7th Annual Progress Report

UNDER THE

JOINT PROGRAM TO IMPROVE ACCOUNTING IN THE FEDERAL GOVERNMENT

DECEMBER 31, 1955

February 7, 1956

ILLUSTRATIVE HIGHLIGHTS - From 1955 Progress Report under the Joint Program to Improve Accounting in the Federal Government.

Progress under the Joint Program is so widespread and includes so many different types of improvements that an illustrative approach has necessarily been used as a basis for presenting the annual report. This brief summary can only include a few illustrations. The items selected are designed (1) to indicate the more important general developments, (2) to identify major areas involving agency improvements, and (3) to characterize the several types of identifiable savings. The less tangible but infinitely more important savings which result from management utilization of improved financial data do not always lend themselves to specific measurement.

A. General Developments

In addition to their day-to-day cooperative efforts to assist operating agencies under the Joint Program, the three central agencies (Treasury, Bureau of the Budget and General Accounting Office) furnished leadership in the Government-wide aspects of the improvement program.

Electronic system for processing paid checks in Treasury scheduled for installation beginning August 1, 1956. New system will consolidate present separate processes for paying checks in Treasury and reconciling them in General Accounting Office. When conversion is completed (over next two years) to cover all 350 million checks drawn annually by Government disbursing officers on the Treasurer of the United States, new system will produce annual savings of about $1.7 million in General Accounting Office and Treasury and an additional $500,000 annually in Federal Reserve Banks.

Further progress in program for maximum utilization of punched card checks (which permit mechanical processing for clearance, payment and reconciliation) in lieu of paper checks. Additional annual volume of 12 million checks converted from paper to punched cards during 1955, resulting in additional annual Government-wide savings of $270,000. As a result, of the total of 350 million checks issued by the Government annually only about 25 million have not yet been converted to the punched card form. Those remaining in paper form by August 1956 will be converted to special types of card checks as part of above program for electronic processing of paid checks in the Treasury Department.

Treasury's central accounting system further streamlined in 1955 through simplification of procedures for maintaining checking accounts with resulting direct savings of $157,000 annually. New practices also greatly simplify procedures and reduce paper work throughout Government in accounting for collections, making deposits, and interagency transactions. These changes in 1955 substantially rounded out a long list of evolutionary simplifications and other improvements during the past five years in central accounting processes in Treasury and General Accounting Office. Cumulatively, these progressive changes have resulted in directly identifiable savings in administrative costs in Treasury and General Accounting Office alone in excess of $2 million annually. Moreover, changes made are reflected in simplified procedures and reduced paper work throughout all agencies of Government in connection with accounting and control of their cash transactions.

Treasury's central reporting has been improved along with above changes in central accounting with further refinements in 1955. The Budget document and Treasury's monthly and annual statements are now on consistent basis. Treasury's revised system of simplified accounting now anchors its reporting to cash balances of Treasurer of the United States with provision for development of such reconciling items as outstanding checks, deposits in transit, etc. Other improvements in Treasury's reporting made during 1955 include: (1) revised and expanded classification of budget expenditures, adopted July 1, 1955, for the Monthly Treasury Statement which improves comparability between this statement and the detailed expenditure classifications in the Budget document, and (2) two significant changes in the Annual Combined Statement of Receipts and Expenditures for the fiscal year ended June 30, 1955. These changes consist of (a) tables showing details with respect to appropriations were expanded to include an analysis of the unexpended balances in terms of balances available and unavailable, and the obligated and unobligated amounts, and (b) a new table is provided to show condensed information on financial resources and obligations of each wholly-owned corporation and other revolving fund of the Government.

Budgeting. Revisions in budget structure for 47 bureaus or other major divisions of departments and independent establishments were made during 1955 (for the fiscal year 1957 Budget) to obtain better integration of budget data with accounting support and improved control and flexibility in the use of funds. Over the past six years appropriations have been reduced in number from 758 to 491. Accrued cost presentations in the Budget document have increased from 28 to 120. In addition cost-type statements were submitted as part of the 1957 budget justifications for 37 other appropriations.

Transportation. Revised transportation request for passenger transportation was installed Government-wide in July 1955. New request is in punched card form and provides for consolidating rail and pullman charges on the same form in lieu of separate requests previously required. Aside from substantial reduction in number of forms to be used and handled by all concerned (Department of Defense estimated that in a recent year it used 693 thousand pullman requests under old procedure), the new form is cheaper than the old one and provides basis for mechanization of various clerical operations in connection with billing and accounting work. Further opportunities for savings based on use of the punched card request and other transportation procedures are under active study.

Financial property accounting. Establishment of appropriate financial accounting and reporting for properties has been important part of internal accounting improvement programs of various Government agencies with much progress made.

B. Agency Progress

The various examples of agency progress which follow are just a few items selected from Part II of the report to indicate the trend of progress in accounting developments and improvements being accomplished by the individual agencies, and to illustrate a few of the types of revisions in accounting procedures with which agencies have been able directly to identify administrative savings. These improvements are made by the agencies largely on their own initiative within the broad principles and objectives of the Joint Program.

It is, of course, not possible to illustrate in a short summary the most significant benefits which come from improved accounting i.e., its contribution to better management of Government programs made possible by having adequate information regarding costs; available resources; and other basic data which modern accounting systems should supply, through prompt and accurate reports, in proper relationship to authorized programs, budgets, workload data, responsibility centers and other similar significant management criteria.

Post Office Department improvements in financial management continue to achieve more effective control, more meaningful cost information and simplified procedures. Some of the savings achieved were the elimination of over 2,000 positions in the accounting and financial control operations of large post offices through reorganization of these functions and simplification of these procedures; reduction of over 2,000 or about one-third of the authorized forms, including a reduction in styles of official envelopes procured, stocked and used from 663 to 26; simplification of procedures for issuing money orders reduced issuing time by 40 percent for the several hundred million money orders issued each year, and eliminated the printing, distribution and use of one-half billion money order application forms. A savings in the bonding of postal employees was made possible by Public Law 323 enacted in 1955. Although the Department now pays the bond premiums, the cost of such premiums is $117,000 less on an annual basis than the cost to the Department of handling several hundred thousand individual bonds under the previous practice. In addition, employees are saved about $1,300,000 in annual premiums which they paid for individual bonds.

In the Department of the Army financial inventory accounting has been extended to 204 continental and overseas points and the Army Stock Fund has been extended to overseas commands. Total inventories under financial accounting included 91% of overseas stocks not in the hands of troops and in excess of 95% of similar continental United States stocks. Industrial Fund installations increased to 18 and examples of economies effected are: (a) the materials and supplies inventories were reduced about $43 million, or slightly over 50%, through progressive inventory screening during the 1955 fiscal year; and (b) operating costs at two locations were reduced an aggregate of about $1.7 million. Through improvements in civilian payroll procedures begun in 1953 the Army estimates it is saving annually $2.5 million in payroll operations. The integrated allotment accounting-disbursing-payroll program was completed for overseas commands and is well along in the Technical Services.

In the Department of the Navy industrial fund installations, with related commercial type accounting, increased to 47 and examples of economies effected are: (a) production costs at one installation were reduced about $1.1 million; (b) overhead costs at another were reduced by about $97,000; (c) inventories at four Naval Shipyards were reduced an aggregate of about $2.3 million during the year; (d) recommendations concerning transportation services at one Naval Shipyard resulted in tangible annual savings of $219,000; and (e) at the same Shipyard a reduction of 26 shop stores employees saved $100,000 a year. Reduction of Stock Fund inventories during the year was $173 million even though additional inventories of $136 million were capitalized under the Fund. An improved cost control system for aircraft overhaul and repair operations was developed; an accounting system which integrates field allotment, field cost, bureau and field estimates of the Medical Department is being tested; and a revised accounting system for military construction is in process.

The Department of the Air Force extended financial accounting to all overseas depot stocks and, as a result, all stocks located at Air Force installations are now accounted for on a dollar basis. Simplified procedures in connection with inventory accounting have resulted in substantial machine time savings and is expected to result in a total clerical effort reduction of from 300 to 350 man-years. The test of an improved depot maintenance cost accounting system at one installation disclosed a 10% increase in production per man-hour for maintenance. This system is in process of being installed in all Air Materiel Areas in the United States. By mechanized procedures for the payment of commercial vouchers the basic operations required were reduced by almost 50 percent. The integrated Air Force Financial Management System, incorporating accrual accounting, has been developed for the Air Research and Development Command and for the Air Proving Grounds and is expected to be put into effect at an early date; all Air Force laundries and dry cleaning plants were brought under the Industrial Fund system; and the Air Force Stock Fund was expanded. As a result of a reduction in inventories of the Clothing and Medical-Dental Divisions, $70 million of capital was returned to the undistributed account of the Air Force Stock Fund.

The Department of Health, Education, and Welfare, Bureau of Old-Age and Survivors Insurance is converting its social security wage accounting system to the use of electronic data processing equipment and methods at an estimated cost of $850,000, which is expected to produce annual savings of at least $1,250,000. Revised methods for the screening of errors in earnings records, and other revised procedures, are expected to result in annual savings of more than $200,000. By combining the retirement benefit and the survivor benefit payable to the same individual in one check, there were eliminated over 600,000 checks per year at a recurring savings of more than $40,000 per year; a social security claims index file consisting of over 9 million cards with yearly addition of over 800,000 items was discontinued at an immediate savings of $50,000 and a recurring annual savings of $25,000; and tests in one area office of revised procedures for decentralized disbursing and accounting for benefit and salary payments reduced the cost of performing these two functions by approximately $40,000 per year as estimated by the Department. In the Public Health Service general ledger accounting has been decentralized from the Washington, D.C., headquarters to 41 field accounting points; cost accounting has been integrated with the general ledger and coordinated with budget and other reporting requirements; fiscal accounting for property was inaugurated and about $13.5 million of equipment in use and supplies is under financial accounting control; and the use of punched card processes was extended. A departmental Division of Internal Audit was established under the Office of the Secretary.

In the Department of Agriculture active work was underway on further development and improvement of accounting systems in twelve constituent bureaus with general emphasis on improving financial property accounting, simplification of allotment controls, and better tie-in between accounting and budget processes. Internal audit program was strengthened and expanded with emphasis on the appraisal aspects. Forest Service installed simplified accounting for collections for timber operations which provided improved control while at the same time eliminating over 15 thousand detailed accounts.

In Department of Commerce, Maritime Administration is preparing cost-type budget statements for management and in Coast and Geodetic Survey accounting is being revised to provide for adoption of the accrual basis and the integration of project cost accounting.

The Department of the Interior has installed revised accounting systems in eight of its principal bureau-type organizations and systems improvement work is in progress in five of the other principal organizations. Seven of the installed systems develop costs on an accrual basis reconcilable with fund controls under an overall financial plan of integrating programming, budgeting, accounting and reporting activities. During the year the National Park Service consolidated 46 accounting offices into 28 with a savings of 24 positions costing $92,000 annually.

In the Department of State work is actively underway in the Passport Office for fundamental improvements in accounting, reporting, and internal control over cash collections and other fiscal procedures. In the International Cooperation Administration a comprehensive accounting manual was released to provide completely integrated systems of accounting and reporting for the Washington Office and 60 overseas missions. Also significant organizational changes were made in the Controller organization and in financial reporting.

Treasury's Division of Disbursement revised procedures for flow of information between Treasury's disbursing officers and certain offices of the Veterans Administration, Social Security, and Civil Service Commission in connection with benefit payments which will save about $48,000 a year. Other savings effected by the Division of Disbursement include $38,000 annually from use of bill feed process in preparation of tax refund and other checks; $11,000 annually from use of card checks rather than paper checks for preparation of substitute checks; and $45,000 annually from installation of instantaneous duplicating equipment for preparation of return check notices. Treasury's Bureau of Public Debt revised procedures to provide for reuse of bearer securities which will result in an estimated annual savings of $125,000; revised procedures for processing redemption of matured Series "G" savings bonds will save $15,000 annually; and revised verification procedures for redeemed savings stamps will save approximately $22,800 a year. The Internal Revenue Service established two area service centers for the mathematical verification of tax returns, billing of taxpayers and approval of refunds. This provides the basis for mass production through mechanization of these operations with anticipated reduction of administrative expense. Also, District Directors can give more attention to the important, nonroutine functions of collecting the revenue. The U.S. Coast Guard completed capitalization of real property and development of procedures for maintaining property accounts.

General Services Administration continued joint surveys with General Accounting Office on property accounting and related procedures and activities in various Government agencies. It also adopted simplified procedures which eliminated the pricing, summarization, and related accounting for about 12,000 supplies requisitions annually; mechanized its procedures to produce summary billing statements which could be used for billing, record, and payment voucher purposes, thereby eliminating 30,000 voucher schedules annually for the customer agencies; simplified teletype billing procedures by establishing a fixed rate per work (based on experience) for the 3 million words transmitted over its system each month and eliminated about 400 billings annually; and instituted block posting of bills of lading with a reduction of the number of suballotment accounts and a reduction in the number of postings from about 14,000 to about 500 a year.

During the year the Railroad Retirement Board improved its wage accounting system for wages earned in railroad employment, by the use of improved calculating equipment and related methods for the purpose of computing earnings, thereby eliminating the preparation of 1.2 million cards for excess earnings, the listing of 6 million cards, and the collating of 3 million cards at an annual savings, as estimated by them, of $43,000 of which $33,000 represents personnel costs.

United States Information Agency. A revised system of fiscal accounts, with related procedures, was adopted during the year. Allotment accounting has been reorganized and simplified (with reduction of 4 out of 10 employees); property record forms, inventory reports, and punched card procedures have been developed; and a system of cost finding is being tested.

Veterans Administration. As a result of the institution of site audit in all VA offices by the General Accounting Office, over 10 million copies of documents which were previously submitted for central audit are no longer required and the flow of documents has been simplified; consolidation of loan guaranty and direct loan accounting functions in Regional Finance Divisions during 1955, resulted in annual savings of about $25,000; certain duplicating benefit payment accounting and reporting was eliminated during year which resulted in annual economies estimated at $37,000; revised procedures which eliminated the preparation of underwriting work sheets and, in most cases, "dummy" premium record cards in the processing of applications for Veterans Special Term Insurance will result in estimated savings of more than $200,000 annually; mechanical computation of National Service Life Insurance dividends and related mechanical preparation of vouchers will produce estimated annual savings of about $200,000; mechanized procedures for computing annual interest and applying remittances to interest and principal for National Service Life Insurance loan accounts were tested and approved at one office during the year and will be extended to the 200,000 National Service Life Insurance loans of Veterans Administration with an estimated savings of $70,000 per year; the elimination of 1.3 million history records and attendant operating and clerical costs resulted in an estimated annual savings of $55,000; and revision of accounting controls over collections of premiums by deductions from benefit payments eliminated detailed postings to about 260,000 premium cards per month at an estimated savings of $238,000 per annum.

COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON 25

February 7, 1956

TO THE HEADS OF DEPARTMENTS AND ESTABLISHMENTS:

SUBJECT: Seventh Annual Progress Report Under the Joint Program to Improve Accounting in the Federal Government

This report has been prepared by the staffs of the Bureau of the Budget, the Treasury Department, and the General Accounting Office, in participation with your representatives, to illustrate the progress made under the joint accounting program during the calendar year ended December 31, 1955.

We are sure that you will be most gratified, as the Secretary of the Treasury, the Director of the Bureau of the Budget, and I have been with the splendid progress summarized in this report. These achievements clearly demonstrate the advantages of a cooperative program which provides a full opportunity for agency initiative in the development of improved financial management.

In order that this year's accomplishments may be reviewed in the light of the developments in prior years, an Appendix B has been included in the report this year as a short summary of the cumulative effect in broad areas of development. Since the 1955 developments in the central accounting and reporting functions of the Treasury Department were a culmination of many prior changes, an Appendix C has also been added to describe in more detail the many changes that have taken place in Treasury's central accounting and reporting.

The Secretary of the Treasury and the Director of the Bureau of the Budget join me in requesting your continued enthusiastic participation in the program and your suggestions for increasing its effectiveness.

Joseph Campbell
Comptroller General
of the United States

SEVENTH ANNUAL PROGRESS REPORT
UNDER THE
JOINT PROGRAM TO IMPROVE ACCOUNTING
IN THE FEDERAL GOVERNMENT

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SEVENTH ANNUAL PROGRESS REPORT UNDER THE JOINT PROGRAM TO IMPROVE ACCOUNTING IN THE FEDERAL GOVERNMENT

INTRODUCTION

This is the seventh in the annual series of reports of accomplishments under the Joint Program to Improve Accounting in the Federal Government. It covers progress during the calendar year 1955 with the accumulated progress summarized in an appendix to the report. The report was prepared by staffs of the General Accounting Office, Treasury Department and Bureau of the Budget with the cooperation and assistance of the operating agencies.

The Joint Program is a Government-wide cooperative effort to improve Government accounting systems and methods, and the related programming, budgeting, funding, and reporting methods, in order to develop improved financial management of all Government resources and more economical and efficient Government operations. In this Program the General Accounting Office, the Treasury Department, the Bureau of the Budget, and the other agencies join their forces in a concerted effort to develop better accounting in two distinct but interrelated areas, (1) central or Government-wide accounting needs, and (2) the accounting needs of the management of the individual agencies. The seventh year of this cooperative program is marked by several significant developments which will be discussed in later sections of the report.

The material is divided into two parts covering current developments followed by appendices providing pertinent background. Part I covers accounting developments during the year which were of Government-wide significance. Part II covers progress during the year in individual agencies - accomplishments which were achieved primarily through the efforts of the individual agencies. Appendix A outlines the background of and legal authority for the Program, its nature and purpose, and its objectives. Appendix B is intended as a summary of the broader achievements since the Program was started, the details of which were contained in the several annual reports. In addition there is included this year a special Appendix C which describes the cumulative effect of the progressive developments in central accounting and reporting for the cash operations of the Government since the Budgeting and Accounting Procedures Act of 1950. This is a timely point for such a summary because actions taken in 1955 substantially round out the evolutionary developments in this area.

Evidence of the general acceptance of the Program's objectives and the effectiveness of its aims and accomplishments is contained in various references to the Program in addresses before associations and articles appearing in professional periodicals.

Indicative of this public interest and response is an article[1] in a recent issue of THE JOURNAL OF ACCOUNTANCY, the official monthly publication of the American Institute of Accountants, from which the following is quoted:

> "It is not the purpose of this article to arouse new indignation by pointing again to Washington's alleged shortcomings. Instead, it has the more cheering purpose of calling attention to the little known fact that a purposeful, productive campaign is afoot to modernize the entire structure of government accounting along lines that the tax-paying public, and the accounting profession particularly, might well applaud.
>
> "What is happening lacks the dramatic impact of a revolution. But it represents something better, a planned evolution which promises to work the most significant transformation in our government's financial management since the days of Alexander Hamilton.
>
> "Both the executive and legislative branches have important stakes in this long-term effort. And both branches are cooperating in a joint endeavor to effect this transformation and to reach these explicit goals:
>
> "1. To bring to all of the government's diversified activities the most appropriate and useful of modern accounting principles and techniques.
>
> "2. To enable government agencies to ascertain the cost of their various activities, as many of them have been unable to do in the past.

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1 "Accounting Reform in Washington," an article by John W. McEachren, CPA, in the September 1955 issue of the Journal of Accountancy.

"3. To provide better fiscal controls which will permit the executive to budget projected activities more realistically; assist the legislative in its appropriating functions; and allow the taxpayer to see more clearly how his money is spent and what it buys.

"4. To reduce expenditures wherever possible by improving the efficiency and effectiveness of management."

