET

Unified, comprehensive budget

The Commission's most important recommendation was for unified comprehensive budget totals to replace the three then-existing concepts.³

Although previous budget documents presented details regarding estimates of all transactions for all funds, the conventional *totals*, sometimes called the "administrative budget," excluded trust funds administered by the Government. A second measure which had been used, the "consolidated cash statement," covered all funds, but its totals were on a checks-paid basis. The Federal sector of the national income and product accounts was considered a third measure of the budget; it covered most funds, but omitted certain purely financial transactions such as loans.

The Commission sought a single measure of the budget with the hope that other measures would disappear or be clearly subordinated. The Commission's answer was a statement which included both Federal funds and trust funds, excluding transactions between funds, so that totals would represent transactions with the public.

Both the 1969 and 1970 budgets gave effect to the recommendation for unified comprehensive budget totals. The 1969 budget carried transitional figures and explanations in its Special Analysis A. The 1970 budget included an analysis of the budget by fund groupings in a separate volume, but the older measures of the administrative budget and the consolidated cash statement have disappeared, except in certain historical tabulations. A statement of the budget in terms of the national income accounts has been retained in a subordinated manner—in Special Analysis B of the 1969 budget and Special Analysis A of the 1970 budget.

Broad financial plan

Too much emphasis had been placed on a single number in past budgets—the surplus or deficit—according to the Commission. The means of financing the deficit (borrowing and reduction of cash on hand) had been disclosed in a separate table, somewhat removed from the presentation of the transactions of receipts and expenditures which made up the deficit. The Commission recommended instead that the whole financial plan be brought together in a single statement of the budget.⁴

This was done in table 1 of the 1969 and 1970 budgets, following generally the style illustrated on page 85 of the Commission's report.

Action requested of the Congress

More prominence should be given in the budget presentation to the actions requested of the Congress, according to the Commission.⁵ The whole budget does not eventuate in congressional action each year: most of the revenue laws are permanent in nature, some appropriations are reviewed each year under standing law, and a significant share of the expenditures and net lending each year flow from bal-

³ Report of the President's Commission on Budget Concepts, p. 6, major recommendation No. 1.

⁴ *Ibid.*, pp. 6, 7, major recommendation No. 2.

⁵ *Ibid.*, p. 7, major recommendation No. 3.

ances of prior appropriations or revolving funds. Previous budgets had focused less attention than the Commission desired on the new actions requested of Congress, as distinguished from the transactions which would occur under authority granted earlier by Congress.

Table 1 of both the 1969 and 1970 budgets provided in its first section the totals on appropriations and other budget authority, as suggested by the Commission. Table 5 of the 1969 budget and table 4 of the 1970 budget gave a breakdown by agency of the amounts requested of the Congress. Table 5 in the 1970 budget covered estimates of outlays (expenditures plus net lending) during the year estimated to result from the action requested of the Congress.

The analysis of receipts—part 3 in the 1969 budget and part 2 in the 1970 budget—distinguished the changes in the level of receipts under action requested of the Congress from the changes arising from other causes.

Coverage of all programs

Flowing from the definition of a budget as a basic part of a comprehensive financial plan, the Commission's view of the budget embraced all programs of the Federal Government and its agencies.⁶ "Borderline agencies and transactions should be included in the budget unless there are exceptionally persuasive reasons for exclusion."⁷

In determining what is a Federal Government agency, the Commission adopted a criterion based upon ownership. Enterprises which, though Government sponsored, were completely privately owned should be excluded, the Commission said.

The 1969 budget included in its regular coverage the following agencies which had been treated as "annexed budgets" in the preceding documents—the Comptroller of the Currency, the Board of Governors of the Federal Reserve System (but not the banks), the Federal Deposit Insurance Corporation, the Milk Marketing Administration of the Department of Agriculture, the banks for cooperatives, and the Federal intermediate credit banks. The exchange stabilization fund of the Treasury Department was not included in the new budget totals.

The 1970 budget continued the practices inaugurated the year before, with certain exceptions. The Board of Governors of the Federal Reserve System was dropped. Three enterprises were shown as being "phased out" of the budget totals because they had just passed from mixed-ownership to all-private ownership—the secondary market operations of the Federal National Mortgage Association, the banks for cooperatives, and the Federal intermediate credit banks. The Commission had recommended that such enterprises be omitted when they became wholly privately owned.

Distinction between loans and expenditures

The Commission proposed to divide the budget totals between a loan account and receipt-expenditure account. The Commission said that the surplus or deficit of the receipt-expenditure account was significant for fiscal policy and for analyzing the economic impact of the Federal budget. "Public and congressional understanding of the economic

⁶ *Ibid.*, p. 7, major recommendation No. 4.

⁷ *Ibid.*, p. 25.

effects of the budget is essential for the attainment of sound appropriation and tax decisions," it asserted.⁸

Elaborating on its views, the Commission stated that certain loans should be reflected in the expenditure account, rather than the loan account, either because they were loans in name only, such as Commodity Credit Corporation nonrecourse loans, or because they were foreign loans made on noncommercial terms.

Both the 1969 and 1970 budgets made the distinction recommended, using the suggestions of the Commission on where to draw the line.⁹ Both budgets carried the distinction through the table by individual accounts and into table 1. The 1970 budget included in the appendix an additional detailed table of the gross and net loan transactions.

Guarantee of private loans

Federal insurance or guarantee of private loans should continue to be reflected outside the budget totals, the Commission stated, since they initially represented neither Federal expenditures nor Federal borrowing.¹⁰ The Commission suggested that the aggregates of such guarantees be presented as a memorandum item in the overall financial plan.

The 1969 and 1970 budgets continued the past practice of excluding the guarantees, as recommended. They also presented the suggested memorandum line in table 1 on the amount of insured and guaranteed loans outstanding.

"Participation certificates" in loans

Several lending agencies had been getting money by selling certificates of participation in their loans, mostly through a pooled arrangement managed by the Federal National Mortgage Association (now by the Government National Mortgage Association). The amounts received were accounted for as proceeds from the sale of financial assets, and therefore, like other sales of assets, were counted toward the reduction of budget expenditures and deficits. The Commission (with three members dissenting) concluded that the sale of the certificates in loans which the Government continued to own had the characteristics of borrowing and, therefore, should be treated as a means of financing the deficit (or as an element in the disposition of the surplus) rather than as an offset to budget outlays and therefore a reduction in the deficit.¹¹

The certificates of interest which had been issued by the Commodity Credit Corporation are now also being treated as borrowing, like the participation certificates, beginning with the actual transactions of the fiscal year 1970.

Presentation of the means of financing

Consistent with its view of the budget as a part of a broad financial plan, the Commission recommended that there be an explicit presentation of the method of financing the budget deficit or disposing of the budget surplus.¹²

⁸ *Ibid.*, p. 8, major recommendation No. 6 and explanatory comment thereon.

⁹ However, the budgets used the shorter term "expenditure account" instead of the Commission's term "receipt-expenditure account."

¹⁰ *Report of the President's Commission on Budget Concepts*, p. 8, major recommendation No. 8.

¹¹ *Ibid.*, p. 8, major recommendation No. 9.

¹² *Ibid.*, p. 9, major recommendation No. 10.

The suggested form of presentation on the means of financing (upper portion of p. 89 of the Commission's report) was followed in table 9 of the 1969 and 1970 budgets.

Offsetting of proprietary receipts

Prior to the work of the Commission, the budget offset receipts (that is, deducted receipts from gross expenditures) and presented *net* expenditures in the case of public enterprise funds, intragovernmental revolving funds, and incidental reimbursements to appropriations. While agreeing that the budget should continue generally to net these receipts, the Commission concluded that the rule for offsetting should be based upon the nature of the transaction, rather than the nature of the fund. It recommended that those receipts of the Government other than taxes which were enterprise or market-oriented should be treated as offsets to the expenditures to which they were related.¹³ The Commission also suggested that the loan account should offset principal repayment and sales against loan disbursements.¹⁴

Both the 1969 and 1970 budget totals followed the recommendation of the Commission. Budget receipts were limited to those received from the exercise of sovereign or "governmental" powers. The loan account showed lending of each program on a net basis. For the expenditure account, the receipts from such sources as fees, payments for services, and sale of products and property were offset (by agency and by functional category) in presenting expenditures; the amounts of such "proprietary" receipts were set forth in a separate table of the budgets.

No capital budget

The Commission "strongly" recommended against a capital budget which would provide separate financing of capital or investment expenditures as distinguished from current or operating expenditures.¹⁵ Such a budget, the Commission said, would seriously distort the budget as a decisionmaking tool. Nevertheless, the Commission commended the continued publication and improvement of subordinate budget analyses that show capital items.

The 1969 and 1970 budgets have continued the previous practices of a "unitary" presentation, without calculating separate surpluses or showing separate financing plans for capital and current items. They have also continued the presentation of special analyses on the classification of capital, developmental, and current outlays (Special Analysis D), on the credit programs (Special Analysis E), and on public works activities (Special Analysis G for the 1969 budget and Special Analysis P for the 1970 budget).

RECOMMENDATIONS FOR LATER IMPLEMENTATION IN THE ANNUAL BUDGET

Accrual basis of stating budget totals

The Commission recommended that budget expenditures and receipts be reported on the accrual basis instead of the checks-issued and collections-received basis.¹⁶ The Commission said that such budget

¹³ *Ibid.*, p. 9, major recommendation No. 11.

¹⁴ *Ibid.*, pp. 5, 47.

¹⁵ *Ibid.*, p. 9, major recommendation No. 13.

¹⁶ *Ibid.*, pp. 7, 8, major recommendation No. 5.

totals would provide a better measure of the impact of Government activities on the economy. It defined the accrual basis of expenditures to take into consideration "constructive delivery" where there was performance to meet the Government's special requirements (as distinguished from basing accruals on physical delivery where items were bought "off-the-shelf"). It indicated the possible need for more study on the issue of accruing personal taxes, as distinguished from corporation taxes. The Commission recognized that the change to the accrual basis could not be effected immediately because of the need for changes in accounting, but expressed the view that it could be accomplished for the 1971 budget.

During the administration of President Johnson, the Bureau of the Budget announced plans for implementing this recommendation, as proposed by the Commission. Its Bulletin No. 68-10, issued April 26, 1968, set forth instructions to executive branch agencies. The Treasury Department issued instructions on June 20, 1968; and the General Accounting Office issued instructions on May 4, 1968, and July 22, 1968; each within its own sphere of responsibility.¹⁷ A trial of agency monthly reporting to Treasury on the accrual basis was instituted, starting with business for July 1968.

President Nixon, on February 22, 1969, reaffirmed the program for adoption of the accrual basis, but, in the light of practical difficulties, deferred the timing of the formal changeover to the 1972 budget.¹⁸ The Bureau of the Budget, in Supplement No. 1 to its Bulletin No. 68-10, issued July 1, 1969, modified its earlier instruction slightly, called for a new trial period, and set a revised timetable for the conversion. On August 12, 1969, the President reaffirmed this accrual accounting objective in his memorandum to all agencies on the Joint Financial Management Improvement Program.¹⁹ On April 13, 1970, the Bureau of the Budget issued an announcement which permitted agencies to report figures in the 1972 budget on a modified accrual basis. On September 15, 1970, the Director of the Office of Management and Budget rescinded the April 13 instructions and restored cash receipts and outlays as the measure of results for the 1972 budget. The objective of converting the budget to an accrual basis was reaffirmed, the current objective being the 1973 budget.

Identification of subsidies in loan programs

As a concomitant to the breakdown of total outlays between the loan account and the expenditure account, the Commission recommended separate identification of the subsidies involved in direct loan programs, such subsidies to be included in the expenditure account rather than the loan account.²⁰ The Commission proposed that the subsidy for the whole life of a loan be reported on a present-worth basis in the year or years in which the loan was made. The subsidy was interpreted to be the difference between the interest charged the

¹⁷ *Treasury Fiscal Requirements Manual for Guidance of Departments and Agencies, Transmittal No. 18, June 20, 1968; General Accounting Office Memorandum, May 4, 1968; and General Accounting Office Policy and Procedures Manual for Guidance of Federal Agencies, Transmittal Sheet No. 2-21, July 22, 1968.*

¹⁸ The President's memorandum was published subsequently as an attachment to a joint memorandum for the heads of executive departments and agencies, from the Director of the Bureau of the Budget, the Secretary of the Treasury, the Comptroller General of the United States, and the Chairman of the Council of Economic Advisers, Mar. 10, 1969.

¹⁹ *Weekly Compilation of Presidential Documents*, vol. 5, No. 33 (issue of Aug. 13, 1969), p. 1140.

²⁰ *Report of the President's Commission on Budget Concepts*, p. 8, major recommendation No. 7.

borrower and the Treasury borrowing costs, plus an allowance for losses on loans because Federal loans have a larger element of risk than Treasury borrowing. The Commission recognized that it might not be practicable to implement this recommendation at once (in the 1969 budget) but expressed the view that it might be possible for the 1970 budget.

The Bureau of the Budget reported that there had been exploratory meetings with representatives of lending agencies, but that further work on this recommendation had been deferred until the accounting changes required by the accrual basis recommendation had been completed. It pointed out that the burden of accomplishing two such major accounting changes simultaneously could be too great for the operating agencies to absorb.

RECOMMENDATION ON OTHER MATTERS OF BUDGET PRESENTATION

The Commission made one major recommendation which was not concerned with measuring budget totals or presenting the annual budget figures. It was that communication of budget information to the Congress and the public should be (1) more frequent, by providing within-year revisions of January estimates, (2) more detailed, in terms of breaking down aggregate budget figures into quarterly or semi-annual units, and (3) more comprehensive, by making estimates which extended further into the future.²¹

In keeping with the first part of this recommendation, the Bureau of the Budget shifted the time for issuing its annual review. Previously, a review was issued after congressional action on the budget; since the Commission's report, the review has been issued in the summer even though Congress was still in session. Also, after the presidential transition in 1969, there was issued an April 15 review setting forth the revised budget proposals of the new administration in the total budget complex; this was more complete than anything which had been done in the transitions of 1953 and 1961.

The Bureau of the Budget reported that its staff had worked informally with the staff of the Joint Committee on Reduction of Federal Expenditures in connection with the preparation of the committee's series of "budget scorekeeping reports," issued from time to time for the information of Congress.

No formal announcement has been made by the executive branch regarding other aspects of this recommendation. However, the Bureau of the Budget reported that consideration of the remainder of this proposal had been deferred until implementation of the pending recommendations on the annual budget was further advanced.

POSSIBLE LEGISLATION

The Commission did not include in its 13 major recommendations any proposals for legislation, nor did any of these recommendations require legislative action. The present budget laws are flexible on how to measure the budget results, except for requiring that aggregates of receipts and of expenditures be compared,²² and that the budget

²¹ *Ibid.*, p. 9, major recommendation No. 12.

²² 51 U.S.C. 13.

give information on "the condition of the Treasury"²³ and "the financial condition of the Government."²⁴

However, some portions of the Commission's report suggested legislation or implied the need for legislation, as discussed below.

Definition of debt subject to overall limitation

The Commission's recommendations for measuring the budget surplus or deficit on the comprehensive, unified basis led it to consider a new measure of the Federal debt. The Commission's concept of the debt comprised the sum of the public debt (issued by Treasury) and the securities issued by Federal agencies (whether or not guaranteed by the United States), less the portion of all such debt and securities held by Federal agencies; the result produced the concept of "Federal securities held by the public."²⁵ The Commission also proposed that outstanding notes of the International Monetary Fund and to international lending organizations not be treated as a part of the debt.

