COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON 25

A-97205

FEB 3 1944

The Honorable

The Secretary of Agriculture.

My dear Mr. Wickard:

There has been received letter of the Acting Secretary of Agriculture, dated December 22, 1943, as follows:

"Experience with the system of financial reporting prescribed by Budget-Treasury Regulation 1, Revised, issued under Executive Order No. 8512, and concurred in by you, has demonstrated that it can be an effective and useful tool of management and supervision. The principal difficulty, as observed in the course of our experience in this Department, is that the accounting system, as currently prescribed by the General Accounting Office, does not permit the preparation of such reports directly from the accounts, unless the monthly allotment procedure is followed. It is our belief that allotment ledger accounts would more effectively serve administrative and budgetary needs if they reflected obligations as defined in Budget-Treasury Regulation No. 1, Revised, rather than obligations as differently defined under G.A.O. General Regulations 100, and that the accounting system would be just as adequate from a strict accountability standpoint.

"It would, therefore, be appreciated if you would permit agencies of this Department, as soon as the change in the case of each individual agency could feasibly be made, to maintain their allotment ledger accounts on an accrued obligation rather than a contingent liability basis, and to submit reports to your office accordingly, as well as to the Treasury Department and the Bureau of the Budget.

"As G.A.O. General Regulations 100 involve changes in the accounting and reporting systems of all agencies of this Department with respect to appropriated monies, it appears vitally important that this fundamental question be resolved before the necessary changes are made.

"Mr. , Director of Finance, and other representatives of the Department will appreciate an opportunity to discuss this matter with your office in more detail."

The proposition, as set forth in the Department's letter, supra, has been given the most careful consideration, and because there is here involved matters not only of concern to the administrative responsibilities of your department but the fundamental responsibilities of the Bureau of the Budget and of this office, as respects the accounting for and reporting of the use of appropriated moneys, a full analysis of the subject is deemed desirable. Accordingly, there is set forth, step by step, the general development and crystallization of the Governmental accounting procedures.

Commencing with section 3679, Revised Statutes (U.S.C. 31: 665), the Congress directed that—

> "No executive department or other Government establishment of the United States shall expend, in any one fiscal year, any sum in excess of appropriations made by Congress for that fiscal year, or involve the Government in any contract or other obligation for the future payment of money in excess of such appropriations unless such contract or obligation is authorized by law. *** All appropriations made for contingent expenses or other general purposes *** shall on or before the beginning of each fiscal year, be so apportioned by monthly or other allotments as to prevent expenditures in one portion of the year which may necessitate deficiency or additional appropriations to complete the service of the fiscal year for which said appropriations are made ***";

and, in the Budget and Accounting Act of 1921, Sec. 213, 42 Stat. 23, the Congress further directed with respect to the Bureau of the Budget that—

> "Under such regulations as the President may prescribe, (1) every department and establishment shall

furnish to the Bureau [of the Budget] such information as the Bureau may from time to time require, and (2) the Director and the Assistant Director, or any employee of the Bureau when duly authorized, shall, for the purpose of securing such information, have access to, and the right to examine, any books, documents, papers, or records of any such department or establishment.";

and, with respect to the Comptroller General, sec. 309, 42 Stat. 25, directed that—

"The Comptroller General shall prescribe the forms, systems, and procedure for administrative appropriation and fund accounting in the several departments and establishments ***."

Pursuant to the foregoing statutory directions, the several Directors of the Bureau of the Budget have from time to time promulgated circulars calling on the various executive departments, independent establishments and agencies of the Government for statements and reports of the status of the appropriations and funds under their several jurisdictions. The Comptroller General has, over the period commencing in 1925 to date, prescribed the forms, systems and procedures for administrative appropriation and fund accounting, which in the course of eighteen years, have been installed in the majority of departments, establishments, and agencies of the Government, and under date of October 4, 1943, prescribed same for use by all departments, establishments, and agencies of the Federal Government, in General Regulations No. 100.