Also during the past year, the Hoover Commission issued a report on the budget and accounting functions of the executive branch. This report presented a total of 25 recommendations for improvement action on such subjects as organization, practices, and procedures in the area of financial management.

The Hoover Commission recommendations on budgeting and accounting principles and practices give further emphasis to the stated objectives of the Joint Accounting Program. This is particularly true with respect to such important objectives as the application of the accrual basis of accounting; the use of costs as the basis for integrating, programming, budgeting, accounting and reporting; establishment of financial property accounting; simplification of allotment controls; and integration of agency accounting and reporting with the central accounting and reporting processes.

PART I

ACCOUNTING DEVELOPMENTS OF GOVERNMENT-WIDE SIGNIFICANCE

This part of the report relates to matters of broad applicability which are mostly Government-wide in effect. Included are the central or Government-wide activities of the Treasury Department, Bureau of the Budget, and the General Accounting Office and the improvements and simplifications accomplished in these activities during calendar year 1955 through the joint efforts of the three agencies under the Joint Accounting Improvement Program. These are necessary steps in the long-range program of developing Government-wide methods and procedures which will accelerate the development of adequate accounting in the individual agencies. For this reason, some of the matters reported may overlap specific improvements of individual agencies as reported in Part II of the report due to the evolutionary nature of the central or Government-wide developments.

1. Central Accounting and Reporting. Joint Regulations issued in 1955 by the Secretary of the Treasury and the Comptroller General authorized the great majority of disbursing officers to draw checks directly on the general account of the Treasurer of the United States. This eliminated the use of about 2,000 intermediate checking accounts for disbursing officers, with balances based on amounts of appropriations and deposits of certain collections. In addition to providing a practical basis for the new system of central accounts in the Treasury, this action created widespread simplification of procedures formerly required for the maintenance of checking accounts. Also, it provided the basis for streamlining deposit procedures, accounting for receipts, and various interagency transactions. Direct savings attributable to this change in checking account procedures alone amount to $157,000 a year. Of greater significance, however, is that these changes substantially round out the program begun immediately after the enactment of the Budget and Accounting Procedures Act of 1950 for progressive simplification of the central accounting and control processes in the Treasury and General Accounting Office. Cumulatively, the changes which have been made have resulted in directly identifiable savings in administrative costs in the Treasury and General Accounting Office alone in excess of $2 million a year. In addition, unmeasured savings have been achieved from elimination of paper work required in all operating agencies of the Government in connection with the previous central control and accounting processes.

Tied in with the above changes in central accounting processes were further refinements on the central reporting procedures of the Treasury pertaining to cash receipts and disbursements of the Government, as well as related reporting of individual agencies. The result is that the central reporting processes in this respect are integrated to the point where receipt and expenditure data in the Treasury's monthly and annual statements and the Budget document are on a consistent basis. Through the fundamental improvements which have been made in the Treasury's central system of accounting, such reports will hereafter be anchored to the cash balances of the Treasurer of the United States with provision for disclosure of such reconciling items as collections in transit, outstanding checks, etc. A long step has thus been taken in providing a foundation for a fully integrated reporting structure for the Government as a whole which can effectively utilize the reports of individual agencies in combination with the reports which flow from the accounts dealing with Treasury cash operations.

Other fundamental improvements in central reporting of the Treasury effected during 1955 include:

(a) A revised and expanded classification of budget expenditures, adopted July 1, 1955, for the Monthly Treasury Statement. This improves comparability between this statement and the detailed expenditure classifications in the Budget document.

(b) Two significant changes made in the Annual Combined Statement of Receipts and Expenditures for the fiscal year ended June 30, 1955:

(1) Tables showing details with respect to appropriations were expanded to include an analysis of the unexpended balances in terms of balances available and unavailable, and the obligated and unobligated amounts.

(2) A new special table is provided to show condensed information on financial resources and obligations of each wholly-owned corporation and other revolving fund of the Government.

(c) The accrual basis of accounting and reporting of interest on the public debt was adopted, thereby eliminating the budgetary distortions which resulted from the previous "payable-date" method when a part of the public debt was refinanced.

A more detailed and comprehensive discussion of the 1955 developments in central accounting and reporting, together with the cumulative effects of improvements in these areas, is contained in Appendix C.

2. Integration of Programming, Budgeting, Accounting, and Reporting. The Bureau of the Budget, the General Accounting Office, and the Treasury Department continued their joint efforts to assist agencies in the development of common classifications for programming, budgeting, accounting, and reporting. For the most part, agencies have accomplished the initial objective of adjusting their budget and accounting systems to conform to the minimum presentation and support requirements of the performance budget as the result of the Government-wide improvement program that was conducted after the accounting support surveys of 1950. Improvements needed as a result of subsequent developments are being made as part of the continuing effort towards improvement of financial management in the agencies.

Some of the results of this effort are reflected in changes made this year in the 1957 budget structure and presentation of 47 bureaus or other major divisions of departments and independent establishments. The majority of these changes involved improvements in activity classifications but important changes were also made in the clarification and coverage of appropriations, and in the use of business-type budget statements. With respect to the latter, 7 new business-type presentations were made while 5 were discontinued. As a result, the 1957 budget contains 116 business-type presentations.

These adjustments and changes in budget structure were made to develop better integration of budget and accounting systems, to provide better control and improved flexibility in the use of available funds, and to furnish more complete disclosure of financial operations.

In Budget Circular A-11, issued July 27, 1955, the agencies were instructed to include cost-type budget statements in their 1957 budget submissions to the Bureau of the Budget whenever an agency employed an accounting system which includes accounts for accrued (applied) costs integrated with accounts for obligations and appropriations. Cost-type budget statements were received from 15 bureaus or agencies covering 41 individual appropriations. For 4 of these appropriations approval has been given to the publication of the cost-type statements in the Budget and such statements for the other 37 appropriations represented "back-up" material which will permit more effective program review and evaluation.

3. Integration of Agency Accounting and Disbursing. Continuing attention was devoted during 1955 to improving the interlocking relations of the disbursing processes with the accounting functions, and to the elimination of unnecessary duplication in these areas throughout Government. The improvements made by the Treasury Department for better integration of Treasury disbursing functions with its central accounting, discussed under the subject of "Central Accounting and Reporting," represent substantial progress toward this objective. In addition, specific organization and procedural improvements were made in Treasury's Division of Disbursement and in the Department of Defense during the year, and tests for improved integration of accounting and disbursing are underway in the Social Security Administration and the Veterans Administration. These specific developments are discussed in Part II of the report.

4. Application of Electronic Equipment in Government Accounting and Related Processes. The possibilities of the use of electronic equipment and related procedures for greater economy and efficiency of Government operations received increased emphasis during calendar year 1955. Many agencies have developed or are exploring the potentialities for the application of these modern techniques.

Of particular note is the development of a specific plan of action for automation in connection with the check payment (clearance) and reconciliation operations of the Government. Following joint study by the Treasury Department, the General Accounting Office, and the Bureau of the Budget, plans were brought to a conclusion regarding reorganization of the clearance and reconciliation procedures for the 350 million checks drawn annually on the Treasurer of the United States. The joint committee submitted a recommendation for the acquisition of high-speed electronic data processing machines, together with a comprehensive plan of operations, to effect a centralized proof by the Office of the Treasurer of the United States of the checks paid as compared to the checks which the numerous disbursing officers reported they had issued. The plan includes provisions for stop payments and other claims against checks issued. Reconciliations or proofs by the Treasurer will, of course, be subject to audit by the General Accounting Office but the detailed proof operations presently carried on by General Accounting Office will be discontinued. About 1,500,000 checks a day will be handled by the machines.

Under the new system, all checks will be paid by the Treasurer of the United States in Washington and the present practice of paying checks through designated Federal Reserve Banks, as agents of the Treasurer of the United States, will be discontinued. All Federal Reserve Banks and Branches will clear checks for presentation to the Treasurer generally in the same manner that commercial checks are cleared.

The plan was approved by the Secretary of the Treasury, the Comptroller General, and the Director of the Bureau of the Budget, and the new electronic equipment has been ordered. The transition to the new system is scheduled to start August 1, 1956.

The new system will involve relatively minor changes in the issuance of Government checks by disbursing officers to payees. It will produce its economies and greater efficiency by the merging of the check payment operations of the Treasurer of the United States and detailed proof operations presently performed in the General Accounting Office, and by high-speed techniques. It is estimated that use of the new machines and procedures will reduce by about 450 the number of employees required by the Treasury and the General Accounting Office to perform necessary data-processing operations. Expected Government-wide net savings when the plan is fully installed are estimated at $1,700,000 annually in salaries, supplies, and equipment costs and, in addition, annual savings of more than $500,000 are anticipated in the streamlining of operations at the Federal Reserve Banks. Savings will be accomplished with, at the same time, faster and highly accurate processing of check data.

Closely related to the foregoing development is the marked progress which was made in the program for maximum utilization of punched card checks in lieu of paper checks. With the continued cooperation of the disbursing agencies, particularly the military departments and the Post Office Department, an additional annual volume of 12 million checks was converted from paper to punched cards during 1955, resulting in additional annual Government-wide savings of $270,000. This means that of the total of some 350 million checks issued by the Government annually about 325 million are now in fully punched card form. Checks remaining in paper form by August 1956 will be converted to special types of card checks as part of the above program for use of electronic processing techniques in payment and reconciliation of all Treasury checks.

These constitute only part of the many developments in automation for the processing of accounting and related data in Government. There are major developments in the application of electronic processes to inventories, payrolls, and other accounting problems in the Department of Defense. As described on page 51 of this report the Bureau of Old-Age and Survivors Insurance has started conversion of its voluminous wage accounts to an electronic data processing system. Electronic machines and procedures are used in the Post Office Department to process some of its payroll data and pay checks. The Treasury Department's Division of

Disbursement has electronic equipment on order for the preparation and processing of card checks. A project has been started to explore the feasibility of applying electronic data processing to the issuance and retirement operations of the savings bond processes of the Treasury Department's Bureau of Public Debt.

The rapid developments in this medium have created a new and important field containing great possibilities for increased economy and efficiency in the systems, procedures, and paper work related to Government operations. The General Accounting Office is expanding its staff facilities to more effectively conduct research and study in this new field, and to advise and assist the executive agencies in the installation and operation of the machines and related procedures.

5. Property Accounting Improvements. The development of financial accounting controls over property to provide improved data for property and supply management was continued during the year. The General Services Administration and the General Accounting Office are working jointly with the several individual agencies to survey property accounting and related procedures and activities. Recommendations resulting from such surveys are adopted as developed or target dates for their accomplishment are established before the survey reports are completed. Specific improvements in individual agencies are covered in Part II of this report.

Property surveys of this type were completed during calendar year 1955 in the regional offices of the Weather Bureau, Civil Aeronautics Administration, Patent Office and the Office of the Secretary of the Department of Commerce. Surveys are now in process in the Maritime Administration of the Department of Commerce and in 15 Services, Corporations, and Offices of the Department of Agriculture. Twenty-six (26) surveys have been completed in various civilian agencies of the Government since this program was initiated.

The importance of adequate monetary property accounting was emphasized during the year in Congressional requests for such information. The General Services Administration, in cooperation with the General Accounting Office, completed an inventory of Federal real estate holdings in continental United States as of December 31, 1953 for the Senate Committee on Appropriations in accordance with its request in Report No. 237, dated May 12, 1953. This inventory covered real property costing $30.2 billion for 11,493 installations of 24 Federal agencies and wholly-owned Government corporations. The property consisted of (a) $2.2 billion or 7.3 percent, for land; (b) $14.4 billion, or 47.7 percent, for buildings; and (c) $13.6 billion, or 45.0 percent, for other structures and facilities. These figures do not include costs for (a) public domain; (b) lands withdrawn from public domain for national parks, forests, and other conservation uses; (c) historical sites procured other than by purchase; and (d) trust properties. The land area reported amounted to 405.1 million acres.

In issuing this first report (Senate Document No. 32) the Senate Committee on Appropriations requested that a second report be compiled as of June 30, 1955, and that the reporting procedures and compilations be continued as of the end of each fiscal year thereafter. The Committee further requested an additional report to cover Federal properties outside of the continental United States, including specifically the properties in the Territories of Alaska, Hawaii, Puerto Rico, and Virgin Islands, and including foreign properties as far as security limitations will allow.

In June 1955 the House Committee on Government Operations requested the Comptroller General to obtain from the agencies and submit to the Committee a financial inventory of all real and personal assets located in the United States, the Territories and overseas which were held by the United States or wholly-owned Government corporations as of June 30, 1955. The committee staff made arrangements to obtain the information for this project directly from the Department of Defense and from the Judicial and Legislative Branches, except the Government Printing Office and the General Accounting Office. Replies from the agencies to the General Accounting Office have been reviewed and released to the Committee for inclusion in a "Property Inventory of the United States Government Realty and Personalty Located in the Continental United States, the Territories, and Overseas as of June 30, 1955" which will be submitted by the Committee to the Congress.

In addition to the uses made by the Congressional Committees of this data, they also serve to highlight to the agencies, the General Accounting Office, and the Bureau of the Budget, areas where improvements should be made for more effective financial management of inventories and other property, including the development of costs, in terms of the goods and services actually applied in operations, as a fundamental basis for programming, budgeting, accounting, and reporting.

6. Relief of Accountable Officers. The Congress enacted Public Law 365, 84th Congress, approved August 11, 1955 (69 Stat. 687) which provides permanent authority for the Comptroller General to relieve disbursing officers in cases where the making of any illegal, improper or incorrect

payment was not the result of bad faith or lack of due care on the disbursing officer's part. The Congress also enacted Public Law 334, 84th Congress, approved August 9, 1955 (69 Stat. 626) authorizing the General Accounting Office to grant full relief to accountable officers for a physical loss or deficiency of Government funds, vouchers, records, checks, securities or papers in their charge where no fault or negligence on the part of such officers is involved.

Implementing regulations were developed during 1955 and will be issued soon after January 1, 1956.

7. Bonding of Federal Employees. Public Law 323, 84th Congress, approved August 9, 1955 (69 Stat. 618) authorized Government purchase of surety bonds for all employees required to be bonded by law or administrative regulations. Implementing regulations were developed by the Treasury Department, in consultation with the General Accounting Office and the Bureau of the Budget, and were issued in Treasury Department Circular No. 969 effective January 1, 1956.

The effect of this law and regulations cannot be adequately measured at this time. However, experience in one agency - the Post Office Department - indicates great possibilities for economies without loss of adequate safeguards over public funds and properties. Prior to the enactment of this law, the Post Office Department was required to control, process, and account for several hundred thousand individual bonds each year to assure that all employees were properly bonded. The administrative cost of maintaining these records and processing the individual bonds was estimated to be about $300,000 a year. Pursuant to the new law and regulations, the Post Office Department was able to bond all employees for a 2-year period at an annual premium cost of about $183,000, or a direct economy to the Government of about $117,000 per year in this one department. In addition, the savings to the postal employees is over $1,300,000 per year, the aggregate annual cost to them of the bonds they were heretofore required to furnish.

8. Consolidation of Lapsed Appropriation Accounts. Following extensive joint development work by the staffs of the General Accounting Office, Treasury Department, Bureau of the Budget, and the House Appropriations Committee, the Comptroller General on December 20, 1955 submitted to the Committees on Government Operations, Senate and House of Representatives, at their request, suggested legislation to provide for the transfer of obligated balances of appropriations, after they have lapsed for obligation

purposes, into agency consolidated "no-year" accounts to cover disbursements against valid obligations. The present requirements are that (a) agencies and the Treasury Department must maintain separate annual accounts for each individual appropriation until they have "lapsed" for disbursing purposes in accordance with the provisions of existing law and (b) after an appropriation has "lapsed" for agency disbursement purposes, any bills payable under the appropriation must be submitted by the agencies to the General Accounting Office for settlement as a "claim" payable against the Certified Claims Account of the Treasury Department.

Under the suggested legislation agencies will pay and account for all their expenditures, including those under "lapsed" appropriations, subject to regulations to be prescribed by the Comptroller General. It will eliminate one-third of the annual appropriation accounts presently maintained by the agencies and in the central accounts of the Treasury Department, and approximately 35,000 "lapsed" appropriation accounts maintained by the General Accounting Office. The number of claims which presently must be submitted to the General Accounting Office for review, adjudication, and settlement annually will be reduced by about 60%. Necessary adjustment of General Accounting Office personnel will be accomplished within 18 months after the effective date of the legislation.

The suggested legislation is now under consideration by the operating agencies and, following receipt of their comments, joint efforts of the staffs of General Accounting Office, Treasury Department, and the Bureau of the Budget will be continued in refining and improving the draft bill.

9. Government Transportation Requests and their Utilization. The revised transportation request for passenger transportation was installed July 1, 1955. This request is in punched card form and provides for consolidating rail and pullman charges on the same request instead of separate requests previously required. Experience has shown that savings will in the aggregate exceed the $150,000 a year originally estimated. This is by reason of (a) reduced printing costs and (b) reduced quantity of forms because of the consolidation of rail and pullman requests. Simplified procedures for effecting refunds from the carriers for unused tickets were also adopted coincident with the use of the punched card form.

The mechanized form also provides a basis for further study of the feasibility of centralized billing and payment of the transportation requests of civilian agencies which are presently diffused to about 1,800 billing points and 30 payment points. This and other suggested improvements relating to procurement of passenger transportation are under active consideration. On August 11, 1955 the Bureau of the Budget requested the views of all Government agencies and the views of representatives of the carriers as to the following matters and replies are being evaluated:

(a) Whether a traveler on official Government business, with certain exceptions, should be directed to pay cash for transportation tickets in amounts of $15 or less. The present maximum is $10 on a permissive basis.

(b) Whether a central payment facility should be established for the processing of the invoices from the carriers for passenger transportation furnished, and the payment of such invoices.

The Department of Defense which already has provision for centralized payment in each of the constituent services is using the new mechanized form of request to streamline its accounting and reconciliation procedures. In addition, some of the carriers have taken advantage of the punched card form to mechanize their billings.

10. Cooperative Systems Work Overseas. The development of cooperative efforts to improve the accounting and related systems and procedures in use in overseas organizations was accelerated during 1955. The United States Air Forces in Europe (USAFE) have taken action to organize a project team, with full participation by the European Branch of the General Accounting Office, to improve the procedures and increase the accuracy of base level inventory accounting. The joint team will function at a typical Air Base, tentatively the Neubiberg Air Force Base, and is authorized to study and analyze both the supply and accounting procedures in order to develop a simple system which will insure a high degree of accuracy in both item and monetary inventory accounting. Both USAFE and the European Branch of the General Accounting Office have agreed that additional projects will be established during 1956 in other areas of accounting and related procedures within the scope of the Air Force Financial Management System.

Effective December 1, 1955, the United States Army in Europe (USAREUR) organized a Field Assistance Team, with full participation by the European Branch of the General Accounting Office, to implement the various facets of the Army Financial Management Plan and, in connection therewith, to generally improve the accounting systems and related procedures in the European

Theater. This team is charged with making on-the-spot systems changes, conducting service tests and informing both the Department of the Army and the General Accounting Office of procedural difficulties encountered at the installations which are directly attributable to cumbersome or inadequate procedures or regulations prescribed by Washington or other Continental United States headquarters. In order to facilitate the accomplishment of its mission and to cover many areas during 1956, the team is authorized to organize working groups at each installation under study, as appropriate, comprising on-the-job personnel from both the operating and accounting areas.

11. General Regulations and other Miscellaneous Developments. Regulations and other communications are issued by the General Accounting Office from time-to-time to provide uniformity throughout Government in accounting and related processes when such uniformity is appropriate. Before they are issued, the subjects are reviewed and discussed with the Treasury Department, the Bureau of the Budget, and representative agencies to obtain full understanding of problems involved. They are synchronized with necessary implementing regulations and instructions issued by the Treasury Department, the Bureau of the Budget, and the other agencies.