The Commission suggested that the executive branch might wish to ask that consideration be given by Congress to changes in the statutory debt limitation provisions that would make the debt subject to limit consistent with the Federal budget concepts it recommended.²⁶

The President in his message of February 24, 1969, to the Congress on the need for an increase in the debt limitation, recommended that the definition of debt subject to limit be changed as suggested in the Commission's report.²⁷

The House Ways and Means Committee in reporting a bill on March 10, 1969, to change the debt limit was silent with regard to the possibility of the suggested redefinition.²⁸ The House agreed to the committee's bill. The Senate Committee on Finance accepted the House version of the bill, and so did the Senate. The bill became Public Law 91-8, approved April 7, 1969, without the suggested change.

Agencies and programs covered by the budget

In making its recommendation for the budget to include "all programs of the Federal Government and its agencies," the Commission did not note that some exemptions from the executive budget process were now granted or inferred by statute.

The agencies and programs for which "annexed budgets" were submitted immediately prior to the Commission's study provided such budgets in a spirit of cooperation, though not specifically required by law to do so. The budget documents reported that their budgets "have not been reviewed by the President but are presented in the amounts submitted by the agencies."²⁹ A note to the same effect now appears with regard to those budgets which were moved from an annexed position into the main budget.³⁰

No legislative proposal has been submitted on this matter.

²³ 31 U.S.C. 11, clause 9.

²⁴ 31 U.S.C. 11, clause 11.

²⁵ *Report of the President's Commission on Budget Concepts*, pp. 59-61.

²⁶ *Ibid.*, pp. 61, 62. The congressional Members of the Commission stated that, while they had no objection to the suggestion, they would not want to be understood as subscribing to the thought of a change in the overall debt limit in advance of careful study by the appropriate committees of the Congress (footnote 1, p. 61 of the report).

²⁷ *Weekly Compilation of Presidential Documents*, vol. 5, No. 9 (Issue of Mar. 3, 1969), pp. 314-316. Also printed as H. Doc. 91-79. (91st Cong., 1st sess.).

²⁸ *H. Rept. 91-32*, to accompany H.R. 8508.

²⁹ *The Budget of the United States Government*, fiscal year 1968, appendix, p. 1294.

³⁰ *The Budget of the United States Government*, fiscal year 1970, appendix, p. 8.

Concept of trust fund appropriations

Appropriations are at present recorded and reported in the amounts which Congress has made available for obligation and disbursement. For most trust funds, the statutes appropriate for each year an indefinite amount equal to the receipts. The Commission's report implied that the Commission would strongly endorse legislation, if it was required, to define indefinite trust fund appropriations on the basis of obligations to be incurred rather than as revenues, as they now are defined.³¹

The Bureau of the Budget reported that it understood the proposal to be one that would not change the availability of money in the trust funds, but merely the definition of the measure to be presented in the annual budget. Because many of the statutes pertaining to individual funds state explicitly that the revenues are appropriated when received, the change would apparently require legislation if it is to be accomplished. However, such a change would give two inconsistent meanings to the word "appropriations"—for trust funds, it would mean how much money is expected to be used, while for other funds, it would mean how much could be used.

No legislative proposal has been submitted on this matter.

OTHER CHANGES RELATED TO THE COMMISSION'S REPORT

Terminology

The creation of the loan account within the budget totals resulted in the Commission's use of the phrase "expenditures and net lending" (referring to the expenditure account and the loan account, respectively). The budgets for 1969 and 1970 adopted the shorter term "budget outlay" (the sum of expenditures and of net lending) for the same measure.

The splitting of transactions between the expenditure account and the loan account also created a need for additional terminology relating to authority to obligate and/or make outlays. The last two budgets have applied the old term "new obligational authority" only to the expenditure account, used the new term "loan authority" in a parallel sense for the loan account, and adopted the term "budget authority" to mean the sum of the two.³²

Obligation aggregates monthly

The Commission expressed a need for better information on the aggregate volume of obligations entered into and was encouraged to note that arrangements had been made by the Treasury Department and the Bureau of the Budget for publication of such data monthly.³³

Information on obligations incurred began appearing in the Treasury Bulletin in the issue of September 1967 and has been printed monthly since that time.

³¹ Report of the President's Commission on Budget Concepts, pp. 26, 27.

³² The Commission suggested the use of the word "appropriations" in the meaning now ascribed to the phrase "budget authority" (pp. 15, 16 of the report). It did not suggest any terminology to distinguish authority for the loan account from authority for the expenditure account. Nor did it suggest any substitute for the traditional meaning of appropriations as distinguished from other forms of budget authority (contract authority authorizations to spend debt receipts, reappropriations, etc.).

³³ Report of the President's Commission on Budget Concepts, p. 38.

Exclusion of District of Columbia Government

The Commission proposed that local receipts and expenditures of the District of Columbia Government be excluded from the Federal budget.³⁴ This was done in both the 1969 and 1970 budgets. The budget for the District of Columbia now appears in a separate volume.

Review of deposit funds

Deposit funds have been established in the Treasury to account for moneys held in suspense pending a determination of their disposition, and for moneys which the Government is handling as an agent for others (for example, taxes withheld from Government employees for State or municipal taxing authorities). In theory, there is a liability at all times to someone for the whole balance of each deposit fund. The Commission therefore removed deposit funds from its budget totals, consistent with its recommendations for stating budget revenues and expenditures on an accrual basis. Recognizing that practices might not coincide with theory, the Commission also recommended a joint Treasury-Bureau of the Budget review of deposit funds.³⁵

The Bureau of the Budget reported that a tentative disposition of deposit funds was worked out quickly after the Commission reported, in time for use in the 1969 budget; it generally reclassified as trust revolving funds those deposit funds which had previously been used for the "annexed budget" enterprises which were brought into the new budget totals. The remainder of the deposit funds were excluded from the 1969 budget totals.

It was also reported that the study of deposit funds had been proceeding. Some reclassifications, both into and out of the deposit fund category, had already occurred and were reflected in the 1970 and 1971 budgets.

THE PLANNING-PROGRAMMING-BUDGETING SYSTEM (PPBS)

In August 1965 the President notified the heads of all Federal departments and agencies that a Planning-Programming-Budgeting System was being introduced in the Federal Government. This system is commonly referred to as the PPB system.

DEPARTMENT OF DEFENSE INNOVATIONS

Since the establishment of the Department of Defense in 1947, several different schemes have been used to classify its budget amounts. Until 1949 the Department presented a budget for each of the three separate services. In 1949 "performance budget" classifications were made a requirement for all the military services.

In 1961 a highly significant change was made in the Department of Defense budget system. In effect, the change resulted in presentation of the Department's budget on a program basis. For example, for fiscal year 1971, the Department's budget for operation and maintenance was classified in the following program categories:

- Strategic forces.
- General purpose forces.

³⁴ *Ibid.*, pp. 25, 30.

³⁵ *Ibid.*, pp. 31, 32.

Intelligence and communications.
 Airlift and sealift.
 Guard and reserve forces.
 Research and development.
 Central supply and maintenance.
 Training, medical, and other general personnel activities.
 Administration and associated activities.
 Support of other nations.

Department of Defense resources are and have been since 1961 summarized and reviewed for planning purposes in terms of major programs that cut across the three military services. However, for appropriation purposes, the Congress still acts in terms of organizational entities and categories of expenditure (such as military personnel, operations and maintenance, procurement, etc.).

HISTORY OF PPBS FROM 1965

While the Department of Defense had not called its system PPB, the major characteristics of the system established in 1965 are the same. For example, classification of budget amounts, which is an important part of the PPB system, is designed to cut across organizational lines as appropriate and is oriented to programs and objectives rather than to the usual object classes.

The PPB system introduced in 1965 required that agencies:

1. Establish long-range planning for goals and objectives.
2. Analyze systematically and present for agency head and for presidential review and decision possible alternative objectives and alternative programs to meet these objectives.
3. Evaluate thoroughly and compare the benefits and costs of programs.
4. Present the prospective costs and accomplishments of programs on a multiyear basis.

The initial instructions concerning PPB from the Bureau of the Budget to executive agencies were in Bureau of the Budget Bulletin No. 66-3, dated October 12, 1965. This bulletin required the following agencies to adopt the PPB system:

Departments

Department of Agriculture.
 Department of Commerce.
 Department of Defense (Including Corps of Engineers).
 Department of Health, Education, and Welfare.
 Department of Housing and Urban Development.
 Department of the Interior.
 Department of Justice.
 Department of Labor.
 Post Office Department.
 Department of State.
 Treasury Department.

Independent Agencies

Agency for International Development.
 Atomic Energy Commission.
 Central Intelligence Agency.

Federal Aviation Agency (later became part of the Department of Transportation which was also required to adopt the PPB system; the Department of Transportation was included in our survey).

General Services Administration.

National Aeronautics and Space Administration.

National Science Foundation.

Office of Economic Opportunity.

Peace Corps.

U.S. Information Agency.

Veterans' Administration.

Bulletin No. 66-3 also encouraged 17 other, mostly smaller, agencies to adopt the PPB system.

Each agency was required to develop a series of output-oriented categories, commonly referred to as program structures, which covered operations of the agency and to develop (1) a comprehensive multi-year program and financial plan and (2) analyses, including program memoranda and special studies. The program structures of agencies are discussed in more detail in a subsequent section of this report.

The multiyear program and financial plan, as approved or modified by the agency head in conformity with guidance received from the Bureau of the Budget and the President, was to form the basis for the agency's annual budget requests. Bulletin No. 66-3 also called for a program memorandum to be prepared annually on each of the agency's program categories. Each memorandum was to discuss for several years into the future the program's objectives, effectiveness, costs, alternatives, and uncertainties. In effect, a program memorandum was to be a document which summarized the program and financial plan approved by the agency head for a program category and which contained a succinct evaluation and justification for the program. Special studies, which might involve either an intensive examination of a narrow subject or a broad review of a wide field, were to be *ad hoc* studies prepared in response to either Bureau of the Budget or agency management requests.

The Bureau issued revised PPB guidelines on July 18, 1967, in the form of Bulletin No. 68-2. A principal change was to require that the multiyear program and financial plan prepared by each agency would show the future implications of past and present decisions; it was not to reflect the effect of possible future decisions. Unlike the program and financial plan, the program memorandum document was to continue to outline the strategy for an agency's plans and programs for future years.

More recent instructions from the Bureau of the Budget to the executive agencies were contained in Bulletin No. 68-9 dated April 12, 1968. As far as agency coverage was concerned, the effect of Bulletin No. 68-9 was to delete the earlier requirement that several small agencies either implement the PPB system or develop and integrate the system with their budgeting.

Bulletin No. 68-9, like the predecessor Bulletin No. 68-2, provided that the program and financial plan (PFP) was to be a comprehensive multiyear summary of all agency programs in terms of their outputs, costs, and financing needs over a planning period covering the budget year and at least 4 future years.

Bulletin No. 68-9 did not require agencies to prepare a program memorandum (PM) for each of their program categories. Instead, a PM was required only where the agency had a major program issue, which was defined as a question requiring decision in the current budget cycle, with major implications in terms of either present or future costs, the direction of a program or group of programs, or a policy choice. A PM was to be oriented to major program issues and thus might cover all or only part of a program category or cut across several program categories. Where a program category was not involved in a major program issue, the category would not be covered by a PM. Bulletin No. 68-9 further provided that the PM should (1) integrate the objectives of the agency program with specific decisions made on program issues for the budget year, (2) show why particular choices had been made, and (3) compare alternative programs in terms of their costs and who paid them, and their benefits and the group benefited.

Under Bulletin No. 68-9 each agency received from the Bureau an issue letter identifying the major program issues for analysis in special studies and for coverage in PM's for the upcoming budget cycle. Final versions of each PM were to be submitted on September 30 with the agency's budget submission. The final PM's were supposed to indicate the recommendation of the agency head on all identified major program issues.

AGENCY PROGRAM STRUCTURES

Development of a program structure is prerequisite to implementation of the PPB system in any agency, and the development of a Government-wide PPB structure is believed by some observers to be prerequisite to the realization of the full utility of PPB. GAO found that 20 of 21 agencies included in its 1969 survey of the PPB system and directed by the Bureau of the Budget to adopt a PPB system had succeeded in developing a program structure of some description. There were differences among these structures, and during the survey it became evident to GAO that there were obstacles to the creation of a Government-wide structure.³⁶

The PPB system is intended to enable Government managers to focus their attention on major resource allocation problems. The purpose of a program structure is to provide the framework for such allocation, and the structure establishes the basic classification scheme for marshaling of information required in analysis for program decisions. It follows that a program structure should highlight the Government's fundamental objectives and the competing and complementary programs involved in carrying out such objectives. For example, the program structure of the Department of Agriculture includes the program category "Communities of Tomorrow" and the Department of Housing and Urban Development has a program category entitled "Decent Housing." Both of these categories focus on objectives. The fundamental standard of highlighting objectives is discussed throughout the literature on PPB and in the guidance of

³⁶ Comptroller General's Report to the Congress, *Survey of Progress in Implementing the Planning-Programming-Budgeting System in Executive Agencies* (B-115398), July 29, 1969, p. 1.

the Bureau of the Budget to the agencies developing program structures after October 1965.

All other considerations in the creation of a program structure derive from the fundamental purpose of the structure, as stated above. It can be said, for example, that all functions and activities of an agency should be encompassed by the program structure regardless of the organizational placement, a clear necessity if the resource allocation purpose is to be achieved. Beyond such elementary guidance, however, there is latitude for considerable disagreement as to what might be appropriate standards for an agency's program structure.

The Bureau of the Budget, while providing such elementary guidance, left to the various Federal agencies the basic discretion as to how their respective program structures would be developed. The initial instructions (Oct. 12, 1965) of the Bureau to the agencies on their program structures were limited to such considerations as the following:

1. The program structure should be output-oriented and should present data on all the operations and activities of the agency in categories which reflect the agency's end purpose or objectives.
2. It might be desirable to have the basic program categories cut across bureau lines to facilitate comparisons and suggest possible trade-offs among elements which were close substitutes. It was desirable to develop program formats which facilitated comparisons across agency lines.
3. To facilitate top level review the number of program categories should be limited. For example, a cabinet department should normally have fewer than 15 program categories. Agencies were advised by the Bureau in April 1968 that an agency generally should have between five and 10 categories.
4. Program categories and subcategories should not be restricted by the present appropriation pattern or budget activity structure.

As goals, objectives, and priorities of agencies shift with time and circumstances, it may be necessary that PPB program structures reflect these changes and adapt to them as required if the structures are to be an aid to making resource allocation decisions.

STAFFING AND MANPOWER FOR PPBS

The formal system developed for PPBS was based on several premises. First, PPBS would be tied into the budget cycle, partly because this was the only recurring administrative process through which almost all major decisions must pass and partly because it was the Government's formal resource allocation process and decision forcing mechanism. Second, the Bureau of the Budget considered the major responsibility for developing PPBS would belong to the agencies. Bureau officials considered it obvious that no improvement in the decision process or increase in the quality of information and analysis brought to bear on major issues could be made unless agency decision-makers were interested in improvement. As a result all but 12 of the initial staff increases needed to implement the Government-wide PPB system went to the agencies, not to the Bureau of the Budget. For research in support of PPBS, reliance was placed on agency funds and capabilities.

In its survey of the PPB system, GAO reported on the staffing (full-time and part-time, excluding the Bureau of the Budget) required to implement the system. In 21 agencies in May and June 1968 a total of 1,594 employees, excluding secretarial and clerical employees, were working full-time on PPB matters, and 2,135 part-time employees, equivalent to 880 full-time employees, also had responsibilities for PPB matters.³⁷

Not all the PPB-related staffs caused net increases in agency staff; many staff members were reassigned from similar and other responsibilities in the agencies. Staff increases in 1966-68, both professional and support personnel, were 997, and 148 were added in 1968-69.