Under date of August 13, 1940, the President of the United States promulgated Executive Order No. 8512, as follows:

"By virtue of the authority vested in me by the Budget and Accounting Act, 1921, approved June 10, 1921 (42 Stat. 20), and as President of the United

States, I hereby prescribe the following regulations with respect to the compilation and reporting of information on the financial condition and operations of the Government and with respect to the budgetary control of expenditures:

"Section 1. The term 'agencies' as used in this order shall include executive departments and independent establishments and corporations in which the United States has a proprietary interest, direct or indirect, except Federal savings and loan associations and those corporations in which the proprietary interest of the United States is evidenced only by preferred stock or capital notes acquired through the Reconstruction Finance Corporation or production credit corporations.

"Section 2. The Secretary of the Treasury shall prepare and transmit to the Director of the Bureau of the Budget, for the information of the President, such financial reports as may be necessary or desirable to make known in all practicable detail the financial condition and operations of the Government and its various agencies; and he shall prepare and furnish to the Director of the Bureau of the Budget such other reports relating to the financial activities of the Government and the status of appropriations or funds and the apportionments thereof as the Director may require for the compilation of the budget or for other purposes of budgetary administration. The above-described reports shall relate to such periods of time as the Director of the Bureau of the Budget may designate and shall include such information as the Director may determine to be necessary and desirable for adequate budgetary and executive control.

"Section 3. The Secretary of the Treasury shall establish, as soon as practicable, and maintain such accounting records as are necessary to coordinate and integrate the financial data reported by agencies as required herein with the financial data of the Treasury Department and to provide a basis for the expeditious compilation and prompt submission of the financial reports required to be furnished to the Director of the Bureau of the Budget. These accounting records shall be operated, on the double-entry principle of bookkeeping, as a summary but complete system of

central accounts for the entire Government; and they shall be so established by the Secretary of the Treasury as to effect suitable coordination with the accounting systems prescribed by the Comptroller General of the United States under authority of section 309 of the Budget and Accounting Act, 1921. (Underscoring supplied.)

"Section 4. The several agencies shall furnish the Secretary of the Treasury such information and data relating to their financial condition, activities, and operations as may be required to enable the Treasury Department to maintain the accounting records and prepare the financial reports necessary for compliance with the provisions of this order, and shall furnish such information relative to their accounting principles and practices as the Secretary of the Treasury may require for the proper processing of the data reported by such agencies.

"Section 5. The head of each agency shall, under such rules and regulations as the Director of the Bureau of the Budget may prescribe, submit to the Bureau of the Budget recommendations for the apportionment of each appropriation made to such agency, and such apportionments, when approved by the Director, shall be binding upon the agency concerned in controlling its budgetary plans and rate of expenditures, subject only to revision of such apportionments by the Director. No agency shall make expenditures or involve the Government in any contract or other obligation for the future payment of money in excess of the amount currently available therefor under the apportionments so approved or revised: Provided, however, that such apportionments may be exceeded when such action is necessary to prevent the loss of life or Government property; and in such cases the head of the agency concerned shall promptly justify such action in writing to the Director of the Bureau of the Budget. The provisions of this section shall be applicable to the amounts made available by the Congress for the administrative expenses of governmental corporations.

"Section 6. The following specific requirements shall be observed by all agencies in reporting the financial data required under the provisions of this order:

"(a) The reports of financial condition and operations shall reflect all uncollected revenues and other amounts owed to the Government, whether assessed, due, or accrued, and also all bonded or

other indebtedness of the Government, whether due or accrued, including all current liabilities. Such reports shall also reflect, so far as ascertainable, all contingent liabilities of the United States and its corporate and other instrumentalities.

"(b) A uniform terminology and uniform classifications of assets and liabilities, and revenues and expenditures shall be employed. Such classifications shall, so far as practicable, distinguish between expenditures which are of a recoverable nature, such as loans and investments, and those of a nonrecoverable nature.