The General Accounting Office issued three new Accounting Systems Memorandums and four new General Regulations during the year, and completely revised five Accounting Systems Memorandums and two General Regulations. In addition, new or revised amendments were made to 14 existing General Regulations and Accounting Systems Memorandums. Approximately one-half of the changes covered revisions in accounting requirements of the agencies and the Treasury Department resulting from the changes in central accounting and related disbursing and reporting procedures. These changes resulted in substantial simplifications in many areas of agency accounting and reporting in relation to the central Treasury accounts.

Other areas in which simplifications with adequate safeguards, were effected by the issuance of these regulations are:

(a) General Regulations No. 121, dated January 21, 1955, covered the responsibilities of all Government agencies with respect to the unofficial use of Government facilities and the action to be taken in effecting collection for such use.

(b) General Regulations No. 123, dated May 1, 1955, contained new procedures, effective July 1, 1955, for the authorization and payment of passenger transportation services.

(c) General Regulations No. 124, dated November 23, 1955, provided procedures for direct settlement of accounts of deceased members of the Uniformed Forces by the departments, as provided by Public Law 147, 84th Congress, approved July 12, 1955.

(d) Accounting Systems Memorandum No. 37, dated March 23, 1955, established procedures for end-of-year transfers of unpaid and overpaid balances in the individual pay accounts of military and civilian personnel of the Government, as authorized by Section 3(a) of Public Law 497, approved July 15, 1954 (68 Stat. 483).

Simplifications of procedures directly affecting the general public were included in several of the changes. Accounting Systems Memorandum No. 38, dated March 9, 1955, eliminated the requirement of a formal certification on public utility invoices submitted to the Government where the rates charged are fixed or adjusted by Federal, State, or other regulatory body. Supplement No. 4 to General Regulation No. 50-Revised, dated June 14, 1955, established guidelines for determining when claims against the United States are of such "doubtful" nature as to require the agencies to submit them to the General Accounting Office for settlement. As a result, many types of "claims" previously submitted by the agencies to the General Accounting Office for settlement will be settled directly between the agency involved and the claimant.

Supplement No. 10-Revised of General Regulations No. 51, dated March 7, 1955, eliminated the necessity of a payee signature on vouchers paid in foreign countries where a depositary check is issued in payment. Supplement No. 4 of General Regulations 115-Revised, dated March 30, 1955, simplified the procedures relative to the program for the disposal of old fiscal records and extended the benefits of the program to the Department of Defense and the Post Office Department which were formerly excluded from this program.

On August 26, 1955, all departments and establishments were notified by the General Accounting Office of the agreement between the Government and the Western Union Telegraph Company whereby that company agreed to extend credit cards to the Government agencies for use by field offices where infrequent use of telegraph facilities was involved, with consolidated billing for messages to central or regional offices designated by the agencies.

This is to correct situations where, to cite a particular example, 1,000 bills for telegraph services in an average amount of $1.56 each, were processed by numerous small field offices and were individually paid by one central office during a fiscal year. About 80 percent of the separate bills covered one message each.

A related simplification and consolidation of bills for telephone toll charges was effected during the year by agreement with the telephone companies. Toll charges are now billed in total supported by the original toll tickets prepared by the operator at the time the calls are placed.

Previous progress reports have mentioned the issuance in March 1952 of joint regulations for the establishment and use of imprest funds and the release of a General Services Administration circular in August 1953, which was designed to promote greater use of simplified procedures (including imprest funds) for making small purchases. As a result, the number of authorized imprest funds in the civilian agencies utilizing the services of the Division of Disbursement has grown from 44 in early 1953 to 207 at the end of that year, and to 799 as of December 31, 1955. In the Department of Defense the experience has been similar. For example, in the first fiscal year after issuance of the joint regulations the number of imprest funds authorized in Defense increased from 607 to 1,158.

Experience has proved the value of the use of imprest funds for making small purchases through the decrease in paper work and the elimination of numerous checks for small amounts that would otherwise have been needed.

PART II

ACCOUNTING DEVELOPMENTS

IN

INDIVIDUAL AGENCIES

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PART II

ACCOUNTING DEVELOPMENTS IN INDIVIDUAL AGENCIES

FOREWORD

Government accounting, budgeting, and related financial processes attain their fullest usefulness to the degree that these processes in the individual agencies contribute to the most effective and economical planning and execution of the Government programs for which each agency is responsible. The Budget and Accounting Procedures Act of 1950 and the Joint Accounting Improvement Program emphasize the importance to management of adequate and effective accounting and related procedures. This Act, and similar related legislation, placed direct responsibility on the heads of the agencies for developing and installing accounting systems and related procedures suitable to their management needs. It is obvious, therefore, that the attainment of adequate accounting and related processes throughout Government depends to the fullest extent on the initiative within each operating agency in developing its accounting and other financial management processes based on an aggressive internal evaluation of the management needs to be served.

The illustrations which follow provide some idea of the substantial improvements which were made during calendar year 1955, primarily through agency initiative and may encourage other agencies in their efforts with similar problems. They are not intended to be all-inclusive as to every improvement in every agency. Nor does the report attempt to evaluate these accomplishments in relation to the work that remains to be done. However, these 1955 accomplishments, when related in cumulative effect to the accomplishments of prior years, give positive indication of the momentum that has been achieved in the forward drive toward adequate Government accounting through the stimulation of initiative by the operating agencies participating in the Joint Program.

DEPARTMENT OF AGRICULTURE

Departmental

The Office of the Secretary, through the Office of Budget and Finance, continued to furnish leadership and guidance to the constituent agencies of the Department in the development of improved accounting systems and procedures. This was performed with the cooperation of the Accounting Systems Division of the General Accounting Office in the furtherance of the objectives of the Joint Program to Improve Accounting in the Federal Government.

In these efforts, consideration was given to the size and type of organizations, extent of field activities, the nature of the programs conducted and the specialized types of internal control required, with a view to providing more meaningful, timely, and reliable financial data for local management use and reporting to control agencies. The revision and development of accounting systems was actively conducted during the year in twelve constituent agencies of the Department and has progressed to various stages of completion. Revised accounting systems, together with implementing manuals, for the Office of Information and for the Rural Electrification Administration are substantially completed and will be submitted to the Comptroller General for approval in the early part of 1956. The accounting system for the Farmer Cooperative Service was approved by the Comptroller General during the year.

Continued attention was directed to strengthening agency internal audit activities through expansion of audit coverage with emphasis on the appraisal aspect of internal audit. In line with the announced policy of the Department, most of the constituent agencies have revised the objectives and nature of their internal audit operations and others are in the process of revising their audit programs. Assistance was rendered to agency audit groups through review of their coverage, extent of check, and reporting. Action has been initiated to improve the reporting of audit findings to agency and departmental officials and for the institution of necessary corrective action.

Continuous study and effort was directed toward the adaptation and modification of the Department's fiscal policy and methods to conform to changing accounting concepts and reporting requirements. Attainments included: (1) Fiscal procedures for handling and controlling Treasury cash were changed in line with the improvements and simplifications made by the Treasury Department and new cash reconciliation procedures were installed throughout the Department; (2) a departmental-wide plan was adopted for the payment of transportation vouchers as submitted with unused tickets being returned to the carriers for refund; and (3) revised regulations and instructions were developed to provide for uniform handling of (a) the settlement of claims by the Department and by the General Accounting Office; (b) reports covering uncollectible accounts due the Government; (c) deductions for group life insurance, delinquent Federal income taxes and State income taxes; (d) inquiries concerning unemployment compensation; and (e) payrolls for premium pay of employees as the result of the Public Law 763, 83d Congress (68 Stat. 1105).

Surveys of the management and accounting for personal and real property were conducted throughout the Department jointly with the General Services Administration and the General Accounting Office. The constituent agencies in which these surveys were conducted are: Office of the Secretary; Agricultural Marketing Service; Agricultural Research Service; Commodity Exchange Authority; Commodity Stabilization Service; Farmer Cooperative Service; Farmers Home Administration; Federal Crop Insurance Corporation; Foreign Agricultural Service; Forest Service; Library; Office of the General Counsel; Office of Information; Rural Electrification Administration; and Soil Conservation Service.

Particular developments in constituent agencies follow.

Agricultural Marketing Service

Improved coordination between budget and fiscal operations developed during the year has resulted in the increased effectiveness of the accounting operations, and has facilitated the budget operations. Procedures were developed to provide for the preparation from the accounting records of periodic reports of estimates, collections and balances for the use of the budget office in analyzing the status of estimated receipts and advising the program divisions of deviations from plans which indicate need for revisions of estimates.

Procedures for documenting, recording and reporting the available fund transactions of trust and special funds were improved to produce data for budget and fiscal reports that can be promptly compared with summary figures in the Combined Treasury Statement.

Reporting from the field has been reduced without impairing the internal controls and reporting requirements of the Washington, D. C., level.

During the year all nonexpendable property was recorded in the general ledger accounts of the three Area Administrative Offices established in 1954. Accounting procedures were developed for recording in the general ledger all transactions affecting this class of assets, including transfers of accountability between areas.

Initial organization and staffing of the Program Appraisal and Audit Division was accomplished during the year. This made it possible to broaden the scope of the audit program and give increased emphasis to appraisal of program operations. Audit program procedures also were designed to utilize audit reports rendered by State agencies or public accounting firms. Surveys and audits in line with this broadened scope were completed for many activities, and the findings and recommendations covered a wide range of fiscal and administrative matters required to develop a financial control system that will best serve the needs of management.

Agricultural Research Service

Carrying through with the organization started in 1954, four Regional Business Offices were established on May 27, 1955 to conduct the administrative activities of the field offices of the Service. Regional functions and responsibilities are being assigned to the offices on a progressive and scheduled basis. This regionalization, when completed, will result in the decentralization of accounting now performed at Washington, D.C., to the Regional Business Offices and a centralization in such office of disbursing and related accounting now performed by numerous field locations throughout the United States.

In the functions and activities regionalized to date, disbursement schedules for all regular field activities are now processed at the four regional field offices (the locations where the official accounting records are maintained) rather than at forty-four field offices and disbursement functions are handled at only four Regional Disbursing Offices of the Treasury Department rather than by twenty-three such offices.

During the year, the Congress enacted Public Law 352 (84th Congress) which consolidated various laws authorizing appropriations for the support of the agricultural experiment stations in the States, Alaska, Hawaii and Puerto Rico. The consolidation simplified budgeting and accounting requirements for the Department of Agriculture and for the States, Territories and Puerto Rico since separate budgets and accounts were required under each of the various acts providing for the grants. In the Agricultural Research Service, this permitted a reduction from twelve to four in the number of appropriation limitations for experiment station funds.

Initial staffing of the Program Appraisal and Internal Audit Staff was completed during the year and progress was made in the survey and audit work undertaken. Fourteen reports of audit findings were made to the proper administrative officials.

Commodity Stabilization Service

A comprehensive survey of administrative and appropriated fund financial practices and accounting procedures was completed by Commodity Stabilization Service and Department of Agriculture representatives, with the assistance of General Accounting Office. A report has been submitted which includes numerous recommendations for consideration of the Service for improving their accounting system. The recommendations include proposals for simplification of financing mechanisms, obligation and expenditure records; general ledger accounting, and document handling; for placing uniform accounting control over budgetary transactions; for further strengthening of the reporting program; for closer integration of budgetary and accounting processes; and for introducing consistency into decentralized accounting processes. The machine accounting procedures for payrolls that were installed in the Washington field fiscal office early in 1954 and extended to the Denver office late in the year, continue to produce benefits such as more prompt tax reports, and more accurate pay control records. The introduction of group life insurance deductions and tax withholding for local taxing bodies was easily handled under the new system.

General Ledger financial control over all nonexpendable personal property in the hands of the Service was established as of June 30, 1955.

The appropriation structure was adjusted in the 1957 budget to simplify and improve the budget presentation of the Service. Four appropriations previously made to reimburse the Commodity Credit Corporation for services involved in the disposition of surplus commodities have been consolidated into a single item to present an over-all picture of this program.

Farmer Cooperative Service

A manual covering the accounting and financial reporting system for the Service was submitted to and approved by the Comptroller General on June 6, 1955. The approved accounting system provides: (1) time reporting to develop the distribution of costs; (2) control of funds where obligational authority is vested; (3) simplified obligation control registers which eliminated all allotment ledgers; (4) direct accounting support for the budget; and (5) general ledger control over personal property, with composite detail records. As a result the control and management of property has been substantially simplified and improved.

Farmers Home Administration

Procedures in connection with the assignments of insured loans between private lenders and between private lenders and the Government were revised. The change has expedited the processing of assignments, and St. Louis, Missouri has been designated as the central point with which lenders on insured loans will deal.

An "Assignment in Trust" procedure was developed in connection with the insured Mortgage Loan Program. This procedure permits private mortgage holders to assign mortgages to the United States in trust for the holders of the related secured notes. Two principal advantages result: (1) the insured mortgages are more attractive to lenders because the loans can be assigned by endorsing the notes and the previous requirement of executing and recording the assignment of the mortgages has been eliminated, and (2) servicing actions such as subordinations, partial releases, and satisfactions can be processed without direct participation by the holders of the notes.

Legislation was passed during the year permitting the processing of current Farm Ownership loans on the basis of designating the Government as the mortgagee rather than the lender. On this basis the loans are insured rather than the mortgages, thereby accomplishing the same objectives provided by the "Assignment in Trust" procedures outlined above for this farmers' assistance program.

Foreign Agricultural Service

Based on recommendations in the survey report completed in 1954, revisions have been made in the Service's accounting system. Implementation to date has included the adoption of a completely revised chart of general ledger accounts, general ledger control over all receivables and nonexpendable property, simplified forms for subsidiary ledger accounts, and improved procedures for developing accounting support for budget activities.

An accounting manual, covering the revised accounting system, has been drafted and is being reviewed by the Office of Budget and Finance, Office of the Secretary, preparatory to its submission for the approval of the Comptroller General.

In addition to the revisions already implemented, the accounting manual provides for the development and use of representative formulas as bases for the distribution of central service costs to the organizational divisions with intention of fund control at the appropriation level and a minimum number of allotments.

During the year, the Service was placed under comprehensive audit by the General Accounting Office.

Forest Service

Accounts receivable for timber sales transactions were put under general ledger control in all regional offices effective July 1, 1955.

During the year a consolidated deposit fund account was established with the Treasury Department for selected areas. This deposit fund account is credited with receipts relating to timber sales, which in all cases are received before the timber is cut, and the funds are distributed quarterly to appropriate receipt accounts. This consolidated account eliminated three deposit fund accounts previously required for making refunds of unearned deposits. It also reduced the number of entries required in the receipt accounts and stated these accounts in the amounts actually earned.

A major service-wide development during the year was the installation of an improved and simplified method of accounting for collections from timber operators for timber stand improvement work on areas cut over by purchasers. Accounts are now pooled by National Forest or similar administrative unit, whereas in the past the collections and expenditures were segregated by several thousand individual purchaser and sale area accounts. This improved accounting practice has made possible: (1) more effective and simplified financial and program management and (2) elimination of over 15,000 detail accounts to date.

All locations were authorized during the year to establish and use the imprest cash fund procedures which had been previously tested in a few field units on an experimental basis.

A joint survey by representatives of the Office of the Secretary of Agriculture, Forest Service, and the General Accounting Office of the accounting and related operations of the Agency was conducted during the year, and a report with recommendations was developed. Included in the recommendations submitted for consideration are (a) development of adequate general ledgers, subsidiary records, and classification of cost accounts and (b) additional decentralization of accounting from regional offices to national forest level to eliminate duplication.

The joint survey included revenues and receipts of the Agency and recommendations were submitted to strengthen controls, simplify procedures and develop a classification of accounts to produce more useful management information. The Agency has segregated responsibilities for handling collections in regional offices to strengthen internal controls and has simplified procedures by eliminating duplicate collection registers at about 150 national forest offices. Most of the other recommendations have not as yet been implemented but tests are being conducted.

Concurrently the Service has proposed the establishment of a working capital fund in the 1957 budget to provide an improved method of financing and accounting for internal operations which service the agency's work programs. The use of such a revolving fund will enable operation of the service functions in a more businesslike manner and eliminate budgetary implications that are encountered in financing these functions out of annual appropriations.

DEPARTMENT OF COMMERCE

Coast and Geodetic Survey

As the result of the study initiated last year a new accounting system has been developed by the Agency in cooperation with the Office of the Secretary and the General Accounting Office. Parts of the system which have been completely developed and tested were placed in operation on July 1, 1955, and developmental work is continuing on new procedures to be used in other major areas of the Agency's accounting operations. The system contemplates the integration of project cost accounting and the adoption of the accrual basis of accounting.

The new system will be submitted in manual form to the Comptroller General as soon as it has been tested for a sufficient time to determine its adequacy and to make changes and modifications as required.

Maritime Administration

On March 2, 1955, the Comptroller General of the United States approved the accounting system of the Maritime Administration and Federal Maritime Board, as to basic principles, standards and related requirements, with the understanding that the submission of the system for review and approval was not intended to include the area of inventories and property accountability because certain aspects of this area were still under study and consideration. As a result of the revised system, the Office of the Comptroller was able to supply the Budget Office with cost-type budget statements.

During the year Maritime eliminated a long standing duplication in the recorded valuation of vessels in the reserve fleets. The valuation of Maritime owned vessels includes an estimated amount for vessel outfits and spare parts. In the past when certain vessels were placed in the reserve fleets, the vessel outfits and spare parts were removed from the vessels and either sold or picked up in other asset accounts without a reduction in the valuation of the vessels. The amount of the duplication, about $23,000,000, was set up during the year in a newly created valuation reserve account which is an offset to the recorded value of Maritime vessels. A change was also made in the property accounting procedures so as to preclude such duplication in the future.

Bureau of Public Roads

During the year the Bureau initiated a study of its accounting system for the purpose of improving its usefulness to management. The study is being performed with the assistance of the Office of the Secretary, Department of Commerce and representatives of the General Accounting Office.

As a result of this study a new and improved system was developed and submitted for management approval during the year covering the accounting and statistical recordation of Federal-aid to the States. It is anticipated that if the new system is adopted considerable duplication will be eliminated with resulting savings.

The study is continuing in all other phases of Bureau activities.

DEPARTMENT OF DEFENSE

Department-Wide

The Office, Secretary of Defense, provided general policy guidance, assistance, and direction to the accounting improvement program of the military departments during the year. Some of the more significant improvements which affected all departments are described in the following sections:

Mutual Defense Assistance Program. A Department of Defense directive covering revised policies for financing, funding, accounting, and fiscal reporting was issued in accordance with Section 110, Public Law 778, 83d Congress. The directive provided for an equating of cumulative deliveries and expenditures for foreign aid by reimbursement to or from the applicable military appropriations. After settlement of the old accounts the new procedures provide for financing the procurement lead time for common items in the applicable military appropriations with a reservation of military assistance funds on the basis of orders. The military appropriations are reimbursed only on the basis of deliveries. The procedures greatly simplify accounting in the services where in the past deliveries under the foreign aid programs, in many cases, had little relationship to the original obligation and expenditure of funds due to diversions resulting from priority allocations.

Military Construction. Through efforts of a Department of Defense interservice committee, uniform facility classes and construction categories were prescribed for use in identification and classification of real property. The uniform classification will be used by the services for planning and programming, budgeting, accounting and reporting in the areas of construction, inventory, and maintenance of real property.