THE USE OF DISCOUNTING IN SYSTEMS ANALYSIS

Appropriate planning and evaluation of alternative programs call for an assessment of the present value of costs and benefits which will be incurred and received in the future. The method used to compute these present values is termed "discounting." By reducing to present values alternative courses of actions which have different timings as to costs and benefits, a decisionmaker is facilitated in making more valid comparisons of economic value.

The rationale of discounting is based upon the simple fact that resources are productive over time. If one invests \$100 in a productive enterprise now, it will be worth (at a 10-percent rate of return) \$110 in 1 year, \$121 in 2 years, etc. Because productive investments are available in the society generally, it follows that any investor—private or public—must take account of the opportunities foregone in not making alternative investments. Thus, the present value of \$110 to be received in 1 year is only \$100. Phrased another way, one would pay no more than \$100 for the right to receive \$110 a year hence because of the availability of alternative investments that would yield this much.

Similarly, the present value of a cost to be incurred in the future is less than the face value of the cost. A lesser amount, invested at the present time, will yield enough over time to pay the full cost at the time it is due.

In the past, assessments of Government programs have often tended to ignore the importance of the timing of costs and benefits. Costs not presently due have been treated as if they were immediate and benefits which would not accrue for years or even decades have been appraised at full future value. This has been a serious defect in the analysis of some Government investments.

The GAO in a January 1968 report to the Joint Economic Committee of the Congress pointed up the divergent discounting practices of Federal agencies.³⁸

In evaluating their fiscal 1969 program, 10 of the 23 agencies queried reported that discounting was used in making decisions; eight agencies had not used discounting but planned to do so in the future; and five agencies had no plans for using discounting.³⁹ The agencies that did use the discounting technique used rates which varied over an extremely

³⁷ *Ibid.*, p. 47.

³⁸ Comptroller General's report to Joint Economic Committee of the Congress of the United States, *Survey of Use by Federal Agencies of the Discounting Techniques in Evaluating Future Programs* (B-162719), Jan. 29, 1968, p. 30.

³⁹ *Ibid.*, p. 10.

wide range—from about 3 percent to 12 percent per annum, reflecting an absence of common understanding of what the rate was supposed to represent.⁴⁰

In hearings conducted by the Subcommittee on Economy in Government of the Joint Economic Committee in January, July, and August 1968 the inconsistencies and variations between agencies in the use of the discounting were matters of great concern. Again in hearings before the Joint Economic Committee in May 1969 several economists pointed up the disparity between discount rates used in the private sector of the economy and those used by Federal agencies.

As a result of the inconsistencies in discounting pointed out during the congressional hearings on the discounting technique, the Bureau of the Budget issued Circular No. A-94, June 26, 1969. The circular prescribed standard discount rates and procedures to be used in evaluating the measurable costs, benefits, or outputs of programs when these accrued over time and could be estimated. The rates and procedures prescribed applied to (1) all programs or projects whose adoption was expected to commit the Government to a series of measurable costs extending over 3 or more years and (2) all programs or projects resulting in a series of measurable benefits or outputs that extended 3 or more years beyond the inception date.

The key provisions of the circular stipulated:

1. The prescribed rates and procedures were to be included in the internal planning documents of the executive branch agencies and in the program analyses to the Bureau of the Budget in support of legislative and budgetary program proposals.
2. The circular did not supersede agency practices prescribed by or pursuant to law, Presidential directive, or BOB Circular No. A-76, revised, August 30, 1967, "Policies for acquiring commercial or industrial products and services for Government use."
3. The discount rate to be used was to be no lower than the rate, related to the current yield on Government bonds, which was established by the Water Resources Council. (The formula used to compute this rate was defined in the *Federal Register*, vol. 33, p. 19170, Dec. 24, 1968.)
4. The Bureau of the Budget would request that specific higher rates be used for some particular projects or program evaluation efforts.
5. For fiscal year 1970, the discount rate established by the Water Resources Council was $4\frac{7}{8}$ percent.

One of the most difficult problems of discounting is the treatment of uncertainty and risk. The BOB circular handled two aspects of this problem in the following manner: (1) The "most likely" estimates of expected yearly costs and benefits were to be supplemented with minimum and maximum estimates and the present value determined for each of these estimates and (2) uncertainty and risk should be provided as explicitly as possible in the alternative calculations of expected yearly benefits and costs and should not be compensated for in the discount rate itself.

⁴⁰ *Ibid.*, appendix 1, pp. 1, 2.

PROBLEMS IN IMPLEMENTING PPBS

The PPBS idea was implemented in the civil agencies of the Government at an exceptionally fast rate considering the objective of the system and the state of agency information systems in general. Consequently, some of the basic problems in effectively establishing and using PPB systems may have been obscured in the fanfare of expectations and the accompanying accelerated pace of installing the systems. In a paper prepared for the Subcommittee on Economy in Government of the Joint Economic Committee, Jack W. Carlson, an Assistant Director in the Bureau of the Budget, pointed out a series of basic problems, the essence of which is presented below.⁴¹

1. The resources available to the Government were seldom equal to the demands for their use. Since most demands for Federal funds had some merit the President and his subordinates should have useful techniques and methods for determining the most effective allocation and use of public funds.
2. Past legal and moral commitments placed heavy dollar constraints on the Federal budget for any given year, e.g., multi-year procurements, income maintenance payments, welfare payments, veterans benefits, interest on national debt, etc. Consequently, two factors required the careful attention of all key officials participating in the budgetary process: (a) The small uncommitted portion of each annual budget should be managed through deliberate policy choice and (b) policymakers should recognize the impact on future expenditures of each present decision.
3. In an organization as large and complex as the Federal Government, workable program measurement techniques were not easy to achieve. Nonetheless some basic output measures needed to be developed and incentives needed to be given to decision-makers at every level to work these techniques into their program planning and program evaluation decisions.
4. There were some programs in Government for which it was doubtful that expected benefits would ever equal or exceed expected costs. However, the political and moral claims on the Government precluded other than careful consideration of the programs. Notwithstanding, Government decisionmakers still needed to identify these programs and choose the least costly alternatives for meeting the objectives of the programs.
5. Traditionally, program managers have not been held to strict performance accountability once money had been committed to a budget program. Although selective overview and evaluation of program performance were accomplished periodically by the Bureau of the Budget, the Congress, and the GAO, there was a need for development and use by agencies on a day-to-day basis of time-cost-performance measures.

⁴¹ Jack W. Carlson, "The Status and Next Steps for Planning, Programming, and Budgeting" in *The Analysis and Evaluation of Public Expenditures: The PPB System*, Joint Economic Committee Print, U.S. Government Printing Office, Washington, D.C., 1969, p. 445.

IMPROVEMENTS AND POTENTIAL

Some of the critiques of PPBS have tended to paint a pessimistic picture of progress. However, viewed from the standpoint of improvements in the budgetary process over the pre-PPB situation, there are distinct benefits in several areas.⁴²

1. Many agencies have undergone at least a reappraisal of their functions and missions, with the result that there has been a general increase in the understanding of programs and in the awareness of possible alternatives and limitations that would not otherwise have occurred.
2. More solid information has been developed by agencies on program inputs and outputs, related to agency objectives, than heretofore.
3. Decisionmakers have increasingly used the results of systems analyses and studies in resolving major policy issue.
4. Considerable progress has been made by agencies in the amount and entries of program evaluation. As the review and evaluation of programs become routine parts of program administration, progress in this area will be even faster.
5. Because of the need to tie broad program decisions into specific resource allocations, implementing the PPB process has resulted in increasing involvement of top officials over the whole span of agency planning, budgeting, and performance.
6. There has been a significant increase in recognition, both within and outside the Government, of the value of systematic analysis in providing Government officials with a better understanding of the outputs, benefits, and costs of the various courses of programs or actions available to them.
7. PPB has permitted better display of related programs in several agencies. For example, 24 manpower programs found in six agencies, 21 education programs found in five agencies, and the 16 health programs found in three agencies could be reviewed with related programs regardless of agency identification.
8. The Federal experience has encouraged officials at the State and local level to start designing planning and programming complements to their budgetary processes. Since many of the Federal programs depend heavily on State and local action for effective program accomplishment the PPBS development below the Federal level is very important.

In attempting to assess the potential of PPBS, it is well to reiterate some of the caveats and admonitions of the Subcommittee on Economy in Government of the Joint Economic Committee.⁴³

Caveats

1. Measurements of benefits and costs are significantly more difficult in circumstances where marketplace prices or values or equivalents are not available. For example, in assessing the cost-benefit relationship of a proposed dam, it is much more

⁴² *Ibid.*, pp. 625-628.

⁴³ The Planning-Programming-Budgeting System: Progress and Potentials, provided for the Joint Economic Committee, U.S. Government Printing Office, Washington, D.C., 1967, pp. 9-11.

difficult to measure the incidental effects such as long-term population movement and esthetic improvement than it is to measure benefits and costs in terms of water supply and power supply.

2. The role of PPBS in the basic decision process will always be something less than certain. Public policy questions by their very nature are frequently resolved with unequal impact upon the people; i.e., a public policy decision may increase the burdens of one group and raise the benefits of another or may cause resources to be transferred from one region of the country to another. Although PPBS can provide decisionmakers with data for forming more rational and cohesive judgments, there are many social problems for which quantitative analysis will furnish little assistance.
3. PPBS has not been and does not appear to be of much help in deciding on the ultimate goals of public policy or in dealing with the optimum balance among various programs. For example, the technique has not been developed to the point where it can furnish the basis for legislators or administrators to decide how much the nation should spend on education versus housing versus employment, etc.; or whether within the broad objectives of urban affairs, decentralization of cities should be a major emphasis or not. The foregoing examples merely point up what is fairly obvious to political scientists, namely, the choice of ultimate social goals and the balancing of programs within stated objectives are basically political decisions arrived at through political processes of open discussion and negotiation. Given a set of stated goals or objectives, cost-benefits and other systematic analyses can provide decisionmakers with the basis for deciding which alternative would be the most effective means of achieving the stated goals or objectives.

Admonitions

1. Although quantitative evaluation of many Federal programs directed at social programs is difficult, the priority as well as economy of these programs must be weighed by careful consideration of their relative costs.
2. The scope, character, and flexibility of Federal programs should provide for as rapid an adjustment as possible in these programs to reflect changing economic growth objectives and changing social objectives. Also, the scope and character of Federal spending programs should reflect, wherever possible, the comparative economic advantages of various levels and combinations of participation by the Federal, State, and local governments and of private enterprise in achieving program objectives.
3. Federal budget decisions should be based upon the consideration of long-range benefits and costs of prospective programs. Probably, as a minimum, the budget for each year should be presented and reviewed in the context of benefit/cost projections for a 5-year period, and regular periodic revisions of budgetary estimates should be provided on at least a quarterly basis.

THE JOINT FINANCIAL MANAGEMENT IMPROVEMENT PROGRAM

INTRODUCTION

The Joint Financial Management Improvement Program (JFMIP) began in 1948 as a result of the combined efforts of the staff of the Senate Committee on Government Operations, the Comptroller General, the Secretary of the Treasury, and the Director of the Bureau of the Budget to seek improved means of carrying out the interrelated activities and responsibilities of the three central agencies and to coordinate better these efforts with the financial management activities of the operating agencies. At the request of the other members, the chairman of the Civil Service Commission joined the program in 1966 to assist in the personnel aspects of financial management. The principles and objectives of the program were embodied in the Budget and Accounting Procedures of Act of 1950.

There has been continuous interest at the highest legislative and executive levels in the joint program since its inception. Exemplary of attention at the Presidential level, President Johnson, on May 24, 1966, addressed a memorandum to heads of departments and agencies expressing his strong and continuing interest in the development of business-like financial systems. He requested that immediate action be taken by the head of each executive department and agency to:

- Insure that the system of accounting and internal control in his agency met management needs and conformed to the principles, standards, and related requirements prescribed by the Comptroller General.
- Work with the Civil Service Commission in developing a more vigorous program for recruiting and developing the professional personnel to design and operate effective financial management systems.
- Assure that financial reports and cost data provided adequate support for the planning-programming-budgeting system.
- See that the agency's managers were given the basic tools they needed—responsibility-centered cost-based operating budgets and financial reports—for setting and achieving maximum cost reduction goals.

President Nixon, in recognition of the need for improving the decisionmaking processes of the Federal Government and the need for making more effective the federal system for delivering program services, issued on August 12, 1969, a memorandum which gave full support to the Joint Financial Management Improvement Program. Among other things, the President's memorandum directed the head of each department and agency to cooperate with the Joint Financial Management Improvement Program “. . . to make the development of effective financial systems a high priority in strengthening administrative practices.”

In Congress, the House of Representatives Committee on Government Operations has been interested in the progress being made in financial management improvements in the Federal agencies since enactment of the Budget and Accounting Procedures Act of 1950. The committee held hearings in 1964, 1966, and 1967 on the slowness of progress by agencies in improving accounting systems. The committee issued formal reports on these hearings, which strongly urged

constructive and prompt action by the respective operating agencies and more aggressive attention to this area of financial management by the central agencies which directed the joint program.

Although changing concepts and techniques of financial management continuously pose problems, the joint program's overall goal has remained essentially the same over the years; i.e., to promote the improvement of financial management practices throughout the Federal Government in a way to best serve the needs of the Congress and the executive branch. Specifically that goal, in turn, can be broadly summarized to include the following objectives:⁴⁴

1. Strengthening of agency organization and staff facilities to provide for the most effective conduct of agency financial management operations.
2. Establishment of responsibility-oriented agency accounting systems on an accrual basis that would serve fund and cost control needs and include monetary property accounting as an integral part of the systems.
3. Integration of planning, programming, and budgeting practices with the accounts to provide adequate support for budget formulation and review of annual cost-based appropriation requests.
4. Development and use of responsibility-centered cost-based operating budgets and financial reports that would provide goal setting and cost incentives for agency managers in terms of the cost of all resources going into the job.
5. Simplification of agency appropriation and allotment structures and development of the most effective methods of control of appropriations, funds, obligations, expenditures, and costs.
6. Use of consistent classifications to bring about effective coordination of agency programming, budgeting, accounting, and reporting practices.
7. Establishment of suitable internal control practices, including internal audit, in the agencies.
8. Effective integration of agency accounting and reporting in management information and control systems that would satisfy the requirements of the budget process, internal management needs, and the central accounting and reporting of the Treasury Department.
9. Development of accurate and useful agency and Government-wide reports on fiscal status, financial results of operations, and cost of agency performance of assigned functions.
10. Education of personnel in effective maintenance and maximum utilization of these management tools to effect economy Government operations.

Leadership of the joint program is provided by the Comptroller General of the United States, the Secretary of the Treasury, the Director of the Bureau of the Budget, and the Chairman of the Civil Service Commission. Coordination of Government-wide projects and financial management improvements in the operating agencies is achieved through a steering committee composed of a representative of each of the above-listed central agencies. In addition each operating

⁴⁴ *The Joint Financial Management Improvement Program, loc. cit.*, pp. 5, 6.

agency designates a representative to act as liaison with the steering committee.

The effects of joint program efforts over the years have filtered through many of the governmentwide as well as individual agency improvements. Some of the improvements are specifically identifiable with projects or studies initiated or directed under the aegis of the joint program. A few of the programs and projects sponsored during the period 1961-70 are discussed below to illustrate in a concrete way goals and achievements directly attributable to joint program initiative.

STATISTICAL SAMPLING IN VOUCHER EXAMINATION

A joint program team, comprised of representatives from the Bureau of the Budget, the General Accounting Office, and the Treasury Department, was set up in 1963 to develop support for legislation that would permit agencies to use statistical sampling techniques in the examination of vouchers. This action was taken after the Departments of Agriculture and Health, Education, and Welfare had made detailed studies which indicated a potential for substantial economy if the technique was applied governmentwide. (See p. 30.)