"(c) Uniform standards shall be employed, to the fullest extent practicable, in the valuation of assets and the determination of liabilities and the treatment of revenues and expenditures in relation thereto.

"(d) The data shall be compiled on the basis of the accounting records of the respective agencies, or shall be susceptible of ready reconciliation therewith. (Underscoring supplied)

"Section 7. The uniform terminology, classifications, principles, and standards referred to in this order shall be established by the Secretary of the Treasury with the approval of the Director of the Bureau of the Budget and shall be observed by all agencies in the financial reporting required by this order.

"Section 8. The Director of the Bureau of the Budget is authorized, in accordance with the provisions of section 213 of the Budget and Accounting Act, 1921, to analyze the financial records of any agency in order to secure such information as the Bureau of the Budget may require for the formulation of revision of reporting requirements or for assuring compliance therewith.

"Section 9. Executive Orders No. 5614 of May 1, 1931, No. 6226 of July 27, 1933, No. 6869 of October 10, 1934, No. 7126 of August 15, 1935, as amended, and all other orders or parts thereof inconsistent with the provisions of this order are hereby revoked."

Whatever overlapping of authority in the reporting requirements of the Bureau of the Budget and the accounting systems prescribed by the Comptroller General, which might have developed under Executive

Order No. 8512, was effectively cured by the provisions of Executive Order No. 9084, dated March 3, 1942, wherein the President directed:

> "Provided, that prior to establishing such uniform terminology, classifications, principles, and standards, they shall be referred to the Comptroller General of the United States for consideration and determination as to whether they are in conflict with the forms, systems, and procedures prescribed by the Comptroller General as required by section 309 of the Budget and Accounting Act. If the Comptroller General determines that such conflict exists, then they shall not be established except by him as provided in section 309 of the said Act."

While this office had no part whatever in the preparation of Budget-Treasury Regulation No. 1, dated June 28, 1941, a representative of this office, under my personal direction, was detailed to collaborate with representatives of the Bureau of the Budget and the Treasury Department in the revision of Budget-Treasury Regulations No. 1, which was subsequently promulgated by Budget Circular No. 392, dated June 19, 1942. The purpose of this collaboration was (a) to observe whether the regulations impinged upon the authority of the Comptroller General in prescribing accounting forms, systems, and procedures; (b) to see that the accounting terminology, essential to explain the basis of the information required to be reported, was not in conflict with that presented by the Comptroller General; (c) to consider what modifications might be desirable in the accounting systems prescribed by the Comptroller General to insure better budgetary and administrative accounting control; and (d) to devise a means whereby the data reported could be taken from the accounting records as prescribed by the Comptroller General.

As the result of this collaboration, it was agreed that since the accounting term "encumbrances" had been so generally misconstrued by the executive departments as authorizing them to obligate their allotments with plans rather than actions, the term "obligations" was adopted as the official budgetary accounting term to express the action of an administrative officer in the employment of personnel, the placing of orders, the execution of contracts, the authorization of travel of persons and shipment of things, etc. See page 226 of General Regulations No. 100.

An accounting distinction was also recognized (with respect to repayments to appropriations) between collections representing the recovery of overpayments which are designated "refunds", and those representing reimbursements for work done and/or materials furnished pursuant to the provisions of section 601 of the Economy Act of 1932, which are designated "reimbursements". See paragraph 6, page 3, General Regulations No. 100.

General Accounting Office Bulletin No. 1, Objective Classification of Expenditures prescribed by the Comptroller General May 11, 1922 (revised August 26, 1927), was rescinded effective concurrently with the adoption of the classification of obligations, according to objects, as set forth in part V of Budget-Treasury Regulations No. 1-Revised, dated June 1, 1942. See General Accounting Office Bulletin No. 1, Modified and Amended, dated July 10, 1941.