Simplified Disbursing Procedures. In accordance with revised Treasury Department and General Accounting Office regulations the funding of disbursing officers' checking accounts in the military services has been eliminated. Disbursing officers are held accountable on a checks issued and collections realized basis. Disbursements are controlled under the normal appropriation accounting systems maintained by the departments. Considerable work has been eliminated in requisitioning funds, making transfers between disbursing officers, and reconciling checking accounts.

Transportation. In June of 1955, the Assistant Secretary of Defense (Comptroller) established a committee consisting of representatives of his office, the military departments and the General Accounting Office. The purpose of the committee is to develop a comprehensive program for the improvement of transportation accounting and traffic management in the Department of Defense. Through preliminary study the committee is currently identifying specific areas where potential savings and improvements are greatest.

One of the immediate efforts as a result of General Regulations No. 123 (approved by the Comptroller General on May 1, 1955, and dealing with passenger transportation) was to simplify procurement of first-class rail transportation. The use of a single transportation request for both rail and Pullman accommodations was authorized. Savings in preparation and handling such requests and related billings are indicated by the use of 693 thousand Pullman requests in a recent year by the Department of Defense. The new punch card transportation requests are also considerably cheaper than the previous forms in use. In addition to the Government-wide economy in printing costs, the new form of transportation request will provide substantial savings to the military departments in processing and accumulating accounting and statistical data.

The adoption of standardized ticket refund procedures on July 1, 1955, by all the military departments will provide faster and more accurate service from the carriers, facilitate a rate audit of the amounts refunded, and simplify training of personnel.

Major improvements which have taken place in the military departments are listed below.

Department of the Army

Integrated Programming, Budgeting, Funding and Accounting. Probably the most significant accounting improvement project in Army is the development of an integrated system of accounting to provide for the basic functions of programming, budgeting, funding and related reporting keyed to a common account structure. As one phase of this basic objective, steady progress has been made during the year in the combining of allotment accounting, disbursing, and the preparation of payrolls in Finance and Accounting Offices at the installation level. The program for overseas commands was completed during the year with the establishment of such offices at 41 installations.

In the Technical Services the program is well along with the majority of 162 programmed conversions completed. Work has also progressed on the subsequent phases of incorporating other independent systems into the basic accounting structure. Integration of financial inventory accounting is scheduled for January 1, 1956 and procedures for including revenue accounting are now being tested.

A new system of financial control at Army posts, camps, and stations is being tested at Fort Jackson, South Carolina. The system establishes a three-point process of management planning and control as follows:

1. Workload is scheduled (program planning) and resource requirements, including funds, are forecast (operaating budgets).

2. As the work is performed the consumption or use of resources is recorded (accounting for costs, funds, and other resources).

3. The work accomplished and cost of all resources (including funds) used are compared with the forecasts and the effectiveness of the scheduled operation is evaluated (reporting). This also serves as a basis for establishing or revising previously established forecasts for ensuing operations.

Recognition is given in the system that the most effective management control of resources is exercised at the point of consumption. The system introduces the concept of the control of costs of operations as a primary management device as contrasted to past major emphasis on the obligation and expenditure of funds.

A similar system in the area of depot operations has been developed and is being tested at Atlanta General Depot and at Letterkenny Ordnance Depot. Important features of the system are:

1. The Depot Commander is given authority and responsibility for all depot operations, and is assigned one superior to whom he looks for direction and who evaluates his performance.

2. Programming is extended to the depot level. A complete operating program is developed setting forth the work to be accomplished and the resources to be utilized. The program incorporates total requirements including necessary installation support.

3. Control of depot operations is based on the operating program. Fund limitations are established at a minimum level for the activities of the depot. The Depot Commander executes assigned missions through the best possible use of all resources and not simply in relation to the funds available.

4. Manpower planning, control, and performance are included as planning factors and management elements. They are incorporated into the system and are not separately treated.

5. Performance is evaluated on the basis of operating program accomplishments. Work programmed is compared to work accomplished. Resources available are compared to resources consumed.

Improved System of Financial Control for the Ordnance Corps. As a preliminary step in the establishment of an improved system of financial control in the Ordnance Corps, a system was developed and installed for accounting and reporting for assets, liabilities and the cost of operations at ammunition plants, works and the Jefferson Proving Ground. The system is based on a home-office, branch-office reciprocal relationship. Double entry accounting on the accrual basis has been adopted with provision for over-all consolidated reporting and comparison of operating efficiency.

Financial Inventory Accounting. Dollar accountability for inventories was established at 16 additional major installations in the Continental United States with six more scheduled for January 1, 1956. The system is now in use in 90 overseas depot sections and in the Continental United States in 55 depots, 47 major installations and 12 market centers and procurement offices.

A simplified procedure has been developed and is being considered for installation in depots in Okinawa and Korea. Also, a report on the value of bulk inventories in overseas posts, camps, and stations has been made which will contribute to a policy determination on extension of the system in this area.

The tremendous scope of the inventory management control problem in Army is indicated by the total values reported June 30, 1955, under the Financial Inventory Accounting System - $20.5 billion. This included 91% of overseas stocks not in the hands of troops and in excess of 95% of similar Continental United States stocks.

Stock Funds. During the year the Army Stock Fund was extended to all overseas commands with the exception of Austria where only the Medical-Dental Division was established. With the inclusion of Engineer parts and components as of July 1, 1955, the Stock Fund now contains nearly all consumable material in the depot distribution system (some 950 thousand supply items). The extension of the Fund below the depot level is being tested on a trial basis at six stations in the Third Army. The station test installation is now being evaluated on its practicability and usefulness.

Primary emphasis has been given to the use of revolving fund financing of inventories. Under this method of financing, charges are made to the using appropriations at the time of consumption rather than when purchased.

Industrial Funds. The development and installation of an industrial-type system of general accounting and cost accounting, with its related fund control techniques, was completed at two additional installations. With the discontinuance of one activity, due to dispersal of the mission to other locations, the total industrial-type activities operating under the Fund is 18. Typical examples of economies effected in the installations involved are as follows:

1. The materials and supplies category of inventory was reduced approximately $43 million, or slightly over 50% through progressive inventory screening during the 1955 fiscal year. The reduction facilitates improved inventory control and results in substantial savings in care, handling and surveillance costs.

2. A reduction in annual operating costs of $1,015,700 at Pine Bluff Arsenal is attributed to improvements effected through an engineered standards program.

3. Highlighting costs helped lead to improved production processes and methods for the Thermal Battery Program at Frankford Arsenal. Savings are estimated at $700,000 annually on a production base of 140,000 batteries.

Material improvements in management of operations under Industrial Fund financing have been achieved during the year. Also, the systems being developed and installed for depots, posts, camps and stations, and for major procurement in Ordnance are significant efforts to adopt the principles of good business practice where better results in programming work can be obtained, by simplified accounting techniques, through the use of appropriated funds as the method of financing.

Administrative Control of Appropriations. Progress toward minimizing the compartmentalization of funds has been made through revision of the budget structure under the Army Maintenance and Operations Appropriation. The proposal is in the final stages of coordination prior to submission to the Office, Secretary of Defense for approval.

Improved Civilian Payroll Procedures. As a result of the simplified payroll procedures inaugurated during 1953 the Army has now attained a staffing ratio of one payroll office employee to 343 employees serviced. This surpasses by 43 accounts the ratio established as a target to be attained by July 1, 1955. Based upon the current average salary of payroll employees and the number of employees paid, this improvement represents an annual reduction of $500,000 in the administrative cost of paying civilian employees in addition to the $2 million annual savings previously reported. In achieving this ratio, control requirements have been decreased without sacrificing validity or accuracy; peak workloads have been reduced; and duplicate efforts resulting from organizational concepts of dual responsibility have been eliminated.

Transportation. The Army has developed a plan for bulk purchase of tickets where a continuous need exists. The plan will be tested in the Third Army area. Through greater use of round-trip tickets an annual savings of $15,000 is anticipated in this test area alone. In addition, over 70,000 transportation requests a year will be eliminated with considerable savings in administrative costs.

Internal Audit. Overseas contract and internal auditing previously under the control and direction of the Commands was transferred to the Army Audit Agency. Major advantages of the transfer are:

1. Placing the audit function in an independent audit group provides an objective appraisal of operations.

2. More qualified people are made available for overseas billets through the utilization of Army Audit facilities for recruitment and training. Also, a rotation plan has been developed for maximum utilization of available personnel.

3. Uniform application of audit procedures and programs is provided for.

Army Audit Agency suboffices were established at 20 large installations for the principle purposes of providing continuous internal audit protective services to commanding officers and to increase the effectiveness of annual audits. A small staff stationed at each site for continuous audit purposes is augmented by a larger temporary group to conduct the annual audit.

Military Construction Activities. The Army has developed the procedures and forms to present a complete picture of the status of the military public works program for authorizations, appropriations and progress reporting. Since it is planned to have the basic forms uniform for the three services, their utilization by Army is pending approval of the interservice committees set up by the Department of Defense.

The Corps of Engineers has developed a double entry accrual accounting system which incorporates the cost accounts, the allotment accounts, and related property and liability accounts. The system is similar to that developed and in use for Civil Works construction. Conversion to the system is expected early in 1956.

Department of the Army - Corps of Engineers, Civil Functions

In recognition of the increased and improved management information available as a result of the new programming and accounting system now in use, the Corps was requested and is preparing a cost-type budget for the 1957 fiscal year presentation. In view of the fact that the request was made late in the year the initial preparation will be limited to the appropriations for General Investigations; Operation and Maintenance, General; General Expenses; Niagara Remedial Works; and United States Section, Saint Lawrence River Joint Board of Engineers.

All emergency flood control activities formerly included in several classes under various appropriations were consolidated into a single class under the Operation and Maintenance, General appropriation. The change presents a total picture of this type of activity and facilitates budgeting, scheduling and control.

Project cost estimating has been improved and streamlined with special attention to clear presentation, careful justification of revision of estimates, and full explaination of required Federal or contributed costs.

Significant activities formerly absorbed as overhead, and consequently distributed to projects which they did not benefit, have been carefully defined and are specifically budgeted and accounted for to provide full disclosure and improved control.

Performance reports have been further improved, particularly with respect to obtaining qualitative narrative summaries of accomplishments and problems for management information on an exception basis.

Policy agreement was reached by the Department of the Interior, Federal Power Commission and the Corps of Engineers on the method of allocating costs to the various purposes of multipurpose projects. The agreement also covered such items as interest during construction, dates facilities are placed in service, operation and maintenance, and procedures for computations. The agreement filled a vital need in providing for uniform treatment of similar items in the agencies and paved the way for final determinations with respect to completed projects for which only tentative distributions could be made.

The accounting portion of the programming and accounting manual has been rewritten. Numerous refinements and improvements, put out in multiple letter form since the manual was published, have been incorporated. The new edition features better integration and cross-reference of material as well as simplified instructions. Initial drafts have also been developed of a similar revision of the programming portion of the manual.

Department of the Navy

Inventory Control. As a result of intensive efforts at screening Naval inventories, over $1.5 billion of excess and surplus property was disposed of during the fiscal year 1955. In addition approximately $68 million of excess material was redistributed for use within the Navy.

Stock Funds. During the year Navy continued to conduct an aggressive program for achieving refinements and improvements in the management of its Stock Fund inventories. Clarifications of policy guidance were issued in the fields of long supply, inventory pipeline, mobilization reserve stocks, and material custody and accountability. A maximum authorized investment level in peacetime operating stocks was established for each category of Navy Stock Fund material. This was the first time that inventory managers were provided with specific guidelines on arriving at and maintaining maximum authorized dollar levels in peacetime operating stocks.

The improved supply management resulted in an over-all inventory reduction during the year of $173 million accomplished even though additional inventories valued at $136 million were capitalized under the Fund. The reduction was made without hampering the readiness position of the Stock Fund to support either peacetime or wartime needs.

A revised Navy Stock Fund charter was issued June 27, 1955 which provides for the inclusion of a broad range of technical material carried in stores. Current plans provide for adding some $736 million of such material to the Stock Fund by July 1, 1956. This would be in addition to present Stock Fund inventories which totaled $1.59 billion as of June 30, 1955.

Industrial Funds. The conversion of four activities to revolving fund financing and commercial-type accounting was accomplished during the year. This makes a total of 47 activities (including seven branch printing plants) now operating under the Navy Industrial Fund.

Although many management improvements achieved cannot be stated to a dollar basis, the following are examples of typical savings effected in installations operating under the Navy Industrial Fund where a monetary measurement is possible:

1. At the Naval Powder Factory, with average monthly production at approximately the same level in 1955 as in 1954, rocket production costs were reduced $1,070,000 and smokeless powder production costs were cut more than $50,000.

Overhead costs were reduced in the Marine Corps Clothing Factory by approximately $97,000 through devoting intensive efforts to excessive cost areas highlighted by the budgeting and accounting system.

3. Substantial inventory reductions at Naval Shipyards amounting to $1,300,000 at Norfolk, $485,000 at Puget Sound, $300,000 at Charleston and $200,000 at New York, were accomplished during the year through careful review and screening. In addition, the number of shop stores employees was reduced from 62 to 36 at New York Naval Shipyard which represented a savings of $100,000 per year.

4. The disclosure of the high cost of transportation at the New York Shipyard prompted a comprehensive survey of all services provided by the Public Works Department. Accomplishment of the recommendations of the survey team has resulted in tangible annual savings of $219,000.

Instructions were issued by the Office of the Comptroller of the Navy to establish a review and analysis program, at bureau and activity levels, of the recurring financial reports and operating budgets generated under the Navy Industrial Fund. Further provision is made for the Comptroller to receive timely summary reports of the results of such reviews. It is anticipated that effective utilization by management of the information developed will be reflected in more efficient operations and increased cost-consciousness.

A revision to the budget section of the Naval Shipyard Industrial Fund Handbook was published. The revision contains many refinements in the area of budget procedures and is aimed at producing a closer alignment between the activity operating budget and the annual budget submission required by the Bureau of the Budget. It is expected to assist in the preparation of more realistic budget estimates and to permit closer examination of variances and their cause.

A study has been initiated by the Comptroller of the Navy, with the assistance of the Bureau of Ships, in the field of standard costs, production control, and related areas considered conducive to the measurement of efficiency of operations and the improvement of reporting at all levels of management at Naval Shipyards. The Charleston Naval Shipyard is being used as the test activity for the survey. Though this will necessarily be a long-range study, it is anticipated that procedures developed will have an effective application throughout the shipyard program.

Cost Control Program for Overhaul and Repair of Aircraft. A study was made of aircraft overhaul and repair operations at Naval and Marine Corps Air Stations for the purpose of installing an improved cost control system. A prototype system was developed and installed at the Naval Air Station, Alameda, California. Based on experience of the test installation a manual was drafted and issued which prescribes a uniform cost control system for adoption and use by all Overhaul and Repair Departments.

The cost control system is designed to produce a breakdown of actual costs by organizational segments and to measure such costs against a predetermined standard. Weekly and monthly reports comparing actual costs with standard costs are provided supervisors and top management for evaluation of performance. Since the cost control system is designed along organizational lines, the responsibility for excessive costs can be isolated during the production processes. As a result timely action can be taken to correct any out-of-line costs. The system as tested at Alameda places primary emphasis on the use of manpower (both military and civilian). About 150 cost centers or shops, averaging 30 workers per center under one supervisor, have been established. The emphasis is on individual effort below the cost center level and team effort to keep the cost center efficiency near the 100% level.

Upon full implementation of the cost control system at all overhaul and repair activities, it is expected that all levels of performance will be improved, more realistic budget data will be available, increased cost-consciousness will result, and more adequate data will be available for comparative analysis.

Hospital Accounting. The Bureau of Medicine and Surgery developed and is testing a system which integrates field allotment, field cost, bureau and field estimates of expenditures and financial plans of the Medical Department. In effect, the system furthers integration of allotment and cost accounting and provides for the classification of obligations and expenditures on a functional basis. The intent of the system is to overcome the difficulties occasioned in the administration of a cost system on an accrual basis and the annual reporting of obligations. With the placement of hospital inventories under the Naval Stock Fund, the accrual factor was found to be not significant in developing costs of operations in the hospital accounting area. However, "free issue" items are incorporated in accumulating total costs.

General Accounting. A study of accounting for forces afloat and other organizations was begun. The objective is to conduct a critical analysis of accounting policies and procedures presently applicable to operating forces as a preliminary effort to simplify the system. Also, the accounting instructions now contained in manuals and directives issued by various bureaus and offices will be consolidated into a volume of the Navy Comptroller Manual.

The accounting procedures for activities operating with nonappropriated funds were revised to provide:

1. A simplified accounting system covering the operation of commissioned officers' messes.

2. A new accounting system, designed along commercial lines, for civilian cafeterias and welfare activities.

Transportation. A change in the budget structure for intra-Navy transportation was made so that each management bureau or office becomes financially responsible for bureau directed movement of material. The underlying principle of the new procedure is the assignment of responsibility for funds in line with authority for directing movement of material. A beneficial result of the new procedure will be the accumulation of timely and accurate cost data for management analysis purposes.

In order to avoid some of the disbursing complications that the new budget structure would cause, a Navy Management Fund account is used for initial accumulation of all obligations and expenditures for transportation of material.

Internal Audit. Effective February 9, 1955, the field audit organization of the Office of the Comptroller of the Navy was realigned to achieve a better integration of the contract audit (Cost Inspection Service) and the activity audit (U.S. Navy Audit Office) programs. Through the reorganization there are now 11 Navy Area Audit Offices which may perform both contract and activity audits. Anticipated advantages of the reorganization are:

1. Strengthening the over-all top direction of the Area Offices.

2. Consolidating the administrative work and the space requirements in the Area Offices.

3. Cross-utilizing audit staffs when necessary to meet deadlines or when such assignments would be in the public interest and personnel qualified in both fields are available.

While the major purpose of internal audit is to provide independent audits and appraisals of the financial and business operations of naval activities, in some cases specific monetary savings can be directly related to improvements effected as a result of the audits. Noteworthy savings have been accomplished through elimination of duplicate, nonessential or overlapping records and reports; disclosure of excess stocks; discovery of errors in billings, charges and other transactions; and by discovery or development of more efficient procedures. Typical examples of such savings effected are: a revision of the billing procedures at a Naval Supply Depot resulted in annual savings of $6,000; a Naval Station effected a payroll reduction of $70,000 through elimination of duplications of record-keeping; and a Naval Air Station reduced their annual payroll by $85,000, primarily by revisions of their timekeeping operations.

Military Construction. A revised accounting system for military construction has been developed and is being tested at two Naval District Public Works Offices. The accounting system provides for double entry journals and ledgers to be kept on the accrual basis. Cost accounts are maintained to provide management with accurate progress data in financial terms. The cost accounts can be readily reconciled with the budgetary accounts for obligations and expenditures.

Department of the Air Force

Budgeting. During the year adjustments were made in the coverage of the basic Air Force appropriations included in the 1957 fiscal year budget. The adjustments in these appropriations will: (1) substantially improve the management capabilities within the Department of the Air Force and the review process within the Department of Defense, the Bureau of the Budget and the Congressional Committees; (2) provide a much improved separation of capital assets and current operations; (3) provide a budget structure which will substantially facilitate and make more readily understandable the computations and substantiation of budget estimates.

Financial Management System. It was decided to apply the concepts of the Air Force Financial Management System (outlined in the 1954 report) to the Air Research and Development and Air Proving Ground Commands. In accordance with this decision the following were developed:

1. An account structure to reflect the mission in terms of major programs and activities and functions within these programs.

2. Drafts of policies, procedures and statements to accomplish the following:

a. Preparation of an operating budget by the commander of a squadron or comparable unit.

b. Consolidation of operating budgets at installation and command levels.

c. Correlation of operating budgets and obligations and for the determination of total requirements for local funds.

d. Authorization statements for use by Headquarters USAF and major command for administration of approved operating budgets and fund requirements.

e. Progress reporting in accordance with the operating budgets and on the status of funds.