The joint program team drafted and submitted to Congress a proposal for legislation. The proposal was amended and reported favorably to the Congress by the House Government Operations Committee. Subsequently the proposal was enacted as Public Law 88-521, August 30, 1964. As enacted, the legislation authorized agencies to use statistical sampling techniques in connection with vouchers for less than \$100. Pursuant to requirements of the statute, the General Accounting Office issued in February 1965 principles and standards for the guidance of agencies using statistical sampling techniques. Most agencies now use statistical sampling on a regular basis in examination of disbursement vouchers for less than \$100.

MODERNIZATION OF CENTRAL REPORTING

In 1961 a team comprised of representatives from the central fiscal agencies completed a study of governmentwide financial reports. The team inventoried existing reports, identified the users and their needs, and developed recommendations for a coordinated system that would adequately serve the users' interests. This study resulted in issuance by the Treasury Department in May 1963 of its Circular No. 1073 which established a new monthly report of obligations in the agencies, classified by object of expenditure. Such governmentwide data were determined to be necessary for more effective analysis of the economic impact of Government operations on the private economy.

THE LETTER-OF-CREDIT METHOD OF FINANCING

Late in fiscal year 1963, a joint program team comprised of representatives from the Treasury Department, the Bureau of the Budget, and the General Accounting Office started a study of practices of operating agencies in releasing cash to recipients of Federal grants and contributions. The study was initiated because preliminary investiga-

tions showed that some States and international agencies participating in grant and contribution programs were building up cash balances under existing Federal disbursement practices. These idle funds were being invested by the recipients resulting in a situation where the recipients were benefiting from investment earnings while the Federal Government, because of the accelerated advancement of funds, had to increase its borrowing and hence increase interest costs. Also, in the case of advance to foreign recipients, the premature withdrawals had an unfavorable effect on U.S. balance of payments.

The joint program study resulted in the development of a letter-of-credit procedure under which funds to finance programs carried out by States, local governments, and other institutions would be advanced to them only as required for program purposes. In May 1964, the Treasury Department issued its Circular No. 1075 which provided instructions for use of letters of credit. As general policy, the circular stated that advances to grantees and other recipients, prior to performance, should be limited to the minimum amounts possible and, normally, should be timed to be in accord with the actual cash requirements of the recipients in carrying out the purpose of approved programs or projects.

During 1969, a joint program study team, under the chairmanship of a representative of the Treasury Department and staffed by representatives from the Department of Health, Education, and Welfare; the Bureau of the Budget; and the General Accounting Office completed a comprehensive review of the methods used by Federal agencies in making cash advances, especially by use of letters of credit.

The study team found that at least 16 States had excessive Federal fund balances because of State laws or regulations interpreted to require that funds be on deposit in the State treasury before obligations under Federal programs can be incurred. The study team also pointed out the need for improvement by Federal agencies of administration of letters of credit.

Responding to the study team's recommendations, the Treasury Department revised its Circular 1075 which originally established the letter-of-credit method of financing. Implementing regulations issued in the Treasury Fiscal Requirements Manual provided that (1) a letter of credit would be irrevocable (the equivalent of cash available to the recipient organization) to the extent that funds had been obligated in good faith in executing an authorized Federal program (this should alleviate the problem with the States requiring funds on deposit in their treasuries before obligations could be incurred), (2) the use of letters of credit required that the recipient organization commit itself, in basic agreements for advance financing, to requesting cash draw-downs at approximately the same time as checks were issued to cover program liabilities and to timely reporting required by the program agency (failure to meet these commitments would result in revocation of the unobligated portion of the letter of credit), (3) where mutually determined by the Treasury and the program agency, a recipient organization might be asked to authorize its commercial bank to draw on a letter of credit in its behalf when checks issued by the recipient organization were presented to the bank for payment, (4) advances by primary recipients to secondary recipients would conform substantially to the standards of timing and amount imposed on Federal

agencies which advanced funds to primary recipient organizations, (5) each program agency should furnish the Treasury reports showing cash balances in the hands of recipients at each June 30 and December 31, and (6) Treasury checks might be used for making large advances only when cash benefits to the Treasury equaled those which could be achieved by use of letters of credit.

SURVEY OF FINANCIAL ADMINISTRATION OF FEDERAL GRANTS-IN-AID TO
STATE AND LOCAL GOVERNMENTS

In May 1968, the joint program started a study of the financial administration of Federal grants-in-aid to State and local governments under the chairmanship of the General Accounting Office and staffed by representatives of the Departments of Health, Education, and Welfare; Housing and Urban Development; Labor; Transportation; and the Treasury; the Bureau of the Budget; and the Office of Economic Opportunity.

The objectives of the study were to (1) identify problems of financial management and related grant administration on the basis of discussions with Federal, State, county, and city officials and (2) develop recommendations which would lead to simplification and improvement in the financial management of grant programs.

The survey team visited or contacted organization officials in 55 Federal, State, and local government entities. Approximately 600 officials were interviewed during the study. The report of the survey, completed in October 1969, set forth principal conclusions and recommendations as follows:

1. *Program and fund authorization.*—There was a need for Federal agencies to establish a central source of information about grants; to expedite the review, approval, and funding of grant applications; and to furnish prospective grantees with technical and other assistance for securing grants where there was demonstrable evidence of need for such assistance.

2. *Scheduling and controlling grant performance.*—Federal agencies needed to insure, to the maximum extent feasible, that (a) continuing funding would be provided to cover grantees' basic financial commitments, (b) major modifications of or curtailments in approved grant programs would be discussed with grantees prior to grantor action, (c) uniform and simplified guides would be disseminated by grantors in respect to instructions for program performance and evaluation of grantee systems of management and internal control, and (d) authority to make decision regarding grant performance would be placed as near to the scene of performance as practical.

3. *Accounting and reporting.*—Federal agencies needed to (a) develop a reporting format which was standardized to cover basic financial data common to most grant operations but which could be modified or expanded as necessary to cover unique or special grant activities or programs, (b) give increased attention and assistance to improving the timeliness of grantee reporting, and (c) develop a single agency cognizance for determining a grantee's acceptable administrative overhead and the related overhead rate.

4. *Auditing.*—There was a need for Federal agencies to (a) better identify the potential audit workload and fix the single agency cognizance for audit at a grantee site, (b) establish better guides for the review and evaluation of grantees' management and internal control systems, including internal auditing, and (c) improve the timeliness of issue of audit reports and management action on audit recommendations.

5. *Personnel management.*—There was need for major grantor agencies, in coordination with the U.S. Civil Service Commission, to (a) help grantees establish acceptable merit systems and (b) increase the reimbursable training and personnel development assistance now being furnished to grantees.

Copies of the report, which should provide significant guidance to the grant administration improvement and simplification efforts of the executive branch, were furnished to major grant agencies, interested congressional committees, and public interest groups.

STUDY OF TRANSPORTATION IN CIVIL AGENCIES

A study team, under the chairmanship of the General Services Administration and staffed with representatives of the Departments of the Treasury; Health, Education, and Welfare; Commerce; and Agriculture; the Bureau of the Budget; the General Services Administration; and the General Accounting Office, completed in December 1969 a review of transportation procurement and related financial administration by civil agencies. The team made about 140 visits and received 232 questionnaire responses from civil agencies, the Department of Defense, and transportation carriers.

The objectives of the study were to develop (1) improved methods for expediting payment audit and settlement of carrier bills covering civil agency transportation, (2) improved procurement and payment practices and documents relating to freight shipments, and (3) improved procurement and payment practices relating to passenger transportation.

On the basis of its review, the study team in its report to the steering committee made major recommendations pertaining to (1) the undesirability of a central billing point for civil agencies, (2) the advisability of substituting a carrier certification of good order delivery for the current consignee's certificate of delivery on Government bills of lading, (3) the desirability of agencies establishing amounts below which they would not process loss and damage claims, (4) the creation of a separate Government bill of lading for household goods and personal effects, (5) the revision of the Government transportation request, and (6) the expanded use of direct cash payment for passenger transportation.

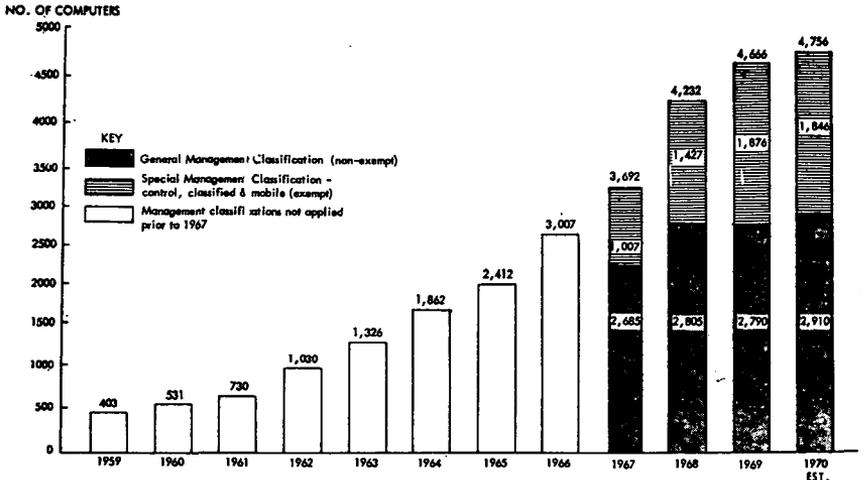
The Bureau of the Budget had prepared a bulletin as a first step in implementing most of the recommendations, and the General Accounting Office and the General Services Administration were preparing proposals for legislation to remove legal roadblocks to implementing some of the recommendations.

INCREASED USE OF COMPUTERS IN FINANCIAL MANAGEMENT

INTRODUCTION

At the beginning of fiscal year 1970 there were 4,666 computers installed in Federal Government activities. Ten years earlier there were only 403. The attached chart 1 shows this dramatic growth.

CHART 1
GROWTH IN NUMBER OF COMPUTERS IN THE FEDERAL GOVERNMENT END OF FISCAL YEAR



The rapid growth in the number of computers in recent years is indicative of an increasing awareness on the part of the Federal agencies that mission programs can be accomplished more timely, efficiently, and economically through automation.

For the years prior to 1959 Bureau of the Budget estimated the number of computers to be: 1950 - 2; 1951 - 3; 1952 - 5; 1953 - 7; 1954 - 10; 1955 - 45; 1956 - 90; 1957 - 160; and 1958 - 230.

Agency estimates for FY 1970 do not necessarily reflect approved budget plans.

SOURCE: GSA Inventory of Automatic Data Processing Equipment in the United States Government, FY 1969, U.S. Government Printing Office, Washington, D. C.

The scientific and mathematical computing operations of the 1940's gave rise to development in the early 1950's of electronic data processing devices for use in business and financial management systems. A whole series of developments in equipment and systems design followed which made it possible to adopt electronic systems to office routines, including routine decisionmaking operations, and business and financial management procedures. It was these technological advances that made possible the development of advanced systems in the fields of information processing, information retrieval, accounting, reporting, and analysis operations in management control operations.

The first large-scale general purpose electronic computer system (the type in general use today) was delivered to the Bureau of the Census in 1951. Its introduction and use were rapidly followed by the development of many other electronic machines in a wide range of sizes and capacities.

In the early stages of development, Government computers were largely used as a management tool for specific segments of programs rather than for integrating controls and procedures in related functional areas. These early systems only started progress toward the real potential to be achieved though full development of integrated electronics systems.

KINDS AND COST OF SYSTEMS

The Federal Government inventory shows that 4,666 computers, exclusive of analog computers and those built or modified to special Government design specifications, were installed in Federal agencies by 1970. Many private companies designed and built these thousands of computers. The Federal Government's policy has been to acquire these machines through a competitive process to promote a healthy computer industry. As a result, there is a marked distinction between the dominance of one supplier in the national inventory of computers (IBM Corp.), which at one time achieved a position approaching 80 percent of the market, and the more diversified supplier representation in the Federal Government inventory. Chart 2 depicts the computer distribution in Government by manufacturer of the equipment.

CHART 2
DISTRIBUTION OF COMPUTERS BY MANUFACTURER
INSTALLED AS OF JUNE 30

	1	2	3	4	5	6	7	8	9	OTHER	TOTAL SYSTEMS	
	BUR	CDC	DEQ	HON	IBM	NCR	RCA	SDS	UNI			
1966	OWNED	19	242	72	84	437	10	86	107	384	163	1,604
	LEASED	156	90		61	595	178	59	5	212	47	1,403
	TOTAL	175	332	72	145	1,032	188	145	112	596	210	3,007
	PERCENTAGE	5.8	11.1	2.4	4.8	34.3	6.3	4.8	3.7	19.8	7.0	100
1967	OWNED	33	287	158	140	500	10	84	149	445	340	2,146
	LEASED	161	65	1	53	605	184	73	13	351	40	1,546
	TOTAL	194	352	159	193	1,105	194	157	162	796	380	3,692
	PERCENTAGE	5.3	9.5	4.3	5.2	29.9	5.3	4.2	4.4	21.6	10.3	100
1968	OWNED	20	312	213	172	559	9	92	174	470	413	2,434
	LEASED	173	88	1	75	641	240	84	12	433	51	1,798
	TOTAL	193	400	214	247	1,200	249	176	186	903	464	4,232
	PERCENTAGE	4.6	9.5	5.1	5.8	28.4	5.8	4.2	4.4	21.3	10.9	100
1969	OWNED	19	324	330	184	660	7	93	199	478	496	2,790
	LEASED	176	80	1	87	651	261	96	10	472	42	1,876
	TOTAL	195	404	331	271	1,311	268	189	209	950	538	4,666
	PERCENTAGE	4.2	8.7	7.1	5.8	28.1	5.7	4.0	4.5	20.4	11.5	100

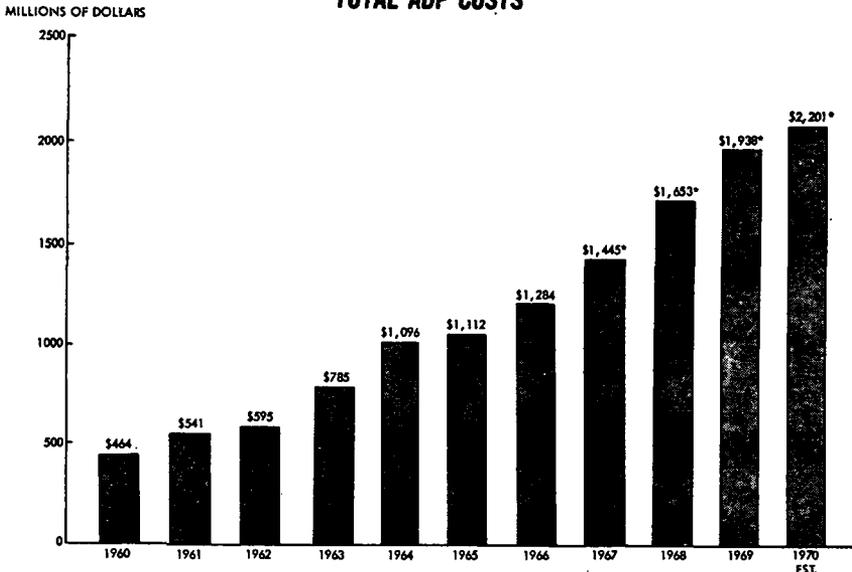
SOURCE: GSA Inventory of Automatic Data Processing Equipment in the United States Government, F.Y. 1969, U.S. Government Printing Office, Washington, D. C.

- 1. Burroughs Corp.
- 2. Control Data Corp.
- 3. Digital Equipment Corp.
- 4. Honeywell, Inc.
- 5. International Business Machines Corp.
- 6. National Cash Register Co.
- 7. Radio Corporation of America
- 8. Scientific Data Systems
- 9. Univac Division, Sperry Rand Corp.