The "Miscellaneous Encumbrance Record" was revised to provide for a distribution of those obligations which extend over a number of

months, and was approved as the "Miscellaneous Obligation Record" on April 28, 1942, and subsequently prescribed as Standard Form No. 1101, in General Regulations No. 100. This document, which is an integral part of the allotment records, provides the information by which the amounts of unmatured obligations can be ascertained for the purpose of computing the totals of obligation which are required to be reported to the Bureau of the Budget as of the close of the statement periods. See page 238 and 239 of General Regulations No. 100.

While considerable discussion was had with respect to the term "obligations", how they should be recorded in the administrative accounting systems prescribed by the Comptroller General, and how they should be reported on the statements called for by the Bureau of the Budget, this office was unwilling to concede that an "obligation" may be measured by a temporary reporting requirement. For budgetary accounting purposes, the term "obligations incurred" is construed as being inclusive of both obligations which have matured (legal liabilities) and those which are contingent upon the subsequent rendition of services, the furnishing of materials, the performance of travel, etc., etc. For example, the Government's obligations for the payment of personal services must provide for the payment of accrued annual leave; the obligations for the payment of travel expenses must take into consideration the return of the traveler to his official station; and the obligation for the payment of rent must be sufficient to cover the period

specified in the rental contract. The incidental provisions for cancellation of agreements, whether they pertain to employment of persons, the furnishing of material, or the occupancy of property, are merely precautionary safeguards in the interest of the Government and are for enforcement only under exceptional conditions. Such right of cancellation does not in itself negative the obligation.

One of the principal purposes for which the administrative appropriation and fund accounts are prescribed is to enable the responsible administrative officers of the Government to know currently the available balances of the appropriations and funds under their jurisdictions, so as to avoid the incurring of a deficiency or over-expenditure. This contemplates that the administrative appropriation and fund accounts will be appropriately charged at the time the obligations are incurred with the full amount necessary to liquidate the obligation over the entire period for which it was incurred, but not beyond the end of the period for which the funds are available for obligation. Any failure in this respect will vitiate the purposes for which the accounts provide, and will nullify the effectiveness of the accounting processes which have been established.

While in General Regulations No. 100 it is suggested that allotments be made to the end of the fiscal year, or a period sufficient to complete the purpose for which made, it is not restrictive, and, if it is considered administratively advisable, allotments may be made for lesser periods, as, for example, according

to apportionment periods. However, such action will result in additional postings to the accounts and increases the possibility, because of added complexities, of incurring a deficit.

In this connection, your attention is called to the following paragraph appearing on page 225 of section III, General Regulations No. 100:

> "Since allotment accounts are provided for the purpose of preventing deficiencies in, or overexpenditures of, appropriations and appropriation limitations, it is obvious that if the amounts allotted do not exceed the appropriations or appropriation limitations and the obligations and expenditures do not exceed the amounts allotted, no deficiency or overexpenditure will occur. It is, therefore, important that allotments be made in such manner as will effectuate a control at the point where contracts are approved and obligations incurred."

I desire to point out that in the instructions in Budget-Treasury Regulations No. 1-Revised, to which I concurred, the greatest care was exercised to clearly indicate that, <u>for reporting purposes</u> under such regulations, "obligations" will be restricted, as defined.

Also, see in this connection page 12 of Budget-Treasury Regulations No. 1-Revised, which I consider most appropriate to this subject.

> "Section 5
> ADJUSTMENT OF PROJECTED OBLIGATIONS
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> "The amounts to be reported under this Regulation as 'obligations incurred' will represent only that portion of the obligations which have matured to the end of the period for which the reports are prepared.
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> "The requirements as to the reporting of obligation data under this Regulation are not intended to infer that the several agencies should not record on their appropriation accounts such other continget obligations as may be

necessary to insure against incurring a deficiency.