At this time the developed system is being studied by the two commands and is expected to be put into effect at an early date.

A brochure entitled "Base Level Management Statements" was published to assist Air Force commanders in using financial information generated by the Financial Management System to obtain increased effectiveness. The brochure contains analytical type statements which relate dollar information to operational and program data. Actual and standard costs are related to accomplishments in terms of familiar mission work units to enable base level managers to comprehend the cost significance of their operations and to aid them in taking action to correct undesirable trends.

Inventory Accounting. Dollar accountability for all overseas depot stocks was accomplished early in the year. Also, special depot inventories composed of Government furnished aircraft equipment, classified material and all types of reserve stocks were brought under Monetary Inventory Accounting. This means that all stocks located at Air Force installations are now accounted for on a dollar basis.

A system was developed and is being tested on a pilot basis to account for materials purchased through central procurement from the time title passes to Air Force until delivery to a base or depot. The in-transit control established provides a basis for assuring that all material paid for is actually received by Air Force. It has resulted in a simplified and more effective method for reconciling dollar disbursements as recorded in the basic accounting system with those reported by the disbursing Finance Offices. This simplification has resulted in substantial machine time savings and is expected to result in a total clerical effort reduction of from 300 to 350 man years.

Depot Maintenance Cost Accounting System. The system developed at Sacramento Air Materiel Area for depot maintenance (repair and overhaul of Air Force equipment) with provision for production control, work measurement and standard cost accounting is in process of being installed in all Air Materiel Areas in the United States. Operating results at Sacremento have disclosed a 10% increase in production per man hour for maintenance since its installation.

Survey of Comptroller Functional Areas. At the request of Air Force, a cooperative survey is now underway by representatives of the General Accounting Office and the Air Force of certain Comptroller functional areas.

Areas identified for review, evaluation and development of recommendations for improvement are:

1. Appropriation and allotment accounting.

2. Disbursement accounting including the recordation and reconciliation between Finance and the Accounting and Procurement Offices.

3. Inventory and expense accounting and its correlation with programming, budgeting and management.

4. Responsibility for recordkeeping and reporting as between components of the Comptroller organization.

5. Financial reporting including the effectiveness of, and utilization of, reports generated.

General Accounting. Mechanized procedures have been adopted for payment of commercial vouchers by the Air Materiel Command. The value of establishing a punch card to hold all repetitive data by contract can be seen from the fact that the average contract involves 21 payments which require in the Finance Operation, alone, the transcription of the contractor's name 63 times and the accounting classification 85 times. Under the new procedures the basic operations required to make a payment have been reduced from 34 to 18. Also, voucher and check preparation and ledger postings have been rendered semiautomatic requiring the machine operator to enter only information which pertains to amounts involved in the partial payments.

The Air Force took action to limit, as much as possible, the use of allocated working funds for interdepartmental procurement. In lieu of the working funds, with their multiple fund accounting requirements, reimbursement will be effected on the basis of deliveries.

Procedures were revised and installed for accounting for base medical services. The procedures provide for accounting for expenses and assets by area of responsibility within the base level medical activity. In addition, the financial data reported is related to personnel, bed occupancy, and type of personnel using the facilities (military, dependents, and others).

Working Capital Funds. All Air Force laundry and dry cleaning plants were brought under Industrial Fund financing and a commercial-type accounting system.

The Air Force Stock Fund was expanded to include, as new divisions, Air Force commissaries and commissary stores; selected common-use items of general supplies in United States depots; and the cadet store at the Air Force Academy. As a result of a reduction in inventories of the Clothing and Medical-Dental Divisions, $70 million in excess cash was returned to the undistributed account of the Stock Fund.

Internal Audit. A special feature of the improved internal audit program established January 1, 1955, is a special audits phase whereby specific activities or procedures are examined simultaneously throughout the Air Force. This technique provides valuable information on an Air Force-wide basis, and the comparison of similar functions wherever located. The requirement for such audits may emanate from laws, requests of the Department of Defense, other executive agencies, or from within Air Force. A total of 32 such special audits are underway or have been completed this year.

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

Office of the Secretary

Internal Audit. A departmental Division of Internal Audit has been established under the Office of the Secretary. This division will develop and direct a comprehensive audit program for all units of the Department which now have no internal audit operation and will review and evaluate existing audit programs in the Public Health Service and the Bureau of Old-Age and Survivors Insurance. The Director of this division has been appointed and progress is being made in staffing the unit.

Accounting Operations Studies. A time and production study in the regional office fiscal sections was made during September and October. The final report on this project is expected early in 1956. Recommendations are contemplated which will point to improvements in procedures and operations and to guides on staffing.

During December a manpower utilization study was inaugurated in the Accounting Operations Branch in the Office of the Secretary. This study is expected to provide the basis for changes which will result in more effective and efficient accounting operations in the headquarters office.

Public Health Service

Decentralization of General Ledger. On July 1, 1955, general ledger accounting was decentralized to 41 accounting points. Prior to this date the general ledger was maintained centrally at headquarters in Washington, D.C. The decentralized general ledger operation provides a strengthened control device over assets, liabilities, expenses, and income. It also provides for an improved reporting technique, in that reports of financial operations are consolidated from summary reports submitted by the field accounting points.

The savings resulting from the decreased flow of paper to Washington cannot be measured accurately until the system has been functioning for a longer period. However, it can be said that improved accounting operations are already evident for the short period of time the system has been in operation.

Integration of Cost Accounting with General Ledger. Concurrently with the decentralization of the general ledger, the former cost reporting system was adapted to a formal accounting operation and integrated with the general ledger. This coordinates budget and other reporting requirements with full control over all assets and costs.

Cost accounting as the basis for cost reporting to the Bureau of the Budget and Management is required in the 16 Public Health Service hospitals and the six Indian Health area offices which operate some 60 hospitals, and the National Institutes of Health Clinical Centers.

It is doubtful if direct monetary savings were made in this area because the new system superseded an unintegrated system. However, the advantages of integration and accounting control are obvious and have already resulted in improved management and accounting operations.

Property Accounting. In cooperation with property management officials, fiscal accounting for property, both real and personal, was inaugurated during the year. This, too, was correlated with decentralization of the general ledger, and previously maintained memorandum accounts became formal general ledger accounts. Improved control over assets resulted.

At the National Institutes of Health, general ledger accounts were established to reflect inventory value of equipment in use. Value of the property is in excess of $13,000,000 for approximately 114,000 line items. Subsidiary inventory records are maintained on punch cards and procedures have been effected to integrate such records with the general ledger accounts.

Inventory on expendable shop supplies was completed and perpetual inventory records established for approximately 8,000 line items having a value in excess of $450,000. Inventory value controls have been established and a system of reporting to management was initiated.

The Service and Supply Fund for financing inventories of materials and supplies continued to accelerate in volume of transactions handled, and improvement of accounting and reporting for such operations continued to be made during the year. The operation of all fund activities was improved during the 1955 calendar year by the establishment of an Advisory Board on Service and Supply Funds late in the calendar year 1954, composed of management, consumer, and operating officials. Under the guidance of the Board studies of fund operations were conducted resulting in better utilization of personnel and improvements in financial and operational activities.

Simplification and Related Improvements. Procedures were developed and installed at the National Institutes of Health which eliminated the necessity of submitting check lists to the Treasury Department for preparation of checks by the transfer posting method. Both regular and premium payrolls are now prepared at the National Institute of Health through punched card processes and forwarded to the Treasury Department where the checks are prepared directly from the cards. This procedure not only saves clerical time at the National Institute of Health but also simplifies the check writing activities of the Treasury Department.

Monthly reports showing the results of appropriation accounting operations were placed on punched card reporting format during the year. The mechanical preparation of the reports is the result of a long chain of accounting operations and techniques that have been placed on punched cards during the past several years. The mechanical reporting technique facilitates compilation of accounting data and presents such data more rapidly and efficiently.

Agent Cashier Activities. This activity accelerated rapidly during the year under expanded authority for cash payments for professional service contracts, blood donations, etc. The cash payment activities, covering many diverse purchasing and related functions, has facilitated the acquisition of necessary supplies and generally has simplified fiscal accounting procedures.

Accounting Conference. A conference of field financial management officers was held in Washington, D.C., during October 1955. The purposes of the conference were:

Exploration of problem areas
Mutual exchange of ideas
Participant education
Recommendations for the betterment of the
fiscal processes and relationships

The importance of the conference was particularly significant in view of the decentralization of the general ledger, integration of cost accounting, inauguration of property accounting, and the establishment of Indian Health Area Office accounting points to service the program transferred from the Bureau of Indian Affairs. It is felt that the conference contributed much in the stated areas and as a matter of staff development.

Completion of Basic Manual. During the year the basic Public Health Service Manual, Budget and Finance Volume, was completed. After certain consolidation, revision and indexing processes are accomplished, the manual will be a very valuable reference tool for accounting operations of the Service.

Bureau of Old-Age and Survivors Insurance

Combined Checks for Beneficiaries Entitled Under Two Social Security Claim Numbers. In the past separate checks were issued to a beneficiary entitled to receive social security benefits as an aged widow, widower or parent, stemming from another wage earner's record, in addition to benefits based upon the individual's own wage record. The combining of these types of payments into one check during the year eliminated the annual preparation of over 600,000 checks, with a recurring saving in excess of $40,000 per year.

Discontinuance of Social Security Claims Record Card File. The maintenance of a social security claims record index file, used in connection with the payment of claims and consisting of over 9,000,000 cards with yearly additions in excess of 800,000 items, was discontinued in the Bureau of Old-Age and Survivors Insurance area offices in March 1955. This procedural change resulted from a study which demonstrated that claims material could be satisfactorily searched against basic folder files without reference to the index file or other sources. The discontinuance of the file resulted in savings in personnel, equipment, and related costs of $50,000 during the first year of operation. Further savings are expected to be realized in an estimated amount of $25,000 yearly on a continuing basis.

Integration of Accounting and Disbursing Function. On July 1, 1955, the Birmingham area office of the Bureau of Old-Age and Survivors Insurance undertook the disbursing function for benefit payments under Title II of the Social Security Act for the accounts (approximately 900,000) under jurisdiction of that office and for the salary payments of the employees of that office. Procedures were installed to integrate the accounting and disbursing functions and, after six months of operations, the Bureau estimates an annual savings of approximately $40,000 through the elimination of positions.

Combined Social Security - Income Tax Reporting Plan. The Department of Health, Education, and Welfare, in collaboration with the Treasury Department and the General Accounting Office, has continued to give consideration to a combined Social Security-Income Tax Reporting Plan, which was mentioned in the reports for the past two years. Under the consolidated reporting plan, withholding tax statements (Form W-2) filed by the employer with Internal Revenue Service each year for each employee subject to income tax withholding would be used by the Department of Health, Education, and Welfare for maintaining the wage records necessary under the old-age and survivors insurance program.

The consolidated reporting plan provides a means for potential benefits to the Bureau of Old-Age and Survivors Insurance through (1) reductions in processing operations for old-age and survivors insurance purposes, and (2) a greater measure of completeness and accuracy in the recording of wage records necessary to the administration of the old-age and survivors insurance program. The plan also involves the system of review of the employer social security tax returns and the employee income tax returns.

House Resolution 7770 introduced on July 30, 1955, contains proposed legislative provisions for the consolidated reporting plan. Hearings have not been held on this bill.

Application of Large-Scale Electronic Equipment. The Bureau has ordered an electronic data processing machine to be delivered in February 1956, together with related equipment, the first of which was delivered in September 1955. The equipment on hand is being used to record on magnetic tape summary earnings data contained in punched card form for each of the Bureau's 120,000,000 accounts. When the basic machine is received, the taped records will be rearranged and edited to create a master tape file for use, beginning July 1956, in the annual posting operation which involves the processing of almost a quarter of a billion earnings items, and the up-dating of approximately 80 million of the accounts. Aside From the anticipated monetary savings in a later paragraph, the availability of the equipment will permit improvements to be made in other work areas and provide experience on which to base studies for future application. The detailed programming and coding of instructions necessary for the creation of the master tape file and the first of the two major phases of the posting application have been completed and are being reviewed and tested.

Another major application of the equipment involves its use in searching for the correct account number for each of the approximately 9 million earnings items reported annually with incorrect account numbers. For this application, two magnetic tape files will be created, each containing account number and name information for all established accounts. The sequence of accounts in the two files will be different, to facilitate the searching for correct account numbers. The initial programming and coding for the creation of the first of these two files has been completed and is being reviewed and tested.

The electronic data processing machine will also be used in connection with the certification of earnings records for benefit claims, computation of the amounts of benefits, and compilation of statistical data pertaining to the social security program. Studies of the feasibility of these applications have been completed and preliminary programming charts have been started.

The cost of converting to the new system is estimated to be $850,000. This conversion cost covers such items as preparation of the site, initial purchase of a large amount of magnetic tape, preparation and testing of programs, creation of the master tape files, and dual processing of selected accounts under the new and old systems to ensure the reliability of the new system. Annual savings are expected to be as follows:

Identifying incorrectly reported earnings items	1,000,000
Posting to earnings records	200,000
Processing benefit claims	50,000
Statistical Program	Not yet determined

Correction of Earnings Records. Procedures have been revised to eliminate the processing of certain types of incorrectly reported earnings items through the internal reinstating operations. Incorrectly reported items will not be screened against the files and records maintained in the Division of Accounting Operations of the Bureau of Old-Age and Survivors Insurance if earnings reported previously with the same name and account number information could not be identified in the screening operations. The estimated annual savings is $127,000.

Improvements in the National Employee Index File. The name and account number strips for which dates of birth are unknown were removed from the National Employee Index File by the Division of Accounting Operations during the current year. Most of these accounts were established on the basis of employer-filed Applications for Social Security Account Numbers, and were virtually useless for reference purposes. The removal of these strips makes approximately 9,150 panels and six stands available for reuse, and results in estimated annual savings of $15,000.

Miscellaneous Procedural Changes. A variety of miscellaneous procedural improvements were effected during the year. These vary from the elimination of certain checking operations to the use of new and improved form letters. These improvements, which are concerned with the maintenance of wage records and the payment of claims for benefits, will result in the savings of a minimum of $75,000 per year.

DEPARTMENT OF THE INTERIOR

Departmental

From the inception of the Joint Program to Improve Accounting in the Federal Government, the Department has pursued a dynamic program to revise and perfect accounting systems and related financial processes in its principal bureaus and minor organizational units.

Accounting improvements have been carried forward by cooperative efforts of departmental and bureau representatives within the framework of a program directed by the Division of Budget and Finance of the Office of the Administrative Assistant Secretary.

Revised systems have been installed in eight of the fourteen principal bureau-type organizations of the Department and systems improvement work is presently in progress in five of the other principal organizations.

Seven of the installed systems are designed to cover all aspects of accounting for related financial activities and to develop costs on an accrual basis reconcilable with fund controls under an over-all financial plan of integrating budgeting, programming, accounting and reporting activities.

Systems in process of development will follow the general pattern of the systems already installed unless it is demonstrated that the needs of a particular agency may require different treatment.

The Division of Budget and Finance is in the process of expanding its staff in order to further the improvement program and to carry out review and evaluation of the systems already installed for the purposes of obtaining maximum efficiency and benefits to financial management.

The Department submitted cost type statements in support of budget estimates for 12 appropriations.

The Alaska Railroad

The program of redesigning the accounts, procedures, and financial reporting processes and attendant strengthening and realigning of the accounting organization, commenced in the latter part of 1954, was continued throughout this year. Incident to the realization of a system productive of accurate and useful results and realistically reflecting the values comprising the Government's investment, it was necessary for the Agency to undergo a financial quasi-reorganization. This entailed about a two-year task of segregating materials and other property on hand between that portion which was serviceable and not in excess of foreseeable requirements and the portion which was surplus to its needs. The task included the establishment of financial control over all property in the former category. All this was in addition to the normal workload of installing a revised accounting system.

The Agency, in cooperation with the General Services Administration, made substantial progress in inventorying, classifying and recording the value of useable property. In addition, it (1) strengthened the accounting staff, (2) realigned the organization under the Comptroller, (3) established a substantial portion of the new procedures and reporting media provided in the new system and (4) made progress in developing a comprehensive accounting manual for continuous use.

Bureau of Indian Affairs

During the year, the internal audit operations of the Bureau were expanded and present plans provide for the continuation of the expansion during the next calendar year. The Bureau has been developing methods to improve its program planning and management evaluation through a system of cost accounts established within the over-all accounting system on a common denominator basis with budget and program requirements.

A master menu for feeding Navaho school children and a master book schedule for Navaho school children are in the development stage. The master menu and the master book schedule will permit a centralized procurement operation at the area office level which will reduce considerably the paper work involved in these operations. This effort will represent a big step forward in the Bureau's plan to eliminate many fund control accounts.

The Bureau has undertaken a survey to determine the feasibility of mechanizing its computing and bookkeeping operations. The findings and recommendations of the survey team making this study will be submitted during the early part of 1956.

Bureau of Mines

Incident to a meeting of the Director's Advisory Committee in which the General Accounting Office representatives were invited to participate, the Committee recommended that the Bureau review its accounting operations in the interest of improving its over-all effectiveness. The committee stressed the need for particular emphasis upon an appraisal of the Bureau's program and budget classifications and its system of internal reporting.

The review is to be initiated during the early part of the next calendar year and should ultimately produce further improvements, in furtherance of the accounting improvement program commenced some three years ago and which resulted in the installation of a revised system effective July 1, 1953.

Bureau of Reclamation

The Bureau of Reclamation installed a bureau-wide commercial-type accounting system in 1949 and has conducted a continuous study of the operations of the system since that time making such changes as were considered necessary to increase the effectiveness and value to management. During 1955, the Bureau made two major improvements: (1) it established field accounting units in each of the seven regional offices of the Bureau for the purpose of making periodic reviews of accounting operations at the project level and to assist in expediting timely reports and (2) put into effect an audit program developed and published as a guide to all field auditors for the purpose of standardizing all internal audit procedures and reports.

Fish and Wildlife Service

A Joint Committee for Improving the Financial Procedures of the Service, consisting of representatives of the Service, the Departmental Office of Budget and Finance, and the General Accounting Office, directed its attention during 1955 toward finding solutions to the Service's complex fiscal problems. A report was submitted during the year recommending: (1) payment of expenditures from a single consolidated fund with monthly distributions to the individual appropriations and funds involved; (2) the development of accounting systems to reflect costs by activities; (3) the development of cost budgets for each work program (activity) consistent with the cost accounting support; and (4) reduction of allotments from over 2,000 to less than 100 by making the allotments to the 7 Regional Offices for the work programs rather than the present practice of making several allotments to each of the more than 450 field stations. The report also recommended that field accounting be centralized at the 7 Regional Offices and discontinued at the more than 450 field stations, with the field stations receiving monthly reports from the Regional Offices. These recommendations are being considered by the Office of the Secretary of the Interior since the programs and activities of the Service are financed from a number of complex authorizations and the Department felt it necessary to give further consideration to the relationship between funds and activities before reaching a conclusion.

The Service is currently operating under a very complicated financial structure, receiving monies from numerous "Permanent Indefinite" and four current appropriations, in addition to advances from other agencies. Each of these funds is restricted as to usage, although many are available for the same activity. The Committee's study indicated that little could be done toward improving the programming and to accounting procedures of this Agency until some means is devised to simplify its present financing procedures.

National Park Service

During the previous year this Agency began work on an improved accounting system which would provide for the integration of its budgeting, programming, accounting and reporting and furnish management at all levels with useful and timely financial information.