In terms of costs, billions of dollars have been invested. These costs were incurred for the development and use of computers and computer-related devices, communication facilities, and physical plant facilities;

site preparation, purchase, rental, and maintenance of equipment; machine programs; data processing systems; procedures; software; data banks; personnel; management know-how; training; miscellaneous equipment; fixtures; supplies of magnetic tape; other recording devices and media; contractual services for hardware and software; and other related items. The current governmental expenditures are estimated by the Bureau of the Budget to be running at the rate of \$2 billion annually. Chart 3 depicts the recent history of expanding dollar costs of data processing effort including the salaries of personnel, equipment rentals, supplies, contractual services, equipment purchases and maintenance, and site preparation.

CHART 3
TOTAL ADP COSTS



The annual increases result primarily from the continued growth in the number of computers installed and expanded uses of computers. The cost of ADP efforts includes salaries of personnel, equipment rentals, supplies, contractual services, equipment purchases and maintenance, and site preparation.

*Excludes costs of computers used for control purposes and computers installed in classified physical locations, although such computers are included in the inventory count. The \$1,653 million total ADP costs shown for FY 1968 is an adjustment to the previously published figure of \$1,662 million. This adjustment reflects results of actions initiated during FY 1968 but subsequently finalized as changes to original plans.

SOURCE: GSA Inventory of Automatic Data Processing Equipment in the United States Government, FY 1969, U.S. Government Printing Office, Washington, D. C.

COMPUTER USES AND AGENCY DISTRIBUTION

Electronic computers are being used in virtually every important Government program. The individual uses are too numerous to list. Chart 4 showing the distribution of computers by Government agency is in itself indicative of the widespread and diverse use to which computers are put. Computer use extends into almost every phase, both administrative and technical, of Government operations. Administrative uses include the financial management activities of payroll, general accounting and reporting, budgeting, and disbursing; personnel management; supply and inventory control; and purchasing and con-

CHART 4
DISTRIBUTION OF COMPUTERS BY AGENCY
INSTALLED AS OF JUNE 30.

	AEC	AGRIC	COMM	GSA	HEW	INT	NASA	DOT	TREAS	VA	OTHER CIVIL	AIR FORCE	ARMY	NAVY	DSA	OTHER DOD	TOTAL	
1966	OWNED	223	25	24	9	17	13	363	21	54	14	21	296	234	259	16	15	1,604
	LEASED	33	3	23	15	28	14	126	10	4	3	41	573	273	180	67	10	1,403
	TOTAL	256	28	47	24	45	27	489	31	58	17	62	869	507	439	83	25	3,007
	PERCENTAGE	8.5	.9	1.6	.8	1.5	.9	16.3	1.0	1.9	.6	2.1	28.9	16.8	14.6	2.8	.8	100
1967	OWNED	307	27	29	19	20	16	491	45	50	14	34	398	245	413	20	18	2,146
	LEASED	17	5	12	12	37	18	125	13	2	15	49	633	296	231	66	15	1,546
	TOTAL	324	32	41	31	57	34	616	58	52	29	83	1,031	541	644	86	33	3,692
	PERCENTAGE	8.8	.9	1.1	.8	1.5	.9	16.7	1.6	1.4	.8	2.3	27.9	14.7	17.4	2.3	.9	100
1968	OWNED	396	29	34	18	25	17	537	48	58	14	48	397	261	501	34	17	2,434
	LEASED	19	8	19	6	55	18	102	13	1	21	52	671	451	262	81	19	1,798
	TOTAL	415	37	53	24	80	35	639	61	59	35	100	1,068	712	763	115	36	4,232
	PERCENTAGE	9.8	.9	1.3	.6	1.9	.8	15.1	1.4	1.4	.8	2.4	25.2	16.8	18.0	2.7	.9	100
1969	OWNED	547	28	39	21	44	21	562	71	65	15	53	468	273	533	31	19	2,790
	LEASED	12	11	20	6	40	26	80	29	3	25	50	657	521	290	90	16	1,876
	TOTAL	559	39	59	27	84	47	642	100	68	40	103	1,125	794	823	121	35	4,666
	PERCENTAGE	12.0	.8	1.3	.6	1.8	1.0	13.7	2.1	1.5	.9	2.2	24.1	17.0	17.6	2.6	.8	100

SOURCE: GSA Inventory of Automatic Data Processing Equipment
in the United States Government, FY 1969, U.S. Government Printing Office, Washington, D. C.

tracting activities. In technical applications, computers are used to process tax returns, control air traffic, service veterans' insurance policies, process weather data, control space flights, administer social security benefits, operate the military logistics system, and perform research in scientific programs. Computers are now and undoubtedly will continue to be put to new and different uses.

As might be expected automatic data processing systems are used extensively throughout the Department of Defense in budgeting, supply management, accounting and reporting, and related financial management activities. In civilian agencies the following are a few illustrations of program applications: (1) the benefit payment and insurance accounting programs in the Veterans' Administration, (2) wage record and benefit payment operations in the Social Security Administration and the Railroad Retirement Board, (3) mortgage accounting in the Federal Housing Administration, (4) inventory accounting in the General Services Administration and the commodity programs of the Department of Agriculture, and (5) savings bond accounting and auditing procedures, internal revenue tax return processing, and the check issuance, payment, and reconciliation operations of the Treasury Department.

PRESIDENTIAL SUPPORT

The use of computers has been encouraged at the highest levels of Government. In 1966, President Johnson addressed a memorandum to the heads of departments and agencies stating in part:

I want the head of every Federal agency to explore and apply all possible means to

—use electronic computers to do a better job

—manage computer activity at the lowest possible cost.

I want my administration to give priority emphasis to both of these objectives—nothing less will suffice.

The electronic computer is having a greater impact on what the Government does and how it does it than any other product of modern technology.

* * * * *

In short, computers are enabling us to achieve progress and benefits which a decade ago were beyond our grasp.

The technology is available. Its potential for good has been amply demonstrated, but it remains to be tapped in fuller measure.

I am determined that we take advantage of this technology by using it imaginatively to accomplish worthwhile purposes.

* * * * *

Several progress reports prepared by the Bureau of the Budget in response to the President's memorandum reported many accomplishments in furtherance of his objectives. For example, Federal agencies reported finding new and different ways of using computers to provide better service to the public, perform work more efficiently, and reduce the cost of operations. Government-wide programs have been implemented to improve the procurement process, obtain maximum utilization from existing computer facilities before acquiring new ones, and

achieve a greater compatibility among types of equipment offered by manufacturers and among the data being processed by computers.

For the most part, electronic computers have come to be regarded as a major and vital resource to accomplish the primary program responsibilities of many Government agencies. However, significant opportunities for improving public service and for increasing the effective utilization of computers and related software continue to exist.

GOVERNMENT-WIDE USE OF AUTOMATIC DATA PROCESSING EQUIPMENT

Concerned over the agency-by-agency approach to automatic data processing (ADP), the Comptroller General of the United States issued a report on June 27, 1958, critical of the trends in Government-wide management of ADP. The report pointed out that no single agency of the Government was responsible for directing and coordinating developments in this field. A principal recommendation of the Comptroller General, therefore, was that it was necessary to establish an effective coordinated ADP program for the various user agencies in the Government. Again on December 30, 1960, the Comptroller General issued a report emphasizing the need for Government-wide coordination in ADP management. A third report on March 6, 1963, stressed that very sizable sums could be saved if the Federal Government purchased, instead of leased, a larger portion of its ADP equipment.

Intermittently throughout this period, the Bureau of the Budget had issued reports and guidelines on the purchase and use of ADP equipment. The detailed procedures that were to be followed before acquisition of ADP equipment were clearly advisory and there was no requirement that agencies planning to acquire this type of equipment follow the Bureau's recommendations. In March 1962, the Budget Bureau directed agencies to submit annual reports on their use of ADP and their inventories of ADP equipment. More management guidelines were issued in August 1963, with the publication of BOB Circular A-61.

In April 1964, the Comptroller General issued another report noting that while some improvements had been made in ADP management, optimum efficiency and effectiveness could not be achieved until a Government-wide coordinated program was implemented. The House of Representatives, in July 1963, approved H.R. 5171, providing for coordination in Government-wide ADP management, but the Senate did not act upon the legislation. The House on September 2, 1965, and the Senate on October 22, 1965, passed legislation which became Public Law 89-306, October 30, 1965.

The act provided for coordination of the Government's ADP program, with the General Services Administration administering an ADP revolving fund for equipment acquisition. This procedure allowed for (1) more adequate management information, (2) optimum utilization of the equipment, and (3) economic acquisition of Government ADP equipment. The Bureau of the Budget would exercise control over fiscal and policy matters related to the use of ADP equipment by Government departments and agencies. The National Bureau of Standards was responsible for technical support for the management program.

Through the revolving fund for Government-wide ADP acquisition, the General Services Administration acquired the ADP system selected by an agency and, in effect, rented the equipment to the agency. Each agency then reimbursed the revolving fund at rates reflecting the use value of the equipment. The GSA was able to purchase equipment at lower rates as a volume buyer. In addition, Government-wide coordination provided an effective means for making "lease-versus-purchase" evaluations on the basis of overall benefit to the Government. Budgetary considerations and funding problems in individual agencies did not interfere with decisions on "lease-versus-purchase" advantages since they were made on an overall Government-wide basis, with the highest priority given to equipment having the greatest purchase advantage.

The General Services Administrator could not interfere with the determination by the agencies of their ADP requirements. The agencies set specifications for and selected the type and configuration of equipment they deemed necessary, and the Administrator procured and supplied the equipment. If the user and the Administrator disagreed on a proposed determination (notice to agencies of determinations affecting them or the equipment used by them was required), the matter was subject to review and discussion by the Bureau of the Budget, or as the President might otherwise direct. The GSA could exempt individual systems from the overall program to avoid compromise of national security and defense and to assure the most economical and efficient use of ADP systems.

Bureau of the Budget Circular No. A-54, dated October 1961, and modified in June 1967, presented policies on selection and acquisition of ADP equipment. These policies called for comparisons of overall costs to lease, to lease with option to purchase, and to purchase the proposed equipment. These overall costs included maintenance of equipment. In April 1968, the Comptroller General issued a report pointing out that, in most cases, maintenance services for Government-owned computers were being obtained from computer equipment manufacturers. The report stated that significant savings and operating advantages were being realized by organizations within and outside the Federal Government which maintained their own automatic data processing equipment. Accordingly, the Comptroller General recommended that executive agencies consider in-house maintenance in reaching procurement and maintenance decisions.

In June 1969, the Comptroller General issued another report showing that it was common practice for Government ADP managers to obtain all required ADP equipment from computer systems manufacturers even though certain items of equipment could be procured more economically from the original manufacturers or from alternate sources of supply. Manufacturers of peripheral equipment—magnetic tape units, disk storage drives, etc.—were making a concentrated effort to compete with the systems manufacturers and to offer selected items of equipment directly to users. The report identified selected computer components that were directly interchangeable (plug-to-plug compatible) with certain other systems manufacturers' components and were available at substantial savings. The principal recommendations of the Comptroller General were that the heads of Federal agencies should take immediate actions to implement steps requiring

replacement of leased components that could be replaced with more economical plug-to-plug compatible units, and pending issuance of specific policies, Federal agencies should evaluate alternative sources of supply.

The Government-wide use of computers in the future will undoubtedly involve efforts on the part of all concerned to achieve optimum efficiency and effectiveness.

CENTRALIZED TAX PAYMENT DATA PROCESSING

Prior to enactment of Public Law 89-713, November 2, 1966 (Internal Revenue—Data Processing), tax returns were filed in one of the 58 offices of the District Directors of Internal Revenue, as determined by the district of residence or principal place of business of the taxpayer. After the initial processing of the return, it was sent to one of the seven regional centers for completion of processing.

This act specified that returns were to be sent directly to the regional service centers, thereby eliminating double handling of returns and extending the economies of volume processing to the initial processing of returns. This new procedure was instituted primarily in order to take full advantage of the automatic data processing system installed in the Internal Revenue Service's regional centers and the resulting economies due to the reduction in processing time.



PART III. AGENCY DEVELOPMENTS IN FINANCIAL MANAGEMENT, 1961-70

A further way to describe and analyze significant changes in financial management in the 1960's is to look at specific agency developments. The broader and more far-reaching changes are most clearly illustrated by actions taken by the central or staff agencies—the Bureau of the Budget, the Civil Service Commission, the General Accounting Office, and the Treasury Department. These agencies are responsible for prescribing budget, accounting, personnel, and related requirements to be observed by other agencies. Other developments are evidenced by the actions taken by the executive or administrative agencies to improve their own internal financial management practices within the framework of applicable laws enacted by the Congress and the regulations issued by the central agencies.

BUREAU OF THE BUDGET

The Bureau of the Budget (now the Office of Management and Budget) is responsible for assisting the President in the preparation and administration of the Federal budget and in the development of improved plans for organization, coordination, and management of the executive branch. During the 1960's the Bureau gave increasing attention to providing guidance to Federal agencies, State and local governments, and universities as discussed below.

FINANCIAL ADMINISTRATION OF GRANT-IN-AID PROGRAMS

The decade of the sixties saw a significant increase in the size and number of federally assisted grant-in-aid programs carried out through State and local governments and the university community. The Federal agency with responsibility for a given program developed instructions to be observed by State and local governments and university recipients in the administration of the grants frequently without adequate coordination with other Federal agencies, coupled with the fact that grantees frequently dealt with more than one Federal agency, resulted in the imposition of a multitude of different requirements on many grantees.

On March 27, 1969, the President directed the major Federal grant agencies to work together with the Bureau of the Budget to streamline the delivery of Federal resources which assist States and communities in programs of service to people. Toward this end a major effort is underway. As part of this total effort two projects are in progress in the financial area to (1) standardize on a Government-wide basis, to the maximum extent possible, the financial requirements imposed upon

grantees and (2) develop a common body of policies, standards, and guidelines for use in the audit of grant programs.

Other actions, which have been taken to improve financial administration of grant programs, are as follows.

Cost determination under grants to educational institutions

In 1961 and again in 1965, the Bureau of the Budget updated and refined Circular No. A-21 which set forth uniform principles and methods for determining costs applicable to research grants and contracts with educational institutions. On January 2, 1969, a supplement to Circular A-21 was issued which provided uniform principles to be used by all agencies in determining costs under grants and contracts with educational institutions for training and other educational services.

In 1968, the Bureau of the Budget issued Circular No. A-88 which established the policy that a single Federal agency would be responsible for negotiating the indirect cost rate and for the audit of all Federal grants to a single educational institution. The circular provided for an interagency committee to work out the single agency assignments. This was done and on August 1, 1969, a supplement to Circular A-88 was issued setting forth the single agency assignments for approximately 2,000 educational institutions. This arrangement provided a coordinated Federal approach in these areas and achieved more efficient use of manpower.

Guides and procedures pertaining to State and local governments

On June 28, 1967, the Bureau of the Budget issued Circular No. A-85 which established formal procedures "to afford chief executives of State and local governments a reasonable opportunity to comment on significant proposed Federal rules, regulations, standards, procedures and guidelines applicable to Federal assistance programs." The A-85 procedures afforded representatives of State and local governments an opportunity to express their views on proposed Federal regulations at the time of formulation.

In recognition of the need for the most effective utilization of all appropriate audit resources in the audit of Federal grants-in-aid to State and local governments, the Bureau of the Budget in August 1965 issued its Circular No. A-73 which called upon Federal agencies to rely, to the maximum extent feasible, on internal or independent audits performed at the State and local levels and to use the principles of statistical sampling in their auditing work. The use of cross-servicing agreements between Federal agencies for obtaining necessary audit coverage was also encouraged.

In May of 1968, following extended discussions with Federal agencies and State and local governments, the Bureau of the Budget issued Circular No. A-87 to establish uniform Government-wide principles and standards for determining costs applicable to grants and contracts with State and local governments. This standardized, for the first time, the principles used by the various agencies.