"The Comptroller General has approved the Miscellaneous Obligation Record, Standard Form No. 1101, approved April 28, 1942, for use in conjunction with administrative appropriation accounts. This form serves as a subsidiary record of obligations and is so designed that agencies using it to project obligations over the entire year can exclude the amounts projected at the end of any given month and produce the obligation information required under this Regulation."

The reporting required by the Bureau of the Budget is for the purpose of meeting the current requirements of that agency, and it was not intended that the various agencies of the Government should limit or restrict their accounting by reason of such requirements, but rather that each agency should protect its appropriations by a full and complete accounting.

The method of "obligating the allotments", as set forth in General Regulations No. 100, has been uniformly prescribed for and adopted by practically all the other departments, establishments, and agencies of the Federal Government. Such a modification as that suggested in the Department's letter, supra, would completely disrupt the accounting installations which are now operating satisfactorily, without compensating advantages.

I am hopeful that the information which is required to be reported on the statements prescribed in General Regulations No. 100, particularly the Statement of Apportionment and Allotment Accounts by Appropriations, Standard Form No. 1117, will meet the reporting requirements of the Bureau of the Budget.

In response to the comment in the last paragraph of the letter, supra, that Mr. , Director of Finance, and other representatives of the Department would appreciate an opportunity to discuss the matter (of certain desired changes in the accounting procedure) in more detail, such a conference was recently held at this office. I am informed that the salient points which were emphasized were as follows:

> Mr. stated that there was no unanimity of opinion among the officials of the bureaus and offices of the Department as to the preferred basis for recording obligations; that he had only recently become convinced of the desirability of abandoning the orthodox (prescribed) procedure for that which would be described by his associate, Mr. .
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> Mr. succinctly outlined the following as the streamlined procedure now advocated by a majority of the Department's responsible budgetary accounting officials:
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> 1. A centralized control in the budget office of the Department of Agriculture of all of the appropriations made by the Congress for the various functions and activities of the Department, and
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> 2. The approval by that office of allotments, the amounts of which would be based on the obligations incurred by the various bureaus and offices of the Department;
>
> 3. Against such allotments, the bureaus and offices would subsequently record the obligations as they mature into liabilities.
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> The declared advantages of the proposed plan were that it would enable the budget officer to control the "free" or unobligated balances of appropriations through the authorization of additional allotments or the revocation of amounts previously allotted, and would enable those responsible for the preparation of statements required for budgetary information to transcribe the amounts directly from the allotment ledgers.

The plan, which apparently would transfer from the heads of the various bureaus and offices to a central officer the flexibility which such bureaus and offices have heretofore enjoyed in the allotting and obligating of the appropriations, for which they are responsible, was impregnated with such far-reaching implications that a further explanation with respect to its operation was sought the following day from Mr. (who also attended the conference).

It is reported that Mr. 's explanation was to the effect that the appropriations would be controlled and allotted in the various bureaus and offices as heretofore; that the only change involved would be the recording of the obligations to the allotment accounts on the current basis of matured obligations as defined (for reporting purposes) in Budget-Treasury Regulations No. 1, Revised, rather than the annual or term basis as prescribed in General Regulations No. 100.

While the plan outlined by Mr. , if given the fullest possible cooperation by the bureaus, etc., would provide a certain measure of protecting the appropriations against over-obligation, it is the considered opinion of this office that insufficient protection is provided in the said plan as subsequently interpreted by Mr. .

In view of the facts thus disclosed during the conference, it is suggested that the accounting officials of the Department of Agriculture give their earnest consideration to organizing the administrative accounting procedures in conformity with those prescribed in General Regulations No. 100, which, as hereinabove set forth, provide

the essential features for safeguarding the appropriations against over-obligating, and will permit of furnishing the information required by Budget-Treasury Regulations No. 1, Revised.

Sincerely yours,

[illegible]

Comptroller General
of the United States

cc: Director, Bureau of the Budget