The development and installation of the new accounting system is progressing in accordance with plans. A manual, which includes the accounts and operating procedures, has been drafted for interim use during the conversion period. The plans for converting all accounting offices to the new system provide for a pilot installation in each region and for the Regional Finance Officer to continue conversion to the other accounting offices. Two pilot installations have been completed. In Region I, Shenandoah National Park was converted during the month of October and in Region III, Grand Canyon National Park was converted during the month of November. It is presently planned that all accounting offices will be converted to the new system by June 30, 1956.

During the year the National Park Service completed a reorganization of its accounting offices by consolidating the existing 46 offices into 28. A savings of 24 positions costing $92,000 annually resulted from the consolidation.

Virgin Islands Government

To conform to the requirements of Public Law 517 (an Act to revise the Organic Act of the Virgin Islands) a manual of instructions containing a completely new accounting system and procedures for the Government of the Virgin Islands has been developed. The manual was approved by the Comptroller of the Virgin Islands and prescribed by the Governor for use by all Executive Departments and Independent Offices of the Government of the Virgin Islands on March 3, 1955.

The Allotment Ledger and related procedures were installed on a trial basis as of April 1, 1955, and officially on July 1, 1955.

Installation of the General Ledger and relative procedures, with the exception of property accounting was started on November 1, 1955, and should be completed early in 1956. The completed system should be functioning satisfactorily, with the exception of property accounting, by the beginning of the next fiscal year.

The system is designed to account for revenues or income on a cash collection basis and to account for expenditures on an obligation basis. The allotment accounting and related files and records are on a decentralized basis while the General Ledger and related records are centralized in the Department of Finance.

DEPARTMENT OF JUSTICE

Departmental Administrative and Legal Activities

Accounting controls were simplified during the year by reducing the number of allotment accounts from 303 to 138.

A survey of the actual cost of serving process for private litigants by the United States Marshals' offices was completed. The survey was undertaken jointly by the General Accounting Office and the Department of Justice and covered representative districts selected on the basis of population, location and size of the area served, including rural and metropolitan areas in all sections of the country. The survey indicated substantial loss to the Government on this operation. Therefore, legislation requesting equalization of statutory fees and costs will be sought when the effect of recent increases in pay and allowance for marshals can be fully determined.

During the year an inventory was made on nonexpendable property in 188 separate offices of United States Attorneys and United States Marshals and annual inventory reporting by these units was strengthened. Further improvements in inventory accounting are under study at present.

The United States Attorneys and Marshals Report of Obligations and Expenditures was revised to provide more timely information to management and to establish a better tie-in with general expense authorizations.

A forms control program was inaugurated to review forms and reports and evaluate their need and effectiveness.

The Litigation Control System, established in July 1953, was enlarged and reporting procedures were improved to bring within its scope on a current basis practically all litigation, actual and potential, pending in United States Attorneys' Offices. Serving as a central control, this system provides the United States Attorney with up-to-date information on all matters in his office.

During the year a position control system was established correlating personnel procurement and employment with programs on the basis of individual positions authorized in the Budget.

Bureau of Prisons

The accounting manual has been revised to effect further improvements in procedures. New regulations issued during the year will facilitate reconciliations with the revised type of Accounts Current and Statements of Transactions furnished by the Treasury Department. Conversion is being made to the simplified payroll system throughout the Service after operating under an exception to General Regulations 102 since its issuance. Better uniformity in the maintenance of general ledger accounts was achieved during the year by the issuance of a chart of accounts and pro forma journal entries.

Comprehensive fiscal audits of all institutions continued this year with added emphasis being placed on budgeting and planning at the operating levels; on better administrative management practices including employee training; and on the review of position descriptions and workload distribution in the institutional business organizations.

A forms control program was established for continual review of the need for and possible revision of the various forms.

Federal Bureau of Investigation

The mechanized payroll system developed by the Federal Bureau of Investigation and approved by the Comptroller General last year was put into operation with the first pay period in January 1955. The preliminary estimate of potential annual savings of $30,000, reported last year, has been shown by experience to be conservative. The maximum savings cannot be calculated since acquisition of additional machine equipment will enhance the ultimate savings.

The Bureau prepared multilith copies of its mechanized payroll procedures and flow charts at the request of General Accounting Office for distribution among Government agencies and many agencies have visited the Bureau to review these procedures in operation with a view to improving their own operations.

Immigration and Naturalization Services

Effective January 3, 1955, sixteen District accounting offices were closed and consolidated into four Regional accounting offices, with considerable increase in efficiency and saving of personnel. The changeover was accomplished without interruption of accounting services.

POST OFFICE DEPARTMENT

General

During 1955 the Post Office Department continued its aggressive program for improvement of financial management. Some of the work which was initiated in 1953 and 1954 was completed; additional progress in some of the larger areas where work was initiated in those years has been made; and work has been started in other areas. While progress in achieving effective financial management has been substantial, this is a long range program and much still needs to be done. The accomplishments to date have set a firm basis for the work which lies ahead.

Recruitment of qualified personnel to administer the financial management activities of the Department has progressed. The position of Deputy Controller, established in the career service to provide continuity in these operations, has been filled. Most of the regional controllers and their top staff assistants have been appointed. Continued attention is being directed to the selection of technically qualified personnel at all levels.

Emphasis is being placed upon development of meaningful cost information for the use of management. Although the greatest savings will accrue through effective use of these meaningful cost data many direct savings have been achieved through procedural simplification and the elimination of duplicate work. In effect, the financial management improvement program has been self financed and has even shown a profit.

Punched Card Payroll Procedures

The punched card payroll procedures which were developed and tested in two regions last year, using equipment of two manufacturers, has been expanded to include all fifteen regions. Initially the local post office employees' payrolls were processed in each regional office. Gradually payrolls for other post offices were added and at the present time the payrolls for approximately 230,000 of the 525,000 Postal Field Service employees, or about 45 percent, are being processed on the regionalized basis. The program is being rapidly expanded with the inclusion of all the employees under the system scheduled for July 1, 1956. Substantial savings in the cost of payroll preparation are being achieved and should be increased as the program is expanded. Even greater benefits should be derived from the cost information which will be produced, and the more effective control of leave which will result.

Deposit Procedures

Further refinements in the handling of deposits of surplus funds have further reduced the number of deposits transmitted, received, processed, and accounted for from 8.7 million a year to 4.3 million per year, a reduction of 50 percent. It is estimated that mail handling costs have been reduced over $2 million and clerical costs over $2.5 million per year.

Paid Money Order Processing

Transferring the sorting of paid money orders by region of issue from the Federal Reserve Banks to the Department has resulted in the savings of about $400,000, or nearly twice that which had been anticipated.

Cost Accounting System for Motor Vehicle Operations

The motor vehicle cost accounting system which provides unit operating cost by truck, class of truck, and class of service, has been installed throughout the country. This accounting was transferred from the garages to the fifteen regional Controllers' offices to achieve more economical operations and to assure better control. The information which is now being made available to management has made it possible to achieve many economies and better vehicle utilization.

For instance, the first report issued showed that there was an excessive number of trucks at one post office. Prompt reassignment of these vehicles was made to replace more costly rented vehicles. The report also disclosed the fact that excessive time was spent in putting one or two gallons of gas, two or three times a day, in trucks with 20 gallon gas tanks. This practice has been corrected. The report disclosed excessive inventories of spare parts and supplies, which included many obsolete items. As a result new procurement and stocking policies were adopted which have reduced the inventories, even though the number of owned vehicles increased by 25 percent during the same period.

The reports direct attention to those garages and vehicles which are not operating efficiently so that corrective action can be taken. For the first time the Department has reliable cost information which will guide it in achieving efficient and economical operation and maintenance of its huge fleet of about 23,000 motor vehicles, and the Department can determine relative efficiency of the various units administering this program.

Accounting and Financial Control Operations in Large Post Offices

The reorganization of the accounting and financial control operations in large post offices, which was tested in Chicago, has been expanded to all large post offices. This, along with other procedural changes, has resulted in the reduction of over 2,000 employees in the 300 largest post offices. In the New York Post Office alone these actions have resulted in the elimination of 209 positions.

Accounting for Air Transportation of Mail

Additional work has been done on simplifying and improving the accounting for the costs of transporting mail by air. To indicate the magnitude of this problem, about 9 million individual shipments of mail by air must be accounted for annually. A punched card system has been designed and installed to provide a means of accounting for the multielement rate prescribed by the Civil Aeronautics Board for performing this service. This procedure will expedite the payment of the carriers' bills and the airlines will be advised that the advance of 98 percent of estimated billings will be discontinued effective with bills for service in February 1956. This should accelerate the submission of bills which have been as much as six months late in the past. The system will also produce valuable statistical information for management which heretofore has not been available.

Accounting for Rail Transportation of Mail

Discontinuance of advances to the railroads of 90 percent of the estimated monthly billings has accelerated the submission of their bills so that full settlement is now made within 60 days after the performance of the services. When the carriers were receiving these advances they took from six months to two years to submit their bills.

A revised system of accounting for regular authorized service, whereby claims are submitted on an "exception basis" has eliminated the listing of numerous items and expedited the verification and payment of the claims.

Rents and Miscellaneous Expenses

The payment of rents and miscellaneous expenses of post offices and other field establishments has been centralized in the regional offices using punched card techniques. This, with the completion of the regionalization of payrolls, will eliminate all disbursing and expense accounting from post offices.

Paperwork Management

The forms control program has continued to show results with a reduction of over 2,000, or about one-third, of the authorized forms through consolidation or discontinuance. Most of the savings accruing from this program are immeasurable but a few examples of progress are: a reduction in the number of styles of official envelopes used by the Postal Establishments from 663 to 26; standardization of all internal correspondence letterheads for the Postal Establishments into a single memorandum form; redesign of the return receipt for registered, insured, and certified mail (52 million used annually) to assure its attachment to the article and simplify handling.

The records management and forms control programs are now assigned to the same organizational unit, which should coordinate paperwork management from the time of a record's creation until its disposal.

Centralization of Money Order Reconciliation

The mechanical audit of 1.3 million paid money orders daily and the function of reconciling with the postmaster's statement of accountability were transferred from the regional offices and centralized in a new money order center at Kansas City during September 1955. Better personnel and machine utilization should result from the much greater volume processed in one place. Centralizing this work will facilitate installation of electronic data processing equipment if current studies prove that the use of such equipment for these purposes is practicable and economical.

Money Order Issuance Procedures

On the basis of studies and test installations a new 3-part money order form (consisting of the money order proper, the post office record to replace the application, and the purchaser's receipt) has been adopted for use at all first and second-class post offices. The issuing clerk fills in only the amount on the three parts and validates the order; the purchaser must complete the order by filling in his own name and address and the payee's name and address. The average issuance time has been reduced to thirty seconds, a savings of 40 percent. If it were possible to capture all of this saved time by closing money order windows or utilizing the released time it would result in saving about 1,000 man-years. The use of validating machines at busy money order windows is being tested to determine if further reduction in issuance time is possible. Discontinuing the printing (annual cost $165,000) and distribution of over a half billion money order application forms each year will be a substantial savings.

Sick Leave

The excessive use of sick leave disclosed by audits and the new payroll and accounting procedures has directed management's attention to this situation, and as a result of the action taken, there has been a 15 percent reduction in the use of sick leave, or a savings of 800,000 man-hours in a three month period. Regular periodic reports on sick leave are now being made which will disclose any wholesale abuse of this privilege.

Bonding of Employees

The Congress authorized in Public Law 323, 84th Congress, the purchase from appropriated funds of blanket, position schedule, or other types of bonds covering employees required to be bonded. Under this authority the Department was able to bond all employees for a 2-year period for $367,077.62 and to save an estimated cost of $300,000 per year in detailed recordkeeping necessary to assure that the several hundred thousand bonds required to be obtained each year were actually in effect. In addition, employees were saved the cost of premiums for these bonds which were estimated to be about $1,300,000.

Motor Pool Accounting

Accounting for the motor vehicle service has been established on a pool basis. Under this concept, responsibility is clearly defined as between the units which operate the vehicles and the units which maintain and service the vehicles. Postmasters and other users will be responsible for achieving maximum utilization; garage superintendents will be responsible for maintenance and service at the minimum cost. This pinpointing of responsibility has already started to pay off in better vehicle utilization and lower operating costs.

DEPARTMENT OF STATE

General

Passport Office. In cooperation with the General Accounting Office, the General Services Administration and the Executive Office of the President, the Department made a survey during the year of all operations in its Passport Office. When the accepted recommendations proposed by this joint group have been installed, the Passport Office will have an approved accounting system with acceptable internal controls over cash collections and deposits; organizational changes will enable more efficient performance of Passport Office functions; and a system of fiscal and statistical reports will furnish the Director, the Department, and the Congress with needed management data which heretofore was not available.

Discontinuance of Fee Stamps. As a culmination of several years effort the Department obtained legislative approval to discontinue the use of fee stamps. The issuance, control, and accounting for such stamps by Foreign Service Posts was an operation which did not necessarily strengthen internal controls. New improved procedures for accounting and reporting fee collections have been installed at an estimated annual saving of one full position in Washington and eight to ten man-years distributed throughout the world.

List of Approved Certifying Officers. Since the disbursing officer at any Foreign Service Post may be called upon to pay a voucher certified by any other post attempting to maintain files of individual signature cards of each certifying officer with every disbursing officer was found to be impracticable if not impossible. A procedure was developed and installed under which a central control desk in Washington now prepares and periodically distributes complete lists or change lists of facsimile signatures. These lists can be mechanically prepared at a very low expense.

Decentralization of Foreign Buildings Operation Allotments. The Comptroller General approved the Department's proposal to decentralize its Foreign Buildings Operation allotments to the field and to discontinue the practice of allotting funds in both dollars and foreign currency. This will result in the elimination of paper work and permit more effective accounting control over the use of foreign currency by the Foreign Buildings Operation.

Personnel Management Inventory. A monthly inventory report of American Foreign Service salaries and positions by allotment was established during the year for the purpose of more effective personnel management control. The report is designed to furnish management with the number of positions authorized, filled, and vacant, classified by position title, category, grade, annual salary rate and allotment. A budget summary report was also designed and installed to show the status of salary funds for the entire Foreign Service on a monthly basis. These reports furnish management with information as to personnel strength and vacancies and the amount of funds available for personnel requirements.

Budgeting. The 1957 budget presentation was rearranged to group the several appropriations of the State Department into significant program categories that enable a more meaningful presentation. At the same time, the appropriation and activity structure was adjusted to further improve presentation and control of the Department's programs. The International Boundary and Water Commission also developed and submitted in their justifications cost-type statements for the appropriations made to the Commission.

International Cooperation Administration

Financial Operations. By Executive Order the activities of the Foreign Operations Administration were transferred on July 1, 1955, to the International Cooperation Administration, a newly created organization within the Department of State.

Effective with the establishment of the new Agency a comprehensive accounting manual was released which provided a completely integrated accounting system for the Washington office and the 60 overseas missions. The accounting manual was formally approved by the Comptroller General on July 20, 1955, and represents the culmination of extensive efforts to establish an effective system for accounting and fiscal reporting activities.

Program Approval and Implementation. The Office of the Controller spearheaded the development and installation of a system of documenting proposed programs prior to submission to the Director, International Cooperation Administration, for his approval. The program proposal and approved document is supported by necessary schedules and exhibits which furnish the Director with background information on prior years' activities and the program content planned for the current year. Within this over-all program approval, the Agency installed a uniform system of program implementation procedures which are dovetailed very closely with financial requirements.

Controller Organizational Changes. A new Program and Procurement Methods Division was established within the Office of the Controller. The new division places the development of procurement methods, the approval of procurement authorizations and bank commitments, and other related functions at their proper level and consolidates them under one head within the Agency for the benefit of cooperating countries, United States suppliers, banks, and other interested parties.

Interim Financing. For sometime the Agency has been concerned with appropriation and allotment structure problems arising from financing under Joint Resolutions and the subsequent passage of authorization and appropriation acts. In order to overcome workload problems occasioned by the temporary financing arrangements, the officials of the Agency, the General Accounting Office, the Bureau of the Budget, and the Treasury Department established official appropriation and allotment symbolizations prior to July 1, in order that the Agency might begin a permanent classification of its financial transactions at the start of the fiscal year. This advanced planning has saved many man-hours of work by eliminating the reclassification and adjustment of interim financial activity to formal appropriation accounts, and has resulted in more timely and effective financial reporting of transactions.

Financial Reporting. The complexities of the far-flung operations of the Agency require careful planning and continuous effort toward improving financial reporting. Analyses and review of operating and management problems brought about the following reporting changes during the year:

a. Flash Report. By virtue of streamlined cable reporting, the Agency is now able to produce a Flash Report of Obligations covering the current year's accounts of the Washington Office and the field missions within one week after the close of each month.

b. Overseas Missions Appropriation Reports. Modifications were made in the system of Mission reports on dollar appropriations. These modifications cover the format of the report; segregation of basic financial information needed for general ledger accounting from financial program data; and due dates of the reports have been scheduled in such a manner as to avoid excessive workloads at a peak period. The modifications should permit the receipt of the receipt of the reports in the Washington office at an earlier date, thereby advancing the release date of the over-all fiscal report.

c. Agency-wide Financial Reports. Due to demands by management for cost and program information by appropriation, region, function, type, year, or combination thereof, a special reporting operation has been developed at the Washington level which will permit prompt and effective presentation of financial data required by program personnel and regulatory bodies. This operation, which was developed toward the close of the year, will permit faster accumulation of data in various formats and will provide additional data for operating officials that was obtainable in the past only through an extensive and time consuming operation.

d. Foreign Currency. The Agency is developing a uniform system of program implementation procedures and an appropriate accounting system covering the use of foreign currency funds. Improvements have already been effected in the handling of foreign currency reports by the Washington Office.

Consolidation of Overseas Missions. Negotiations are in process through which normal fiscal accounting functions of liquidating Missions will be handled by Embassy budget and fiscal officers. In addition, a roving Controller will be stationed in Paris for the purpose of assuring proper financial control and direction on counterpart, end-use, arrival accounting, audit, and related financial operations for liquidating Missions.

TREASURY DEPARTMENT

Bureau of Accounts - Division of Disbursement

With the cooperation of other agencies for which disbursements are made, the Division of Disbursement adopted several significant procedural improvements during the year. The following paragraphs are illustrative of these improvements:

Use of Punched Card Tabulated List. A punched card tabulated list replaced the book run transcript of addressograph plates for processing Civil Service annuity payments and Social Security and Veterans' Benefit payments in certain geographical areas. This change will save the Division approximately $20,000 annually.

Use of Addressograph. In other areas of the Veterans Administration and Social Security Administration where it was not feasible to completely substitute a tabulated list for the book runs a change was adopted which facilitates balancing operations and reduces the required copies of the addressograph runs from two to one, providing additional annual savings of $28,000 to the Division.

Effective July 1, 1955, arrangements were made with the Retirement Division of the Civil Service Commission under which addressograph plates required by the Commission would be made suitable for Division of Disbursement use. In discontinuing the preparation of a separate set of plates the Division of Disbursement realizes annual savings of $2,000.

Bill Feed Process. Plans have been worked out by the Division of Disbursement with the Internal Revenue Service for extension of the use of the bill feed process in the preparation of tax refund checks in those Revenue offices utilizing punched card equipment. In addition, the Division is converting the issuance of salary checks for Government agencies to the bill feed process. It is estimated that savings in excess of $38,000 a year will be realized by the Division from the expanded use of this method of check writing.

Simplifications of Other Procedures. Improvement in the method of preparing substitute checks, including the use of card checks in lieu of paper checks, resulted in savings of about $11,000 annually. Additional savings of $89,000 annually were realized by reorganization and consolidation of other operations in the Washington Regional Office.