The circular also provided for working toward the goal of "single agency" responsibility for the negotiation and audit of indirect costs of State and local government grantees.

INTERGOVERNMENTAL COOPERATION

Following enactment of the Intergovernmental Cooperation Act of 1968 (Public Law 90-577, Oct. 16, 1968), the Bureau of the Budget issued a series of circulars during 1969 and 1970 to provide for implementation of the act.

Circulars A-95 and A-98 provided for greater cooperation between Federal agencies and State and local governments in the evaluation, review, and coordination of Federal assistance programs and projects and established a system for notifying appropriate State officials of the purpose and amounts of actual grants-in-aid to the State or its political subdivisions.

Circular A-96 provided instructions to Federal agencies on eliminating requirements for maintaining separate bank accounts for Federal funds apart from other funds administered by the State. It also provided for the scheduling of transfers of grant-in-aid funds in a manner to meet State needs and minimize the time elapsing between the transfer of such funds from the U.S. Treasury and their disbursement by the State. States were also relieved of accountability for interest earned on grant-in-aid funds pending their disbursement for program purposes. Finally, the circular provided procedures whereby statutory requirements that a single State agency or multi-member board or commission must administer or supervise any grant-in-aid program could be waived under authority of section 204 of the act.

Circular A-97 set forth instructions to Federal agencies regarding use of the authority granted in section 302 of the act which permitted the furnishing of specialized or technical services to State and local units of government.

CIVIL SERVICE COMMISSION

The U.S. Civil Service Commission (CSC) was created by an act of Congress in 1883, the so-called Pendleton Act, which initiated a reform movement in the Federal personnel system. The fundamental purpose of the laws was to establish, in the parts of the Federal service covered by its provisions, a merit system whereby selection for appointment would be made upon a basis of demonstrated relative fitness without regard to religious or political consideration.

The Chairman of the Civil Service Commission in May 1966 joined with the Secretary of the Treasury, the Comptroller General of the United States, and the Director of the Bureau of the Budget in the already established Joint Financial Management Improvement Program. Commission participation in this program resulted from the conviction that lasting and substantial improvements in the financial management of Federal programs would not be possible unless the quality of financial managers kept pace with legislative and technical advances.

There are two areas in which the Commission contributes actively toward improving the quality and professional competence of financial management personnel: in recruiting and examining and in the training of executive branch employees.

RECRUITING AND EXAMINING

Several phases of the CSC's recruiting and examining activities assist in bringing well-qualified personnel into the Government. Chief among these are pay adjustments, separate examining vehicles, and creation of technician positions to support the work of highly skilled professionals.

Specifically, in the pay area, 5 U.S.C. 5303 permitted the Commission to establish higher than regular salary rates for an occupation when private enterprise rates were causing staffing or retention problems in Federal agencies. These special salary rates have been established for accountant and auditor positions at certain grade levels so that Federal agencies can compete with private employers for these scarce employees. These higher rates are reviewed regularly with employing agencies to determine if adjustments are warranted in the light of their staffing needs and labor market conditions.

Another primary recruiting aid is the establishment of separate examinations for occupations where special skills are needed. The Commission, through its Interagency Board network, has announced such examinations for professional accounting and auditing positions. Persons with full professional qualifications can apply at any time under these announcements without taking a written test. Lists of eligibles established under these examinations are then used for staffing purposes by all executive agencies as well as the General Accounting Office and the District of Columbia Government.

In times of critical staffing shortages, the CSC may authorize individual agencies to recruit and examine candidates under open announcements and, in many cases, to offer immediate appointments to particularly well-qualified applicants. These authorities are constantly reviewed in light of changing labor market conditions and have proved a useful tool in staffing accounting and auditing positions.

As an adjunct to its efforts in the professional area, the Civil Service Commission recently completed an occupational study of accounting technician positions which resulted in new classification and qualification standards for the occupation. The study refined the concept and clarified the relationships between the accounting technician and the professional accountant. As the support counterpart to the profession of accounting, the technician occupation was defined as including routine accounting functions which required less than full professional knowledge, skill, and ability. Establishment and clarification of the accounting technician occupation should help to improve career opportunities for persons with less than full professional accounting qualifications. High-quality applicants and employees who once had little future beyond the clerical occupations because they had never had the advantage of professional accounting experience or education, now have career possibilities in the technician occupation that might otherwise have been denied them. Establishment of the accounting technician occupation not only provided a means to relieve the professional accountant of detailed and routine work, but at the same time helped to improve career opportunities for persons with less than full professional accounting knowledge. Hence, these standards contributed to better utilization of employee skills within the financial management function.

During 1968, the Civil Service Commission revised the qualification standards for professional accounting positions. The new standards recognized the value of educational courses in data processing, management audit, and other related areas, in addition to the more traditional accounting courses. They tied in with trends in the accounting curricula of many colleges toward broader study in areas related to the accounting mission, but not specifically identified in the traditional core of basic accounting courses. The changes enhance the ability of the Federal Government to recruit well-rounded professional accounting personnel.

The Civil Service Commission has also made several refinements, as described below, in its continuing efforts to improve the practices of recruitment and examination for financial management positions above the entry level.

Positions in Grades GS-13 through GS-15.—All positions in financial management at grade levels GS-13 through GS-15 are under the open continuous nationwide examination for senior level positions. This examination makes possible active recruitment by agencies of well-qualified candidates for career jobs and provides for the use of agency subject matter experts in the evaluation of applicants' qualifications.

Positions in Grades GS-9 through GS-12.—Accounting positions at these grades with agencies in the Washington, D.C., area are filled through an open continuous examination announced by the Inter-agency Board of U.S. Civil Service Examiners for Washington, D.C. Auditor positions are filled through a nationwide open continuous examination. Now in the planning stages is an open continuous nationwide examination which will include all professional accounting and auditing positions in grades GS-5 through GS-12. This will provide agencies with a single vehicle through which to recruit and will utilize agency subject matter experts to evaluate candidates' qualifications for positions at grades GS-11 and GS-12.

Other positions in financial management fields are covered by an open continuous nationwide examination for mid-level positions, which was announced in October 1967.

MANAGEMENT SCIENCES TRAINING CENTER

Another important area in which the Civil Service Commission is working to aid financial managers throughout the Government is in the field of training personnel and upgrading skills.

It was with this key activity in mind that in 1967 the Commission created a Financial Management and Planning-Programming-Budgeting Training Center within the Bureau of Training. On July 1, 1970, this training activity was redesignated as the Management Sciences Training Center. This was done to more accurately reflect the growing responsibilities of the Center, particularly in the area of operations research. The Management Sciences Training Center is one of six such Centers in Washington, D.C., under the direction and control of the Director of the Bureau of Training in the Civil Service Commission. This Bureau was formally established on May 1, 1967. It absorbed the responsibilities previously assigned to the Office of Career Development as well as those outlined in Executive Order

11348, April 22, 1967, and the Report of the Presidential Task Force on Career Advancement.¹ Additionally, The Bureau of Training directs the activities of Regional Training Offices and the Executive Seminar Centers at Kings Point, Berkeley, and Oak Ridge. In fiscal year 1969, attendance at Center-sponsored financial management training programs increased sevenfold. In recognition of the critical importance of training to the future of financial management in Government, the Director of the Center was selected to represent the Commission on the Steering Committee of the Joint Financial Management Improvement Program.

Objectives and scope

The Management Sciences Training Center has the following objectives:

- To provide responsive and practical interagency and inter-governmental training and development programs in specialized disciplines used and technical elements involved in the management of public programs; and to focus on the development of critical communication links between the manager and the information-producing specialist;
- To provide management sciences training support to Civil Service Commission Regional Training Institutes;
- To provide advice and assistance to individual agencies and State, municipal, and local governments attempting to reform and improve their management systems, financial programs, and analytic capabilities;
- To stimulate, encourage, and participate in the exchange of information about the most significant and innovative ideas originating within the professional communities; and
- To assist in the management and administration of special intern and fellowship programs.

Since the creation of the Center, several steps have been taken to help realize these objectives. A skilled professional staff has been assembled. A considerable body of new training material has been created and more is being developed. The active assistance and continuing consultation and advice of the Office of Management and Budget and the General Accounting Office have been sought and provided. The staff maintains liaison with the professional community through active membership in the American Economic Association, the Federal Government Accountants Association, the American Accounting Association, the American Institute of CPA's, and the Association for Public Program Analysis.

The purpose in designating a separate training center for management sciences training was to permit the assembling of a professional staff whose entire attention would be directed to this area of specialization. An underlying theory of the Center was that through the employment of subject matter specialists and continuing research, the Center would be able to serve in time as a center of innovation and advancement in financial management training. The operation of the Center has been subsequently augmented by the creation of four regional

¹ *Investment for Tomorrow: A Report of the Presidential Task Force on Career Advancement*, U.S. Government Printing Office, 1967, p. 69.

Financial Management Institutes in Philadelphia, St. Louis, Atlanta, and San Francisco.

Innovation and application of better methods have now become dominant characteristics of governmental planning and control systems. In such times there is a particular need for an intensified educational program to insure that valid innovations are rapidly assimilated throughout the Government. Thus, the entire range of financial management techniques forms one important arm of the Center's intellectual reach.

The balance of the Center's courses are divided into two program areas: management systems training and program analysis training. *Management Systems Training* programs offer core conceptual skills training in fundamental disciplines (mathematics, statistics, and economics), decisionmaking, management information systems, and scientific methods of analysis. Orientations, seminars, and workshops are used extensively in this area of continuing training for managers, specialists, and professionals. *Program Analysis Training* is oriented toward the needs of the producer of analysis, both the neophyte and the professional. Courses range from training in basic and broadly used analytic techniques to specific applications. Seminar-type programs and workshops are included in this group of courses.

The great potential of the management sciences is to improve decisionmaking processes by generating alternative courses of action more systematically and assessing their costs and benefits more accurately than less exacting methods. The effective management of financial resources not only assists planners in the analysis of alternatives and managers in the accomplishment of program goals, it also helps them adjust operations quickly and selectively to solve short-range economic and social problems.

The Center provides advanced intensive training for executives and staff specialists who need to understand the fundamental concepts of financial management and the other systems-centered management planning and control techniques. It identifies new needs for employee development and develops training opportunities to satisfy the requirement through a progressively expanding curriculum.

Developing programs for financial management technicians reflect the legitimate aspirations of lower graded employees to improve themselves and to advance into professional level positions.

Methods and staffing

Instructors and course developers of specialized training programs were called in from industry, universities, and the consultant field to augment in-house and governmental resources. The cooperation of universities and private industry was sought for the development of new training programs. A significant innovation introduced in the Center's programs has been the unprecedented level of cooperation between the Center and many universities. Center personnel have worked side by side with outstanding academic experts at the planning boards and in the classroom to introduce into Center programs a good blend of theory and experience.

For the first few summers a new approach was used to help develop new courses, all with the able assistance of the General Accounting Office. University experts in financial management were hired by the

GAO to work on the development of material that would benefit both the GAO and the Financial Management and PPB Training Center. Important outputs were a research paper on the application of marketing techniques to planning government programs and two training courses, *Determining Program Costs* and *Management Use of Financial Information*. Another university representative helped develop a course in *Accrual Accounting*.

Considerable emphasis has been placed on the development of special training materials to make training programs more effective and more meaningful to Federal employees. Under the Center's direction, 25 case studies and two management "games" have been produced by skilled university case writers. The Bureau of the Budget has supervised the writing of 10 additional teaching cases. Not only has this specially prepared educational material improved the quality of training, but also it is being used widely by colleges and universities to improve the quality of instruction afforded young people preparing to enter the public service. To insure the widest possible use of the material, dissemination responsibilities were placed with the Inter-Collegiate Case Clearing House at Harvard, where the materials are available to all educational and training organizations at cost. Under the auspices of the Ford Foundation, an additional 10 cases have been produced, covering problems in the State and local government area. The Center cooperated in the development of these cases as well. In total, therefore, 45 case studies of financial management problems are now available. These cases have materially increased the effectiveness of courses offered by the Center.

International and State and local activities

Even before the Intergovernmental Cooperation Act of 1968 was passed, the Center had been actively assisting training efforts at levels other than the Federal Government. For example, the Director of the Center participated with Ohio State University in planning a seminar to introduce State vocation education administrators to PPB concepts. A special 1-week PPB Seminar was presented at the University of Puerto Rico for about 90 participants composed of faculty, graduate students, and officials of the Puerto Rican Bureau of the Budget.

In cooperation with the Office of Education, a regional planning conference was conducted in Massachusetts for directors of special education and State planning officials from the New England area.

Foreign participants in the Center's programs came from Germany, Iran, Ceylon, Indonesia, New Zealand, Canada, Saudi Arabia, the United Nations, the Philippines, Japan, India, Pakistan, and Ireland. Japan, which sent 18 students in fiscal year 1969, has asked for space for 15 in fiscal year 1970.

GENERAL ACCOUNTING OFFICE

The purposes, functions, and responsibilities of the General Accounting Office (GAO) may be divided into five general categories:

- Auditing and reviewing the manner in which Federal programs are carried out.
- Providing direct assistance to the Congress.

- Prescribing Federal agency accounting requirements and cooperating with Federal agencies in the development of accounting systems.
- Providing legal advice and rendering legal opinions at the request of heads of departments and agencies.
- Settling claims by and against the United States.

In the sections following there is brief discussion of GAO's activities in (1) auditing and reviewing Federal programs, (2) using systems analysis techniques, (3) reviewing and approving principles and standards and designs for agencies' accounting systems, and (4) training and developing professional staff.

AUDIT AND REVIEW OF FEDERAL PROGRAMS

The primary purpose of GAO audits and reviews is to make for the Congress independent examinations of the manner in which Government agencies discharge their financial responsibilities. This includes inquiring into such questions as whether (1) funds and other resources are utilized only for authorized programs and activities and are properly accounted for and reported, (2) agency resources are managed efficiently and economically, and (3) programs are achieving the objectives intended by the Congress.

GAO approaches its audit responsibilities with a presumption that each agency will design its system of management and related controls to achieve effective, efficient, and economical operations. Consequently, the major focus of GAO audit examinations and reviews is to test an agency's system of controls in operation, evaluate the apparent strengths and weaknesses of the controls, and report on the conditions found together with appropriate conclusions and recommendations. In selecting areas for review GAO gives primary attention to those agency programs and operations known or considered to be of direct interest to the Congress or which in the judgment of GAO officials permit the GAO to render the maximum assistance to Congress and the executive branch.

In recent years GAO has increased its capability to appraise the adequacy of program management and has placed additional emphasis on determining whether Government programs are achieving the purposes intended by the Congress. Considerable progress has been made toward increasing the effectiveness of audit work through broader scope and multi-agency reviews which are believed to be more useful to the Congress.

The reports issued to the Congress by GAO constitute one of its most important means of assisting the Congress. The reports provide the Congress as well as the agency heads an objective appraisal of the operations of the agency or activity covered. The number of GAO reports has grown steadily over the years reflecting, at least in part, the growth and complexity of Government operations. In fiscal year 1960, 224 reports were submitted to the Congress or its committees and Members, and an additional 551 reports were addressed to agency officials. In fiscal year 1970, 524 reports were submitted to the Congress or its committees and Members and 644 were addressed to agency officials.

GAO audit reports cover a wide variety of subjects including such matters as the uses made of foreign currency; military and economic assistance to foreign governments; urban renewal; space exploration; antipoverty programs; and the procurement, production, and operation of major weapons systems in the Department of Defense.

Each year the GAO submits to the Congress a compilation of its findings and recommendations for improving Government operations identified during the course of audit. The purpose of this special report is to provide a convenient summary for the use of the Congress and Federal agencies showing opportunities for savings and other improvements in Government operations.

While the financial benefits attributable to the audit and review work of the General Accounting Office cannot always be fully measured, cash collections and other measurable benefits resulting from such work are substantial. For example, in fiscal year 1970 the measurable savings amounted to about \$250 million.

Examples of broad scale reviews made by GAO in recent years are discussed below.

Staff of GAO, supplemented by consultants as necessary reviewed the principal programs authorized by the Economic Opportunity Act of 1964, as amended. The review, performed pursuant to the requirements of title II of the Economic Opportunity Act Amendments of 1967, was made during fiscal years 1968 and 1969 and consisted of such activities as:

- Interviewing program participants.
- Assessing program evaluation methods used by administering agencies.
- Making analyses of selected manpower programs.
- Evaluating financial and other reports and other information used by program management.

GAO's report to Congress, March 18, 1969, commented upon the effectiveness of selected programs and made recommendations for improvement in the overall financial administration of economic opportunity programs. In addition, GAO subsequently issued about 50 supplementary reports on the individual examinations made at various program sites.

Because of the significant cost involved and the strong interest of the Congress in the acquisition of major defense weapon systems, the General Accounting Office increased its attention to procurement activities of the Department of Defense, with particular emphasis on the acquisition of major weapon systems. In February 1970, GAO reported to the Congress on the results of its review of the status of 57 major weapon systems.

GAO provides assistance to the Congress on a worldwide basis wherever Federal assistance or other governmental activities are taking place. A number of reports have been issued to the Congress on U.S. assistance provided to foreign countries. These comprehensive and analytical reports on the total U.S. assistance to a given country have been helpful to the Congress in identifying areas where economies and efficiencies can be achieved. Because of the substantial expenditures of Federal funds and the strong interest expressed by the Congress, a considerable portion of the overseas effort of GAO has been devoted in recent years to the programs and activities in Viet-

nam. During fiscal year 1970, 35 reports were issued on programs and activities being conducted in Vietnam and other Southeast Asia countries.

USE OF SYSTEMS ANALYSIS

Because of greater emphasis in Congress and the executive branch on program outputs or results, GAO in recent years has increased its use of systems analysis concepts and techniques as an integral part of its studies of individual agency and Government-wide programs. One study pertaining to use by Federal agencies of the discounting technique was referred to in previous discussions.² Another report (B-115398, July 29, 1969) advised the Congress of the progress and status of the Federal Planning-Programming-Budgeting system (PPBS).

A study completed by GAO during fiscal year 1970 which involved systems analysis and effectiveness evaluations concerned an examination into the effectiveness of the construction grant program for abating, controlling, and preventing water pollution. In this study the GAO analyzed and evaluated information relating to State and Federal water pollution control plans, programs, and water quality standards as they affected the approval and award of Federal construction grants to municipalities. Improvements resulting from the construction of selected waste treatment facilities were also reviewed.

When it became apparent that systems analysis techniques might be used to improve the planning aspects of the construction grant program in the water pollution control program, GAO engaged a consulting engineering firm to assist them in demonstrating that systems analysis techniques could be used in planning for and implementing water pollution control programs. In its report to Congress, November 3, 1969, GAO concluded that construction grants should not be awarded on a first-come-first-served or readiness-to-proceed basis; rather they should be awarded on a more systematic basis after consideration had been given to benefits to be attained from the grants. GAO also concluded that the present level of Federal funding would not be sufficient to enable a significant increase in the effectiveness of the program.

The GAO report on the effectiveness of the water pollution grant program required the use of cost-effectiveness analysis, a computer simulation program, and a computer mixed-integer program.

In another instance involving an evaluation by the Department of Health, Education, and Welfare (HEW) and the New York State Department of Social Services (State), the GAO responded to a request of the chairman of the House Ways and Means Committee to monitor the evaluation. GAO employed the services of a professional sociologist for assistance in assessing the results of the HEW and State review phase relative to the study of reasons for the rise in the Aid to Families with Dependent Children (AFDC) caseload and expenditures in New York City during 1966-68.

The AFDC study and report, which GAO reviewed, involved three statistical analyses: (1) AFDC caseload characteristics in differing points of time, (2) migration hypotheses, and (3) correlations of

² *Survey of Use by Federal Agencies of the Discounting Techniques in Evaluating Future Programs*, *loc. cit.*

various social and economic factors with AFDC caseloads in 11 cities including New York City. Throughout the HEW-State study GAO made numerous suggestions to improve and insure the reliability of the evaluation conclusions, and these suggestions, together with other comments and caveats concerning the HEW-State report, were reported by GAO to the House of Representatives Committee on Ways and Means, October 17, 1969.

REVIEW AND APPROVAL OF ACCOUNTING PRINCIPLES AND STANDARDS AND SYSTEMS DESIGNS

Four responsibilities relating to accounting in the Federal Government are vested in the Comptroller General by the Budget and Accounting Procedures Act of 1950. They are:

- Prescribing accounting principles, standards, and related requirements.
- Cooperating with Federal agencies in the development of their accounting systems.
- Reviewing and approving agency accounting systems.
- Reviewing and reporting on agency accounting systems.

In the 1961-70 decade GAO steadily increased its efforts to guide and assist Federal agencies in the development of improved accounting systems as outlined below.

Prescribing accounting principles, standards, and related requirements

The initial accounting principles and standards prescribed by the Comptroller General and incorporated in title 2 (accounting); title 6 (pay, leave, and allowances); and title 7 (fiscal procedures) of the GAO Policy and Procedures Manual for Guidance of Federal Agencies were substantially revised and updated during the 1960's to:

- Consolidate pronouncements made in different documents over the years into one comprehensive statement.
- Clarify the statement of principles.
- Make the stated principles and standards more specific.
- Incorporate statements of principles on matters not previously covered.
- Simplify guidelines for obtaining the Comptroller General's review and approval of agency accounting systems designs.
- Revamp the organization of the statement to produce a more cohesive document.

The revised title 2 (accounting) also was issued in periodically updated pamphlet form to make it available for wider use in Federal agencies.

The last two of the revisions of title 2, in 1967 and 1968 emphasized, respectively, the requirements that agency accounting systems (1) provide adequate support in the form of costs and other financial information for their planning, programming, and budgeting (PPB) systems and (2) produce monthly data on accrued expenditures and revenues in accordance with the recommendations of the President's Commission on Budget Concepts.

GAO assistance in accounting systems development

In the systems development process, Federal agencies are encouraged to take up possible problem areas with GAO representatives to determine acceptable solutions. There has been a marked acceleration

during the second half of the 1961-70 decade in the amount and direction of GAO effort devoted to cooperation with agencies in the development of their accounting systems and related financial management improvements. The agencies have significantly renewed their own improvement efforts in response to the emphasis that GAO has placed upon:

- Developing a continuing day-to-day working relationship with agency officials and staffs to facilitate cooperative systems development efforts.
- Keeping currently well informed on agency improvement efforts.
- Identifying for agency officials the specific areas in which improvements are believed to be needed.
- Working closely enough with agency officials and their staffs to reach a common understanding of the concepts of the accounting systems to be developed.
- Providing technical assistance and guidance as needed in the design and development of accounting systems.
- Furnishing advice on obtaining professional consulting assistance where necessary to initiate or expedite systems development work.
- Being available at all times to encourage improvement efforts and help resolve problems.
- Communicating with agency officials on problems being encountered as they are identified and working with agency staffs on a continuing basis in the solution of these problems.
- Advising agency officials on observed staff training needs.
- Cooperating with agencies and the Civil Service Commission in developing conducting Government-wide training programs in financial management.

Reviewing and approving agency accounting systems designs

The GAO in 1966 published a review guide designed to help agencies determine whether their accounting systems either under development or in operation, conformed in material respects to the Comptroller General's prescribed principles and standards and therefore were ready for submission for approval. This guide is now being updated to reflect the revisions since that date of principles and standards and guidelines for obtaining approval of agency accounting systems designs.

Until April 1967, the guidelines for obtaining Comptroller General review and approval of agency accounting systems provided for submission of completely documented accounting systems that were in operation. Advance submission of agency principles and standards, although encouraged, was not mandatory. In April 1967 approval procedures were revised to require agency submission of accounting systems in at least two stages: (1) the accounting principles and standards underlying the system and (2) the documentation for the accounting system, or segments thereof, in operation.

The change was made primarily in recognition of the desirability of establishing adequate underlying accounting principles and standards upon which to build accounting system design. It also was intended, however, to facilitate systematic and early identification and resolution of design problems, thereby expediting the completion of a satisfactory system and minimizing the design effort. In July 1968 that requirement was modified to provide that accounting systems might

be developed and Comptroller General approval requested in three stages in order to more effectively guide Federal agencies through (1) the development of accounting principles and standards, (2) the design of the accounting system, and (3) the accounting system in operation.

In an October 1969 letter to Federal agencies, the Comptroller General further amended accounting system approval procedures to provide that Federal agencies need only submit their accounting principles and standards and systems designs (the first two stages) for Comptroller General review and approval. To fully accomplish these functional changes, the GAO in early 1970 consolidated all of its accounting systems review and approval responsibilities in the Financial Management Staff of its Office of Policy and Special Studies.

At the end of the 91st Congress in January 1971, the Comptroller General had approved a total of 76 complete accounting system designs of civil and international departments and agencies of 146 such systems subject to approval. Of the 37 approvals during the 1960's 11 were given in the last 12 months. Also, 20 system segment designs had been approved, 18 complete system designs were being considered for approval, and 22 more were in process of active cooperative development during January 1971. In the Department of Defense, four complete systems designs and three system segment designs had been approved—all within the past 3 years. That Department has not specifically ascertained the total number of systems subject to approval.

Reviewing and reporting on agency accounting systems

Concurrent with the October 1969 amendment of the accounting system approval procedures limiting agency submission to their principles and standards and systems designs, the Comptroller General announced that the GAO no longer would undertake to formally approve accounting systems in actual operation. In lieu thereof, greater effort would be spent in the GAO review of agency accounting operations from time to time, as required by law, with reports to agency officials and to the Congress, setting forth the GAO evaluations and recommendations.

TRAINING AND DEVELOPMENT OF PROFESSIONAL STAFF

In 1961, the General Accounting Office staff of 5,001 included 2,004 professional audit staff members, all with backgrounds of accounting education and experience. By December 31, 1970, total GAO employment had been reduced to 4,742 accompanied by a notable increase in the professional audit staff to 2,904. This shift to a proportionately larger professional audit staff, while reducing overall GAO employment, was made possible by continuing emphasis on revised auditing approaches and techniques initiated in the prior decade.

Along with the buildup of the professional complement of GAO's total staff resources, the composition of the professional audit staff also changed during the decade 1961-70. Due to economic, social, and technological advances and changes in Federal programs and the need to broaden GAO's capability to review and evaluate management performance in all areas of Federal activity, an interdisciplinary staffing program was started in 1967. During the 4 years staff members trained in other professional fields, such as systems analysis,

computer technology, actuarial science, economics, business administration, mathematics, and engineering, have been added to the staff along with accountants and auditors. At December 31, 1970, the professional staff included 593 members trained in fields other than accounting, most of whom were recruited at the college graduate level.

For years GAO has provided an extensive career development program for its professional staff. Commencing in the early 1950's GAO began directing its training to preparing the staff for expanded management audit responsibilities. During the 1960's, the program was considerably accelerated, largely because of revisions in auditing approaches and techniques in the Office and the recruiting of staff members with educational background in disciplines other than accounting.

Today, the internal training program of GAO offers courses covering broad scope management audits and review and automatic data processing. Courses and workshops have been developed in systems analysis, statistical sampling techniques, report development, writing skills, reading skills, basic supervision, and modern management concepts. Experienced consultants from outside GAO and members of GAO's professional staff are used as instructors in these courses. GAO also encourages staff members to participate in training provided by other Government agencies, colleges, universities, and other private organizations.

GAO provides assistance in developing training programs to other Federal agencies and State and local governmental units. For example, GAO helped the Civil Service Commission design programs in financial management; planning, programming, and budgeting; systems analysis; statistical sampling techniques; and intergovernmental relations. GAO has also cooperated with (1) the Brookings Institute and the Civil Service Commission in establishing a Federal fellowship program at State and local government levels and (2) the National Institute of Public Affairs in developing a seminar dealing with urban affairs.

TREASURY DEPARTMENT

The Treasury Department is responsible for preparing Government-wide reports covering the results of the financial operations of the Government and for maintaining a system of central accounts that will provide a basis for consolidation of accounting results of other executive agencies with those of the Treasury Department. As a part of its total fiscal responsibilities, the Department prescribes, with the approval of the Comptroller General, forms, procedures, and reports to be observed in the fiscal processes throughout the Government. Some of the highlights of financial management activities of the Treasury Department during the decade of the 1960's are discussed below.

ORGANIZATION CHANGES

Reorganization in the 1960's of the Bureau of Accounts resulted in consolidation of (1) central accounting and reporting operations and related Government-wide accounting systems development functions into a new Division of Government Financial Operations and (2) all

administrative accounting operations, budgeting, auditing (both internal and external), claims and liquidation activities, and other Bureau financial management functions into a comptrollership organization, the Division of Financial Management. These moves materially improved manpower utilization and strengthened the Bureau's management structure. Departmental responsibility for internal audit policy and administrative accounting policy was transferred from the Fiscal Service to the Assistant Secretary for Administration. The Bureau now has three operating divisions—Financial Management, Government Financial Operations, and Disbursement.

CENTRAL ACCOUNTING AND REPORTING

Modification of Treasury-agency accounting relationships

The Treasury Department adopted a modified system of central accounting and reporting in July 1961. Since that date, Treasury regional offices keep accounts for disbursing transactions in total only at the level of each agency station relationship. Classifications of transactions by appropriation, fund, and receipt accounts are furnished to the Treasury in monthly reports of the operating agencies, derived from their own accounts. The modified system has provided more efficient integration of Treasury's central accounts and the detailed accounts in the operating agencies and has produced annual recurring savings of \$150,000.

Scope of reporting

In the part II discussion of selected projects sponsored under the Joint Financial Management Improvement Program, a project by the central agencies' representatives to modernize central reporting was briefly described. The project team in 1961 recommended two new areas for developmental emphasis—a comprehensive annual financial report to serve as a keystone for an overall integrated reporting system, and additional data for more effective analysis of the impact of Government operations on the economy.

In June 1967, the Secretary of the Treasury, the Comptroller General, and the Director of the Bureau of the Budget jointly approved recommendations designed to provide a policy framework for long-range development of central financial reporting. In addition to further development of the two new areas mentioned above, recommendations were approved to:

1. Provide for a modest expansion in central financial reporting to meet priority needs of public and private users but only after careful evaluation of need in relation to cost.
2. Perform developmental work on a Government-wide balance sheet, keeping pace with improvements in agency financial systems.
3. Strive for an earlier year-end closing of the Government's books.
4. Consider development of program-oriented financial reporting after the PPB system was more fully developed.
5. Provide for GAO examination of agency reports submitted to the Treasury (the examination to be part of GAO's review of agency financial operations), with the understanding that the

recommendation would have to be implemented on a gradual basis depending on staff facilities.

These recommendations will be carried out coordinately with the more recent recommendations of the President's Commission on Budget Concepts.

The October 1967 report of the President's Commission on Budget Concepts included a wide range of recommendations with a significant impact on Treasury's central accounting and reporting system. Their adoption represents, potentially, the most significant development in Government-wide accounting and reporting since the Budget and Accounting Procedures Act of 1950. The Bureau of Accounts, in coordination with the Bureau of the Budget, made basic changes in all published Treasury reports to give effect to key recommendations of the Commission that were incorporated in the President's budget for 1969. These recommendations included the unified budget concept, the separation of loan transactions from other receipts and expenditures, the netting of certain receipts against related expenditures, and the showing of all related assets and liabilities comprising "means of financing."