Streamlining of the procedure for processing returned checks was made possible by the installation of instantaneous duplicating equipment for the preparation of returned check notices. The Division expects to realize annual savings of $45,000. Other changes concerning returned checks representing social security payments should result in additional annual savings of $5,000.

Improved Transfer Posting Process. Technicians of the Division of Disbursement have improved the transfer posting process by successful experimentation to make it more automatic and to obtain better impressions on checks through the application of heat. A crossfeed addressograph machine has been equipped with an anvil containing a heating element maintained at an even temperature by thermostatic control. As the check passes over the voucher the platen brings the voucher and check into contact and the inscription is transferred. During 1955, this more efficient thermal process was used in four offices to prepare income tax refund payments with savings amounting to approximately $15,000. This process for making tax refunds will be extended in 1956 to all regional disbursing offices in the continental United States. It is anticipated that in making payments by the transfer posting process, the thermal type voucher assemblies will replace the fluid type assemblies used by various agencies as soon as present stocks of the fluid type assemblies are exhausted.

Bureau of Customs

Various improvements were made during 1955 in customs accounting including (1) establishment of better accounting control with respect to customs employees assigned to do overtime work for importers on a reimbursable basis; (2) adoption of better controls with respect to obligations incurred and the fixing of responsibilities to assure compliance with the provisions of section 1311 of the Supplemental Appropriation Act, 1955; (3) installation of tabulating machine operations in the maintenance of nonexpendable property records, including the preparation of inventory records for use by property accountable officers and by central management for an improved property utilization and replacement program; and (4) better correlation between administrative accounting records according to the various functional activities and the Bureau's budget presentation.

Bureau of Engraving and Printing

The quality of the cost accounting has been improved by an internal educational program to encourage correct reporting of cost data and to familiarize production supervisory personnel and others having management responsibilities with the inherent benefits of the system. An additional advantage of this program is that it has led to elimination of certain informal production reports previously compiled for use by superintendents of production divisions.

Bureau of Narcotics

A new system of accounting for the administrative expenses of the Bureau was developed and installed at the beginning of fiscal year 1955. Some refinements were put into effect July 1, 1955. This system, under which reports are produced within two or three days after the close of the month, provides management in the field and in Washington with more current and better financial information for the control of appropriated funds.

Bureau of Public Debt

The Bureau of Public Debt, with the cooperation of the General Accounting Office, is continuing developmental work on a new system of accounts. Salient features of the proposed system provide for (1) a single set of accounts incorporating both financial and security (stock) accounting data with undivided administrative responsibility for its maintenance; (2) streamlining the related accounting and reporting by Federal Reserve Banks and operating divisions of the Bureau; and (3) conformance with the central accounting requirements of the Bureau of Accounts. Considerable work has been completed on a revised reporting procedure for fiscal agents on a direct accounting basis. It is anticipated that some of the revised procedures will be put into operation on a trial basis early in 1956.

A study program has been initiated under the Bureau of Public Debt management improvement program to explore the application of electronic data processing techniques to the operations involved in the issuance, retirement and servicing of savings bonds. A symposium was held in July 1955 with a number of manufacturers of electronic equipment and a detailed study of the matter is continuing. Developments to date indicate a strong potential for utilizing electronic equipment in savings bond operations at substantial savings.

During 1955, the Bureau adopted a number of procedure changes:

1. Reuse of marketable securities, in bearer form, which are retired upon certain exchange transactions. Previously, these securities were cancelled, put through the retirement process, and new securities were issued to replace them. Approximately 500,000 pieces of securities can be reused each year with estimated annual savings of $ 125,000.

2. Revision of the procedures for processing redemptions of matured savings bonds (series G). This improvement will save an estimated $15,000 annually.

3. Adoption of a test audit (verification) for redeemed savings stamps. This change will save approximately $22,800 a year.

4. Expansion of the accounting procedures involving use of a difference account for minor adjustments in redeeming savings bonds, started during 1953, to include all series of savings bonds.

Internal Revenue Service

Revenue Accounting. During the past year efforts were directed to the review of the Revised Revenue Accounting System installed during 1954 in the 64 District offices. The objective of the review was to ascertain and effect refinements in the system after experience gained in its operations. These related principally to simplifying the accounting work to the minimum of requirements. Simplification of the accounting resulted in a reduction of information originally required to be maintained and produced certain economies without affecting the quality or timeliness of reports prepared for use by management.

An independent evaluation of the effectiveness of the revenue accounting system, including methods and procedures was conducted during the year. This survey concluded that the fundamentals of the revenue accounting system were sound and provided a good working tool for management. However, recommendations were made for simplification of the system to effect reduction in certain portions of the system considered as being overly extensive and costly to operate.

The recommendations presented are being considered and to the extent determined to be beneficial the present system can be implemented to incorporate the recommendations adopted.

Accounts Receivable. The effectiveness of the accounting system established during 1954 for the control of taxpayer delinquent accounts has also been under continuous review during the past year. The study of the current system revealed certain disadvantages. Modifications and refinements of present procedures are under consideration to effect a simplification of clerical work and reporting, as well as economy of operation.

Area Service Centers. During 1955 attention was given to a plan for establishing area service centers for the mass processing of tax returns, pertaining to the mathematical verification of returns, billing of taxpayers and approval of refunds. The plan contemplates that District Directors will continue to receive all tax returns and effect such deposit all collections but would send the returns to the area service centers for processing as indicated. Certain large volume operations would thus be concentrated, affording the opportunity for adoption of mass production techniques and equipment. In addition to anticipated reduction of administration expense, District Directors would be able to give more attention to the important, nonroutine functions of collecting the revenue.

The plan for using area service centers was successfully tested for the ten collection districts in the Omaha region. Accordingly, two such centers were established to process, in 1956, the less complicated types of income tax returns, one being a Northeast Service Center at Lawrence, Massachusetts, and the other a Mid-West Service Center at Kansas City, Missouri. Two or three other centers to serve the remaining collection districts are to be established in the following year. Future plans include establishing in the four or five service centers: (1) the large-scale operations now performed by the District Directors in connection with employment tax and excise tax returns; and (2) the work now done at the Kansas City Processing Branch with respect to information returns and the mailing to taxpayers of income tax forms.

Office of Administrative Services

Conventional bookkeeping machine equipment and revised procedures for accounting and payroll operations were installed during the fiscal year. The new system provides both current and cumulative data for each class of payroll deduction; makes available more current information on the amounts of obligations incurred and unobligated balances; and results in the preparation of financial reports within five days after the end of the month as compared with fifteen days required under the former manual procedure.

Office of Production and Defense Lending

The following significant accounting improvements were made during 1955 calendar year: (1) adoption of standard billing and accounting files, resulting in more unified billing methods; (2) conversion of payroll operations to conventional bookkeeping machine processes with the elimination of a tabulating machine unit; (3) establishment of a more efficient flow of work through the reorganization of cashier functions; (4) consolidation of accounting and administration in connection with claims against carriers involving land grant freight rates; (5) adoption of a simplified system for accruing administrative expenses; (6) revision of procedures for summarizing daily transactions thereby achieving better records for reporting purposes; and (7) simplification of the charts of accounts.

Office of the Treasurer of the United States

Various accounting operations were simplified beginning July 1, 1955, as a result of the establishment of accounts for checks paid and deposits received to replace the checking accounts (with funded balances) which were eliminated pursuant to Joint Regulation No. 4, Revised, with respect to the great majority of Government disbursing officers.

Other improvements are: (1) simplification of procedure for the processing of documents concerning substitute checks; (2) the establishment of better controls over the receipt, storage, handling and mailing of uncirculated coins (for sale as collectors' items); and (3) installation of a reports control program which has resulted in reduction in the frequency of 5 reports, reduction in the content of one report, the consolidation of two reports, and the elimination of 11 nonessential reports (including the preliminary statement on the circulation of currency).

A new cost accounting unit for the Treasurer's Office was established in October 1954. Cost ascertainment techniques heretofore applied to the check payment and check claim operations are being extended to other operations involving measurable units of work. At present the work of 75% of the employees in the Treasurer's Office is covered by the cost ascertainment methods.

United States Coast Guard

The District Commander's authority for fund administration was extended so as to be more in line with their operational responsibilities.

The number of allotment accounts was reduced to simplify budgetary operations, decrease paper work and provide greater utilization of allotted funds in the light of current operational requirements.

Improved techniques for financing and accounting for maintenance and repair work were applied to two bases and depots on a trial basis. This development is intended to provide more useful reports for planning and control in these areas including furnishing management with a more direct means of associating total costs with estimates for such work.

The capitalization of real property and development of procedures for maintaining property accounts was accomplished during the year.

Both a cost type and a conventional type budget were prepared for the 1957 fiscal year. This dual submission for one year will provide the Departmental Budget Office, the Bureau of the Budget, and the Congress an opportunity to compare and evaluate the relative merits of the different types of budget submissions.

Bureau of the Mint

The accounting is decentralized to the Mint field installations, financial data being developed centrally by consolidation of field reports. The accrual method of accounting has been fully used for some time, including the maintenance of comprehensive cost and property accounts integrated with accounting data regarding obligations incurred.

Improvements were recently made in collection procedures concerning proof coins and medals, resulting in the more current and economical handling of mail remittances. The processing of related orders was also improved by adoption of multipurpose business forms and simplification of work flow.

Preparation of the General Operations Statement (disclosing the status of funds, accomplishments by programs and activities, costs by activities and work units, and forecasts for the remainder of the year) was accelerated and is now available for management use by the tenth of each month. Also, work is under way to bring about a more direct relationship between the accounts and the budgetary aspects of financial planning at the field level by having the accounts disclose as soon as possible all changes in financial planning evidenced by allotments, reapportionments, reimbursements and other budgetary actions.

Procedures are presently being revised to eliminate certain problems in accounting for the receipt, processing and safeguarding of gold and silver bullion, and other monetary phases of Mint activity.

ATOMIC ENERGY COMMISSION

Accounting and Reporting

Beginning with the financial report for the fiscal year ended June 30, 1955, the Atomic Energy Commission is producing more informative, detailed, and unclassified financial reports for wider distribution within the Atomic Energy Commission and to the public.

Based largely upon data developed through the Production Cost Accounting System, prices have been developed and approved for major products and for the use of leased materials, in accordance with a pricing policy and procedures established this year.

A schedule of the standard service life of various plant and equipment items has been developed for use in determining uniform depreciation rates on like items of plant and equipment.

Budgeting

Efforts have been devoted during this period toward revisions of the budget structure to aid formulation and presentation, which are reflected in the fiscal year 1957 budget. These include showing program costs as a gross figure and consolidating revenues into a gross figure of "Revenues Applied." A new program item called "Other Costs" will segregate costs of services performed and products sold to non-Atomic Energy Commission users. Furthermore, all changes in inventories, working capital, and unpaid obligations are grouped under the single caption "Increase or Decrease in Selected Resources." Substantial reductions have been effected in the volume of justifications in support of the budget presentation, and, finally, improvements in budget preparation practices have resulted in reduction of the number of schedules required with consequent savings of administrative effort.

GENERAL SERVICES ADMINISTRATION

Budgeting

The budget presentation of the Administration was rearranged in the 1957 budget to present the various appropriations under specific categories that provide a more meaningful program presentation. In addition to this adjustment in format, several changes were made in the appropriation and activity structure involving the elimination, consolidation and establishment of individual appropriation items. These revisions serve to identify specific programs within the framework and provide for closer coordination with organization responsibility. As part of this change, a management fund was proposed for the administrative operations activities. This fund is expected to improve the accounting and control of the activities which service the several programs of the Administration.

Coincident with these adjustments, the Administration prepared and presented cost type budget statements for several appropriations as part of the budget justification material submitted to the Bureau of the Budget. These statements bring into the budget process the accrual information developed by the accounting system and will enable more effective program review and evaluation.

Simplification of Accounting for Administrative Supplies

Effective July 1, 1955, administrative supply accounting procedures were simplified to permit the distribution of administrative supply stockroom replenishment charges to the General Services Administration using activities on the basis of usage experience, rather than charging using activities on an individual requisition basis. Required charges or credits for differences between opening and closing inventories will be made to using activities when physical inventories are taken and at the end of the fiscal year. This eliminated the pricing, summarization, and related accounting for about 12,000 requisitions annually.

Summary Billing Procedure

Billing and accounts receivable procedures were devised for regions presently equipped with mechanical accounting equipment, utilizing punched card techniques, to produce summary billing statements consolidating many invoice amounts on a single document. This document is both a billing and payment form and eliminates preparation of over 30,000 voucher schedules annually by customer agencies. Cards used in preparing the billing statement become the accounts receivable record from which monthly trial balances, age analyses, and delinquency statements are prepared.

Simplification in Teletype Billing

A revised method of billing agencies for teletypewriter services results in more prompt billing and fewer billings to each agency. Based on cost experience over a period of time bills are now rendered on a fixed rate per word for the 3,000,000 words transmitted over the system each month. This eliminates approximately 400 billings annually by the General Services Administration and saves the time previously consumed in computing and billing the actual cost of individual messages.

Reduction in Frequency of Reports

Special effort was directed toward reducing the frequency of financial reports from monthly to quarterly. With certain minor exceptions all revolving fund financial reports are now published quarterly.

Consolidation of Delinquent Receivables

A system of consolidating all accounts of a delinquent debtor at one General Services Administration office was adopted. The system is expected to produce significant savings through the elimination of paperwork and more effective control and collection of the delinquent accounts.

Building Management Fund Accounting

Improvements in accounting and reporting concepts for this Fund continued during the year and included the presentation of operational costs by class of buildings. Arrangements were made for the initial financing by this Fund of the cost of repairs and improvements to Government-owned buildings.

Electric Accounting Machine Operations

The use of electric accounting machines will be extended to all regional offices and the Central Office of General Services Administration in accordance with the plans concluded during the last General Services Administration Comptrollers' conference to obtain increased economy and effectiveness in the financial functions.

Block Posting of Bills of Lading

A technique of block posting bills of lading of accounts was adopted and 30 Strategic Critical Materials transportation suballotment accounts were consolidated into one allotment account. Postings were reduced from about 14,000 to about 500 per year.

Revolving Fund for Expenses Related to International Cooperation Administration Transactions

With approval from the Comptroller General, a revolving fund was established to account for expenses incurred in rendering foreign aid procurement services to the International Cooperation Administration. Surcharges for such administrative expenses are credited to the fund based on an agreed percentage of the amount of each purchase requisition received. The use of this fund eliminated the necessity of detailed cost distributions to approximately 24 appropriations each month.

Barter Program

Arrangements were made for the General Services Administration to perform all services for Commodity Credit Corporation related to the Barter Program authorized by Title III, Section 303, Public Law 480, 83d Congress. This eliminated the necessity of inventory accounting in Commodity Credit Corporation for materials acquired under this program.

Transfer of Report Preparation Responsibility

The transfer of responsibility for the preparation of the Report on Borrowing Authority and the Statistical Supplement Stockpile Report from the Office of Defense Mobilization to General Services Administration (Office of the Comptroller) resulted in a savings of four man-years of employment in Office of Defense Mobilization. The General Services Administration furnished most of the material for both reports and was able to assume the remaining functions with no additional staff.

Real Property Inventory

An inventory of Federal Real Property in the United States, as of December 31, 1953, was prepared at the request of the Senate Committee on Appropriations and was published on April 13, 1955, in Senate Document No. 32. The details of the inventory are discussed in Part I of this report under the subject "Property Accounting Improvements."

This inventory has resulted in stimulating the various agencies to improve their procedures for recording and accounting for their real property. It has served to promote real property consciousness and has been an invaluable tool in connection with the real property management programs in the various agencies. This inventory has facilitated the implementation of Budget Bureau Circular No. A-2, dated October 18, 1955, issued at the direction of the President. This Circular established general guide lines for an intensified review of the real property holdings (other than public domain) of each agency aimed at identifying and declaring as excess all real properties which are not needed.

The real property inventory has also been valuable in furnishing members of the Congress, the press, trade associations, state and municipal governments and private citizens with information on Federal Real Property in specific areas.

Property Accounting Surveys

The General Services Administration and the General Accounting Office in cooperation with the agencies have continued the surveys of the property accounting and related procedures and activites in various agencies. Since the inception of the program twenty-six surveys have been completed. The survey program, which covers both real and personal property, is designed to (1) achieve accounting control of property transactions, (2) enforce property accountability, (3) provide information for management purposes, and (4) simplify financial recordation, documentation, and procedures with respect to property transactions.

Some of the results of the survey completed during 1955 for the Office of the Secretary of Commerce were: (1) the issuance of a departmental order regarding the accounting for equipment, (2) the development of a working plan for the implementation of the property accounting and personal property management survey recommendations pertaining to the Civil Aeronautics Administration, (3) the establishment and revision of various agency accounting manuals and procedures relating to personal and real property transactions, and (4) the simplification of the financial aspects of making small purchases by expanded use of the imprest fund procedure.

A survey was also begun of the property accounting practices in the Department of Agriculture. During the year, a survey of the Washington operations of all the constituent agencies was made. A survey of the field operations will be made in 1956.

Work Measurement Program

The Performance Analysis or Work Measurement System of the Office of the Comptroller has been revised with respect to accounting operations. Based on the satisfactory results obtained, the Administrator has directed the Comptroller's Office to spearhead the extension of performance analysis systems to all activities of General Services Administration.

PANAMA CANAL COMPANY - CANAL ZONE GOVERNMENT 1/

Timeliness of Financial Reports Improved

The effectiveness of the financial reports and their usefulness to management was enhanced by the streamlining of the monthly closing procedure. Top operating statements are now in the hands of management by the 15th of the following month, a notable improvement over preparation dates in the past. Similar improvement in issuance date was made in the underlying monthly reports for operating personnel. Final closing for the fiscal year 1955 was achieved by August 12.

Budget Timetable Established

Formal adoption of a timetable for the annual budget cycle has provided adequate time for full review of estimates at all levels of management without requiring extension of time in meeting the Bureau of the Budget deadline for submission. This deadline was met in 1955 for the first time in several years. Establishment of adequate advance planning in adoption of budgetary assumptions simplified the preparation of the estimates. The allotment procedure was improved to insure better monthly control of obligations incurred by the operating offices. Expediting of the monthly final reports permitted the issuance of status reports on allotments at a corresponding earlier date with markedly beneficial results.

Account Classification Improved

Refinements in account classification found necessary to meet the needs of operating personnel improved the meaningfulness of accounting reports. This is a continuing process. A change in the system of account numbering was adopted by which posting errors were reduced to a

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1/ As a general rule, accounting improvements of entities subject to the Government Corporation Control Act are not included in this report. However, because the activities of the Panama Canal Company are so closely integrated with the civil functions of the Canal Zone Government, inclusion is deemed appropriate.

minimum. A manual was issued describing the content of some 3,000 accounts and improved the accuracy and significance of the accounts during the year.

Change in Payroll Procedures

Following a comprehensive study of payroll procedures, the payroll operation was changed from punched card equipment to a combination of electric payroll machines and auxiliary equipment of the most modern design. It is anticipated that a substantial annual net savings will be realized by these changes in payroll procedures and equipment.

Plant Accounting Work Strengthened

During the year a comprehensive plant accounting procedure was issued. A plant unit catalog of Panama Canal Company - Canal Zone Government property was substantially completed in draft form, and will be published as Volume IV of the Accounting Manual. A separate branch accounting unit was established to handle all construction and plant accounting matters. Work on the inventory and evaluation of property continued with an augmented staff and an enlarged work week. The evaluation of the properties transferred from the Panama Canal Agency to the Panama Canal Company is scheduled to be completed early in 1956.