The most significant recommendation still to be implemented involves the reporting of the Government's budget results on the basis of accrued revenues and accrued expenditures (in lieu of the cash basis). To accomplish this recommendation, the Bureau of Accounts plans to add selected noncash assets and liabilities—the bridge between the cash and accrual bases—to its central accounting system. In June 1968, the Bureau issued instructions requiring agencies to report such assets and liabilities in a Government-wide pilot operation to test the current Government-wide capability for making the conversion. In September 1970, it was apparent that the conversion could not be made prior to the fiscal year 1973 budget to be submitted to the Congress in January 1972. Many improvements in agency accounting remained to be achieved as a prerequisite.

Also still under consideration for future implementation is the Commission's recommendation that the full amount of the interest subsidy on loans compared to Treasury borrowing costs be reflected and specifically disclosed in the expenditure account of the budget, and that it be measured on a capitalized basis at the time the loans are made.

Monthly Treasury statement

The monthly Treasury statement—a statement of official budget results—has undergone numerous changes to conform with the concepts and classifications presented in the budget document. The presentation of budget receipts and expenditures in the monthly Treasury statement was most recently revised in January 1968 to reflect the unified budget concept recommended by the President's Commission on Budget Concepts and adopted in the budget for fiscal year 1969.

Foreign currency

In 1963, legislation was submitted to Congress which would permit using, for regular operating purposes, the foreign currencies which by law were held in a reserve status for funding specific programs. Many of these currencies were held idle for long periods, and, in the

meantime, the Government bought such currencies on the market to meet regular needs.

Pursuant to section 508 of Public Law 88-257, approved December 31, 1963, new accounting and reporting procedures for the reservation of foreign currencies on an "unfunded" basis were implemented in fiscal year 1964. The reservation of foreign currencies on an unfunded basis has had a favorable impact on cash financing costs and on the balance of payments. Dollar outlays for the purchase of foreign currencies have been deferred in the amount of \$430.4 million, cumulatively through June 30, 1968.

The first semiannual consolidated report of foreign currency balances was submitted to Congress in 1963. In June 1966, further instructions were issued to agencies for reporting on overseas expenditures, foreign currencies available for conversion, and estimated foreign currency collections, all of which are reported annually to the House Committee on Ways and Means and the Senate Committee on Finance as required by the provisions of section 6 of the Interest Equalization Tax Extension Act of 1965 (Public Law 89-243, Oct 9, 1965).

Other reports

Regulations were issued in fiscal 1963 to obtain monthly data on gross obligations (by object class) incurred by Federal departments and agencies. This new reporting, effective July 1963, was undertaken at the request of the Director of the Bureau of the Budget, in recognition of the need for timely data on the economic impact of Government operations on the private economy. This new monthly series was first published in the September 1967 Treasury Bulletin covering fiscal years 1964 through 1967.

The first "Statement of Liabilities and Other Financial Commitments of the United States Government" (as of June 30, 1967) was submitted to the Congress in January 1968. This annual statement, compiled in accordance with Public Law 89-809, November 13, 1966, shows the liabilities of the Federal Government as of the end of the fiscal year and other financial commitments which may subsequently become liabilities, contingent upon a variety of future conditions and events. This is further discussed in part I of this report in the section entitled "Budgetary and Fiscal Operations—Estimates and Reports."

A comprehensive annual report on Federal credit programs was first published as of the end of June 1961. It covered direct, insured, and guaranteed activities; and included information, by agency and program, on amounts outstanding, range of maturities and interest rates, and fees or other charges on loan guarantees and insurance.

A new Treasury circular was released in 1967 requiring Government agencies engaged in lending activities to submit monthly reports summarizing activities in direct sales of loans and mortgages and sales of participation certificates as authorized by the Participation Sales Act of 1966, Public Law 89-429 (80 Stat. 164). These data were published in the Treasury Bulletin beginning February 1967.

In 1967 a central data bank was established where all relevant data on the various foreign lending programs of the U.S. Government could

be stored for ready retrieval and analysis. One end product of the central data bank was the reports required under section 302(c) of the Foreign Assistance Act of 1966. This section provided that the Secretary of the Treasury shall transmit to the Congress semiannual reports showing as of June 30 and December 31 of each year the repayment status of each loan made under authority of this act, any part of the principal or interest of which remains unpaid on the date of the report.

CENTRAL DISBURSING

Technological improvements

Great strides were made from 1961 through 1968 in the central disbursing operations of the Division of Disbursement, Bureau of Accounts, including the systematic installation of electronic data processing equipment, electronic microfilm equipment, and a thermographic check printing process.

Following the initial installation of a computer system in January 1961 in the Chicago Disbursing Office, additional computer systems have been installed in seven other offices to facilitate the processing of an ever-increasing payment workload for the programs of virtually all civilian agencies of the Government. Procedures were coordinated with the operating (program) agencies for interchanging magnetic tape update material. Ninety-seven percent of all checks and bonds issued are now produced on computers, with the highest degree of efficiency and economy ever achieved.

A microfilm record is maintained for all checks issued. Commencing in 1964, electronic microfilming equipment was installed which permits the most economical preparation of microfilm directly from magnetic tape.

Checks for miscellaneous payments (e.g., to vendors) were typewritten at the average rate of 900 per man-day until 1964 when a thermographic check printing process was adopted. This doubled production. Further improvements in the production of checks for these "one-time" payments are now under development, including adaptation for computer processing.

The continuing technological improvement program has been most significant in the mass-production operations of the Government's central disbursing function applicable to virtually all civilian agencies of the executive branch. In 1961, the Division of Disbursement issued about two-thirds of all the Government's checks; it now issues about 80 percent of the total. In this same period, the average cost to produce a check decreased by 39 percent, from 4.4 cents to 2.7 cents on the average notwithstanding the fact that salaries increased by 33 percent and costs of materials and other services escalated substantially during the period.

The workload output increased by 45 percent over this period; nevertheless the average number of employees decreased by 39 percent—a productivity increase of 138 percent. A general comparison of 1961 and 1968 follows:

	Fiscal year 1961	Fiscal year 1962	Percentage	
			Increase	Decrease
Workload (checks and savings bonds).....	304,000,000	440,000,000	45	-----
Average number of employees (man-years).....	1,831	1,114	-----	39
Average production per employee.....	166,000	395,000	138	-----
Average salary per employee.....	\$4,802	\$6,364	33	-----
Total salaries.....	\$8,793,000	\$7,602,000	-----	14
Average processing cost per item (all operating costs, including depreciation of owned equipment. Does not include the "fixed" cost of postage which is unrelated to the measurement of performance in the Bureau of Accounts) (Cents).....	4.4	2.7	-----	39

U.S. TREASURER'S OPERATIONS

Check payment and reconciliation

The acquisition in 1961 and 1962 of new higher speed electronic equipment and components enabled the Treasurer's Office to pay and reconcile the ever-increasing volume of Government checks more efficiently and economically. In addition to annual recurring savings of \$3 million (based on salaries in 1959) by use of high speed electronic data processing machines in the reconciliation and payment of Government checks begun in 1956, the purchase rather than leasing of 90 percent of the Treasurer's ADP equipment, which was phased in between 1962 and 1963, resulted in savings of over \$1.6 million between 1963 and 1968. This same equipment is still being used with a resulting savings of \$900 thousand annually compared to what the costs would be if the equipment were leased. The number of checks processed through the ADP system increased from 430,181,000 in 1961 to 569,730,000 in 1968. Greater efficiency in the check operations enabled the Treasurer's Office to take on the processing of postal money orders for the Post Office Department on a reimbursable basis. The number of postal money orders processed has increased from 125,307,000 in 1963, when the program began, to 198,000,000 in 1968. The system has improved the control and servicing of money orders and through sharing of EDP equipment has resulted in an annual savings to the Government of \$750,000.

Settlement of check claims

The Check Forgery Insurance Fund was increased \$50,000 by congressional appropriation at the beginning of fiscal year 1964 to provide more flexibility in the revolving fund which is used for settlement with the rightful payees of lost or stolen Government checks prior to recovery of proceeds from the endorser. The increased funds permit earlier settlement of several thousand check claims cases per year.

Improvements in collecting commercial checks

Beginning in 1966, commercial checks deposited with the Treasurer in Washington were encoded and shipped to the Richmond Federal Reserve Bank to be absorbed in their sorting operations. In 1967 a local Washington bank took over the job of sorting and distributing the checks for collection. This and related operations improvements have resulted in substantially earlier availability in the Treasury of

the funds collected, and a reduction of 5 man-years in operations of the Treasurer's Office.

Accounting for Federal Reserve notes

Early in fiscal year 1967 the Treasurer of the United States took over the function of accounting for transactions and balances relating to Federal Reserve notes which was previously performed by the Comptroller of the Currency. The changeover resulted from legislation passed in May 1966 which authorized the Secretary of the Treasury to prescribe procedures for canceling, destroying, and accounting for unfit Federal Reserve notes. By the end of fiscal year 1968 the Secretary of the Treasury had delegated authority to the Federal Reserve banks to verify and destroy unfit Federal Reserve notes of \$1 through \$100 denominations and had prescribed improved methods of verifying the notes and reporting the data to the Treasury.

OTHER IMPROVEMENTS IN FISCAL OPERATIONS

Federal tax deposit system

Since 1943 when the Current Tax Payment Act of 1943 was enacted and until 1967, most employers were required to make monthly deposits of taxes in designated depositories for which a receipt was issued. This was referred to as the "depository receipt system." The detailed operations were centered largely in the Federal Reserve banks, where the depository receipts were received, validated, credited to the account of the Treasurer of the United States, and returned to the business concerns for attachment to their quarterly tax returns to the Internal Revenue Service as evidence of payment, and for later submission by Internal Revenue Service to the Federal Reserve banks, where they were mechanically checked against the records of the original payment.

In 1967, this system was modified and redesignated the "Federal tax deposit system" and was used initially to collect 1967 corporate income taxes. Since then it has been extended to all taxes collected under the old system; i.e., withheld income and FICA taxes, employers' FICA taxes and railroad retirement, and certain excise taxes. The new system involved joint effort of the Internal Revenue Service and the Fiscal Service of the Department of the Treasury (including the Bureau of Accounts and the Office of the Treasurer of the United States), the Federal Reserve banks, and the designated depositories. The new system provided a major realignment in the organizational distribution of operating responsibilities. The flow of work more closely paralleled the regular and specialized operating functions of the three different Treasury bureaus involved and of the Federal Reserve banks, capitalizing on the computer capabilities of the several different organizations and culminating in a better integration of the operations within the computer system of the Internal Revenue Service.

The system required only one mailing each quarter to each business concern by the Bureau of Accounts, which sent a supply of preinscribed Federal tax deposit forms sufficient to meet each organization's needs

for the entire quarter. This effected a substantial reduction in postage costs because, under the old system, every organization used several depositary receipts each quarter and as many pieces of mail were engendered as there were individual depositary receipts. The Federal tax deposit punchcard included a small stub which the business concern detached as its retained record, at the time of payment, and identified each such item in its quarterly tax return, and no longer had to attach anything as a validated receipt document.

In summary, the benefits realized as a result of the system change were that (1) it increased the availability of cash in the Treasury, (2) the operating costs of collecting the taxes as well as the postage costs were reduced by approximately 50 percent, and (3) it provided a simpler means of internal operations for all concerned including the business organizations. This general simplification provided a better integration of all the related processes.

Central payroll service

The Fiscal Service Automatic Data Processing Payroll System Manual was approved by the Comptroller General on May 3, 1967. The three Fiscal Service bureaus' payrolls in Washington—Accounts, Public Debt, and the Treasurer's Office—were combined in fiscal year 1964 to be processed on the Treasurer's Office ADP system. Since then the payrolls of seven additional agencies have been added to the Treasurer's payrolling activities. This same system was installed in five regional offices of the Bureau of Accounts, Division of Disbursement, to serve the Bureau's own payrolling of its field offices. The entire undertaking of this Fiscal Service automated payrolling system had the corollary objective of providing an economical facility for offering such service, as an adjunct of the central disbursing functions, for small agencies who could not economically acquire their own computers for this purpose. The Bureau of Accounts regional offices are now providing that service on a reimbursable basis for the field offices of several agencies at 89 different field stations.

Withdrawal of Federal cash for advances

Cash advanced under Federal grant and other programs constitutes a significant portion of the Federal budget and has a substantial impact on Treasury financing costs and the level of the public debt. In 1965, Treasury established the policy that these cash advances would be made only as and when actually needed by grantees for their actual disbursements. Where the annual amount advanced to an organization was less than \$250,000, advances were to be made monthly or more frequently depending upon disbursing needs. For annual advances of \$250,000 or more, the timing and amount of cash advances were to be as close to actual daily needs as was administratively feasible. For the large operations (\$250,000 or more annually) where there was a continuing relationship between the Federal Government and the recipient organization, the Treasury introduced the letter-of-credit method of advancing funds. A discussion in part II of this report of projects sponsored by the Joint Financial Management Improvement Program, contains a brief description of the manner in which this method originated. This method permitted the recipient, as authorized by the pro-

gram agency, to draw on the Treasury, through its commercial bank and the Federal Reserve System, promptly and only when funds were actually needed to make disbursements. Since inception of the system in 1965, annual withdrawals by letter of credit have increased from \$1.5 billion to \$18.3 billion in 1968. The resultant deceleration of cash withdrawals from the Treasury attributable to the letter-of-credit method has an imputed value of at least \$20 million a year in savings of public debt interest.

Payments to financial organizations for credit to employees' accounts

The enactment of Public Law 89-145, approved August 28, 1965, made it permissible to pay a person, at his request, in the form of a check payable to a designated financial organization for credit to his account. Prior to that legislation, payment to a person, by check, could be made only by having the check drawn in favor of that person. Public Law 89-145 also provided that a single (composite) check could be drawn in favor of a financial organization, covering the aggregate of the several amounts payable, in those cases where more than one person designated the same financial organization to receive their payments. Since that time a substantial number of Federal employees have elected to receive their net pay in the form of checks drawn payable to their financial organizations for credit to their accounts, and the Government has realized the operating economy provided by the issuance of a single (composite) check drawn to a financial organization, accompanied by a list of employee accounts to be credited, where a significant number of employees in the same payroll have designated the same financial organization.

Allotments of pay for employees' savings accounts in financial organizations

Public Law 90-365, approved June 29, 1968, superseded Public Law 89-145. The basic procedural authorizations originally provided by Public Law 89-145 have been retained in Public Law 90-365. In addition, Public Law 90-365 made available to Federal employees, at their option, allotments of pay to financial organizations for credit to savings accounts. Under the law, an employee may authorize one or two allotments of pay for savings with one or two financial organizations. The law provides that the Government's cost in the administration of the savings allotments system shall be recovered from the financial organizations by deduction of a service charge from the amounts of savings allotments remitted to the financial organizations.

Treasury Fiscal Requirements Manual

On July 22, 1965, the Fiscal Assistant Secretary notified all Government departments and agencies of the planned publication of a new Treasury Manual titled "Treasury Fiscal Requirements Manual for Guidance of Departments and Agencies" (TFRM) to be issued by the Commissioner of Accounts. The new manual was designed to encompass in revisable manual form, the pertinent fiscal requirements eliminated from titles 6 and 7 of the General Accounting Office Policy and Procedures Manual for Guidance of Federal Agencies, as well as certain operating procedures relating to fiscal requirements contained in various Treasury circulars. The initial release of the TFRM was

made on April 29, 1966, consisting of Part I—Introduction, and Part III—Payrolls, Deductions, and Withholdings. From April 29, 1966, through December 3, 1970, 54 different TFRM releases were issued for the guidance of all departments and agencies, covering such subjects as advance financing, payrolling, central accounting and reporting matters, remittance of net pay and allotments of pay for savings to financial organizations for credit to accounts of Government employees, and accrual accounting and reporting requirements.

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