Accounting Procedures and Circulars Issued

The issuance and revision of formal accounting procedures and many financial circulars improved work flow, clarified policy and strengthened controls. Standard operating procedures were developed and issued at many points. New forms were designed to meet the precise needs of the operation concerned. The various areas covered by the accounting procedures and accounting circulars issued embraced the multiplicity of the Panama Canal Company and Canal Zone Government operation. The consolidation of the Army and Navy hospitals with those of the Canal Zone Government created a heavy workload on the Accounting Systems staff for many months, with new procedures required to meet the combined demands of the military services and the Canal Zone Government.

Internal Audit Improvements

The internal audit staff instituted comprehensive audits of Company and Government accounts and systems, which aided greatly in the detection and prevention of errors. The work of this activity has been reoriented to provide improved internal controls. Emphasis has been shifted to the auditing of controls and systems as against auditing of specific individuals and items.

Other Procedural Improvements

A constant refinement of procedures has resulted in general improvements, the elimination of unnecessary forms and processes, the integration of work, the simplification of paperwork, a better flow of financial documents, and economy in the accounting operations.

RAILROAD RETIREMENT BOARD

Integration of the Accounting and Disbursing Functions

Early in 1955 the Board extended the integration of the accounting and disbursing functions to administrative expenses, including the issuance of U. S. Savings Bonds. A pilot installation was also initiated in June of this year to integrate the accounting and disbursing functions for unemployment and sickness insurance payments made through regional offices of the Board. The Board estimates that substantial savings will result and that the time lag between completion of the claim and receipt of payment will be reduced.

Processing Employer Service and Compensation Reports

For many years the Board has been confronted with the costly problem of adjusting gross earnings reported by employers to the maximum allowable under the Act, in those cases where employers reported quarterly rather than annually--approximately one-third of the total volume. This was done heretofore by preparing punched cards reflecting adjustments for earnings reported by employers in excess of the maximum that can be credited for a month. The total monthly amounts reported were punched on one card as debit items, the excess amounts punched on another card as credit items, and the combination of the two reduced the amounts to $350.00, the present maximum. Even though excess earnings cards were produced mechanically, the operation was costly due to the large volume.

A new method of processing employer reports was developed during the year which eliminates the need for the excess earnings punched card. This change became possible through the use of improved calculating equipment capable of automatically computing quarterly net creditable compensation and quarterly gross compensation in the same operation. The new method eliminates annually the preparation of 1.2 million excess earnings cards, the listing of 6 million cards and the collating of 3 million cards. The annual savings to the Board are estimated to be $43,000, which includes personnel costs of $33,000.

Other Improvements

The monthly travel voucher periods for field employees have been revised to provide for six different closing dates within the month for the various regions. This change provided for an even flow of work, a more effective utilization of auditing and other personnel, and enabled the fiscal office to accelerate processing schedules to the point that the complete process of auditing vouchers, scheduling, issuing the checks, and placing the checks in mail channels averages two work days.

UNITED STATES CIVIL SERVICE COMMISSION

General Accounting

The Commission has continued to perform its administrative accounting functions under an acceptable system of accounting and reporting. The general accounting system (for Salaries and Expenses appropriations) and the revolving fund accounting system previously developed and installed have demonstrated effectiveness during the year 1955. Systems designed for use in accounting for financial transactions affecting the Civil Service Retirement and Disability Fund and the Group Life Insurance Fund have been developed and installed, but their submission for formal approval has been deferred pending a satisfactory period of test operations.

Work Reporting and Cost Analysis System

The work reporting and cost analysis system is an integral part of the Commission's over-all accounting system for the Salaries and Expenses appropriations and was included in the general accounting system approved by the Comptroller General on July 28, 1954. However, in approving the system the Commission was directed to formalize and codify the work reporting and cost analysis system. Approximately 65 percent of the cost system was formalized during the calendar year 1955 and its completion is expected by June 30, 1956, at which time the codified instructions will be issued formally as Handbook S-817, "The Civil Service Commission Work Reporting and Cost Analysis System." Since the cost system is designed to furnish a detailed distribution of personal services costs (90 percent of total costs) by organizational unit and process and to provide useful information to various levels of management for controlling the most important cost element of the Commission, the issuance of the instructions relating to its operation and maintenance in manual form rather than in the form of letters and circulars will greatly facilitate the application of the cost system throughout the Commission.

Civil Service Retirement Accounting

Effective with the first payrolls paid after January 1, 1955, agencies whose payrolls are not paid by Treasury Department disbursing officers were directed to transmit checks for the amounts deducted from their employees' salaries for civil service retirement directly to the Commission which then makes the deposit into the Retirement Fund as available receipts. This revised procedure eliminated the Civil Service Retirement Trust Fund Receipt Account and the preparation of the related covering warrants, and permits the use of retirement funds for investment and expenditure on a more current basis than was possible under the covering warrant procedure.

On July 22, 1955, the Comptroller General approved a revised procedure covering the processing of amounts collected from former employees by set-off against employees' civil service retirement accounts to liquidate their indebtedness to a Federal agency. The procedure, made operative by the Commission on a prospective basis only, provides that requests for set-off against amounts available in former employees' civil service retirement accounts processed by the Commission on and after August 1, 1955, will be settled by the Commission by drawing a check payable to the agency requesting set-off on a case basis. Heretofore, it was the practice to notify the agency that the debt had been liquidated, and the amount was retained in the Retirement Fund. There has been insufficient time to evaluate the savings under the revised procedure, but it is believed that its adoption will result in a more economical administration of the Civil Service Retirement and Disability Fund, and will provide more acceptable relations with the several agencies involved.

UNITED STATES INFORMATION AGENCY

Fiscal Accounts and Procedures

A revised system of fiscal accounts and procedures was adopted for use as of May 1, 1955. This over-all accounting program includes a system of double entry general ledger and control accounts; subsidiary ledgers where required; and registers for classification and summarization of fiscal transactions for posting to accounts by monthly totals instead of by daily amounts (resulting in reduction of daily postings to ledger accounts) which will provide better accounting control over receivables, advances, deposits, funds, property and other transactions, and provide a basis for preparation of complete and improved monthly reports for management. The first of these reports was submitted as of October 31, 1955.

Allotment Accounting

Recommendations made for reorganizing the allotment accounting as a result of the survey have been partially adopted by merging in the Office of Administration five separate allotment accounting operations, utilizing ten (10) employees, into a single operation in the Finance Division with six (6) employees, a saving of four (4) positions, and providing improved supervision and control. Technical supervision of the allotment accounting function maintained by the media services has been transferred to the Finance Division, thereby providing greater uniformity of operations and better utilization of personnel. Authority to reassign media service allotment accounting employees to meet fluctuating accounting requirements induced by flexible program activities in addition to the separation of budget and accounting functions is also provided for.

Property Accounting

Preparation of a system of property accounting and accountability has progressed to the point that property record forms, inventory reports, and punched card procedures have been developed. The Assistant Director for Administration has indicated his desire to have this phase of the accounting procedures started by January 1, 1956. The request of the Chairman, Committee on Government Operations, dated June 7, 1955, for a report of assets held by each department and agency (including property) did much to promote adoption of the property accounting provided for in the basic accounting procedures adopted in part on May 1, 1955. The property accounting system will first involve an inventory (warehouse) control by which demand requirements, usage factors, reorder levels, etc., will provide information for replacement of stock or disposition of inactive supplies of materials, such as are now housed in the Bush Terminal Warehouse, Brooklyn, New York.

Forms and Procedures

Forms and procedures to provide accounting control over interoffice expenditure transactions between domestic offices in Washington and the foreign posts and between the domestic accounting offices have been developed and are partially implemented.

Cost Accounting

A system of cost finding with related forms and procedures is under development for the regional production centers at Manila and Beirut. This system, which also includes a means of inventory control, is designed to replace the existing cost methods from which only partial operating cost data can be ascertained. This system will provide usage information which will form the basis of reports which may be used in preventing shortages of paper stock, such as occurred recently and involved a shutdown of the Manila plant.

Internal Audit

The agency's internal audit staff, under the direction of the Chief, Finance Division, has assisted materially in the evaluation of newly adopted fiscal procedures, and its audit function contributed to the broader phases of accounting control improvements implemented during the year.

VETERANS ADMINISTRATION

Site Audit

General Accounting Office site audit procedures, previously applicable only to those stations served by the St. Louis regional disbursing office, were authorized by the Comptroller General for application in all VA offices. As a result, accounting procedures were revised to discontinue the preparation of more than 10,000,000 copies of documents heretofore required to be submitted for central audit, and to simplify the flow of documents.

Revisions of Accounting Manuals

The entire Budget and Finance policy manual was rewritten, thus eliminating various types of instructional media, consolidating others, and simplifying instructions for operating personnel. The new manual is composed of the following independent parts: Part I - General; Part II - Payment of Salaries; Part III - Voucher Auditing; Part IV - Benefit Payments; Part V - Administrative Accounting; and Part VI - Reports and Statistics. These revised manuals served to rescind a considerable number of circulars, emergency interim issues, letters, and technical bulletins, and were designed to eliminate unnecessary detail as well as repetitive material. The Administrative Accounting Manual was submitted to the Comptroller General for approval.

Integration of Accounting and Disbursing Activities

A study of potential economies possible through integration of accounting and disbursing activities culminated in a test installation of an operating system in the New York Regional Office, covering recurring compensation and pension payments. The test system is based on achieving possible economies through: (1) use of a single punched card record of beneficiaries as the agency's record of accounts in payment status and as the medium for check preparation, thus eliminating the maintenance of a separate file for either accounting or disbursing, and (2) by punching the file number in the check, the negotiable instrument (check) becomes also an accounting document supplying information which is readily associated with the payee file by both mechanical and visible means. The file is under complete accounting control at all times; distribution of payments by accounting program is obtained as a by-product of the mechanical control file summarization.

Further integration of processes within the agency is obtained by utilizing the award authorization document as direct support for the initial payment and, after filing in the claims file, as the support for the recurring payments. Also, the capacity of punched card equipment already available in the office (but not in the Finance Office) is used for all punched card processing except check preparation.

Automation

The punched card premium accounting test in the Philadelphia District Office was conducted throughout 1955. In this test, 22,000 accounts were maintained on a parallel basis, i.e., both manually and mechanically. During the testing, procedures which provided for policy history and status were developed and refined. Collateral procedures for the generation of lapses, dividends, and renewals were also developed.

Premium billing on a punched card basis was developed and tested in the Denver District Office during the last half of 1955. This procedure provides for the establishment and maintenance of policy data card and address card files. Preliminary cost estimates indicate that the punched card procedure will be slightly cheaper than the present addressograph system besides providing for mechanical preparation of renewal certificates and dividend authorizations. Conversion procedures were refined and the Denver and St. Paul District Offices are scheduled to start converting on January 1, 1956. Philadelphia will start not later than July 1, 1956. The policy data card developed for this procedure is compatible with that of the Philadelphia test.

Preliminary investigation has been made into the possibility of conversion of insurance records to magnetic tape. An essential preparatory step in the design of a magnetic tape procedure is the definition of the problem; much of this work has been done during the punched card accounting and billing tests. Moreover, data gathered during these tests will permit systems designers to approach the problem with a positive knowledge of the scope of the job. It is believed that the contemplated conversion of manual records to punched cards, outlined above, will provide an accurate, rapid, and economical means of bridging the gap between manual records and magnetic tapes should the decision be made to take such a step.

Changes in Account Structure

Consolidation of Loan Guaranty Accounting Functions. The loan accounting functions, which formerly were divided between the Loan

Guaranty Division and Finance Division in regional offices, were consolidated in the Regional Finance Divisions during this year. This consolidation of the accounting functions and related changes in procedures reduced documentation, provided better internal control, and made possible annual savings of approximately $250,000.

Benefit Payment Accounts. A new system of accounts and reports eliminated entries to budgetary accounts which previously duplicated entries to the cash accounts. The revised procedures result in the accumulation of significant financial data in a manner conducive to good management and a more economical operation. The economy achieved is estimated at $37,000 per year.

Capital Outlay and Assets. The account structure for asset acquisitions was simplified, resulting in a substantial reduction in general ledger capital asset accounts. Technical design and site costs of new construction incurred centrally are transferred for inclusion in individual field station capital accounts.

Decentralization of Insurance Accounting. General ledger accounts for policy loans, policy liens, dividend credits, and dividend deposits were established at district offices. Coincident with the establishment of these accounts in the general ledgers, a series of reciprocal interoffice accounts was established to control the transfer of individual loan, lien, or dividend credit and deposit records between stations. Duplication at the district offices in the maintenance of summary control ledgers in the Premium Accounts Division and the control accounts in the general ledgers was avoided by merging both operations in the Finance Division.

Accounting for insurance disbursements and noncash transactions was decentralized to district offices within the regular series of general ledger accounts maintained at field stations. This change permits development of much of the data for financial statements of insurance funds and appropriations from field station financial reports and the elimination of the flow of a considerable volume of documents to Central Office for posting.

Supply Fund. Supply fund general ledger accounts were revised in order to furnish management with an analysis of income and expense for each of the several operating functions financed through the supply fund at supply depots.

Changes in Procedures

Financial Reports. A review of field station reporting requirements resulted in (1) elimination of a number of reports and revision of others, which facilitated field station preparation and Central Office processing; (2) placing report due dates on a "field station release" rather than a "due in Central Office" basis; and (3) submission of certain report data in punched card form by those field stations having equipment available.

Procedures were developed and installed whereby the same format is used in certain major areas for reporting proposed operating plans and the results of such operations. Provisions have been made for directly relating actual cost to planned operating objectives with comparisons being made between the two, and variances being shown where applicable.

Work Measurement. A revised work measurement system prescribing new standards and new methods of measuring the workload was placed into effect. The new system permits the measurement of end-product indices within each department for use in the formulation of appropriation estimates and in the management of existing appropriations.

Insurance Applications. Streamlined processing of applications for Veterans Special Term Insurance was developed and installed in all district offices. The new procedure eliminated the preparation of underwriting work sheets and, in most cases, "dummy" premium record cards. It is estimated that savings in excess of $200,000 annually will result from this change.

National Service Life Insurance Dividends. A procedure was developed to provide for mechanical computation of National Service Life Insurance dividends and to prepare voucher continuation sheets from computed punched cards. This procedure will produce annual savings of approximately $200,000.

Policy Loans. During the year a punched card procedure was developed for the handling of detail policy loan accounts. This procedure was tested in St. Paul and, having proved satisfactory, is now being installed in the other district offices. This will mechanize the annual interest computation and apply remittances to interest and principal for about 200,000 National Service Life Insurance loans. Savings are conservatively estimated to be $70,000 per year. A procedure has been developed for the 100,000 U. S. Government Life Insurance loans but has not been installed because of delays in equipment delivery.

History Records. The elimination of dividend credit history cards was made possible by the introduction of "previous voucher number" into the dividend credit balance card. This change resulted in the elimination of 1,300,000 history records and the attendant operating and clerical costs involved in maintaining these records, a saving of $55,000 a year.

Posting Premium Deductions from Benefit Payments. Procedures were developed to place premiums collected by deduction from benefits under positive control. This permitted the elimination of detailed posting to approximately 260,000 premium record cards per month. Instead, accounts in a district office for which collection by deduction from benefits is authorized in a regional office are placed under reciprocal controls in each office. The controls are adjusted by all changes in authorization. It is conservatively estimated that this procedure resulted in a saving of $238,000 per annum.

Premium Waivers. Procedures were developed to utilize punched cards in the Office of Chief Actuary to produce vouchers to establish cost of premiums waived and to effect reimbursement for waivers due to extra hazard. A file of 72,000 punched cards in the Statement Division which duplicated data available in actuarial cards was eliminated. Instead, a control ledger was used to record changes in status of accounts under premium waiver and to verify accuracy of vouchers produced from actuarial records.

Supply Payment Procedures. Dual handling of receiving reports, etc., by field stations and Central Office, and a substantial volume of inter-office communication, was eliminated by decentralizing to supply depots and field stations the responsibility for payments to vendors for items purchased centrally but delivered to the field. Savings in this area are estimated at $11,000 a year.

A change in procedure, which provided that reimbursement for inter-station shipments of supply fund property would be made quarterly unless the value of the property exceeded $100.00, produced savings of approximately $10,000 per annum.

Budgetary Administration. The primary objective in this area was an increasingly effective use of the cost approach to budgetary management, both in the formulation of appropriation estimates and in the control of funds previously appropriated. Pro forma budgetary statements looking toward the submission of the fiscal year 1957 appropriation estimates on the applied cost basis were prepared following extensive consultation with the Bureau of the Budget. Although these cost statements supported only the 1957 estimates prepared on the obligation basis, it is hoped that the 1958 estimates will be acceptable on a cost basis. Improved fund control techniques were developed for fiscal year 1956 based on annual budgetary plans for field stations, and featured the elimination of personnel ceilings and of automatic quarterly fund withdrawals.

OTHER AGENCIES AND OFFICES

Executive Office of the President - Bureau of the Budget

Revisions in accounting, disbursement and internal control practices as developed from the recommendations in the joint survey report of the Bureau and the General Accounting Office have proved to be very helpful to the internal budget and accounting activities of the Bureau and has reduced documentation and paper work. A manual covering the accounting operations of the Bureau was developed and submitted to the General Accounting Office for review and was approved by the Comptroller General on April 9, 1955.

Federal Civil Defense Administration

The Federal Civil Defense Administration moved its National Headquarters Office from Washington, D. C., to Battle Creek, Michigan, effective September 1, 1954. This move resulted in the loss of 80 percent of the agency's accounting and budget staffs. Replacements, obtained almost without exception from local sources, had no previous experience in the Federal service. The few experienced employees who moved from Washington were faced with the difficult task of keeping the accounting work current while at the same time assuming the additional responsibility of training the new employees. Consequently, the maintenance of accounts was seriously impaired for the greater part of the year 1955. However, additional funds were made available by the Congress for administrative operations during the fiscal year 1956 and, starting July 1, 1955, the agency has conducted an intensive recruitment program which brought the Fiscal Office staff to full strength by November 15, 1955. For the most part, employees are now sufficiently trained to perform their assigned duties and responsibilities satisfactorily. Accounting records are approaching a more current status and fiscal reports are prepared and submitted on a timely schedule. The field audit force has been expanded to handle the increase in disaster relief work, to check and review existing projects, and to prepare for new projects planned for the near future.

The agency is now formalizing its Administrative Accounting Manual for Program Appropriations, and expects to submit it to the General Accounting Office for approval by the Comptroller General not later than February 15, 1956. Although much remains to be done, it is encouraging to note the progress in recent months toward an adequate accounting program in this agency.

Federal Communications Commission

Accomplishments during the calendar year 1955 included: (1) completion and preparation of a report on the survey of the programming, budgeting, accounting and reporting requirements of the agency; and (2) installation of a new time-saving procedure for payments of fixed monthly recurring charges. This latter procedure was approved by the Comptroller General on July 18, 1955.

The survey mentioned has been completed and a report in process of preparation. Recommendations to be submitted in the Report of Survey provide for simplifications in the procedures; integration of costs with the general accounts; complete accounting disclosure; and coordination of programming, budgeting, accounting and reporting. The recommendations contemplate the installation of a new system, and the development of an accounting manual for submission to the Comptroller General for formal approval.

The new procedure for paying fixed monthly recurring charges substitutes one consolidated voucher, prepared by tabulating machine process, for approximately 75 vouchers previously processed each month and the checks are prepared by a transfer posting process. Savings have resulted in the Commission's field and central offices, the Treasury Disbursing Office, and the General Accounting Office. Contractors now receive payments promptly without submitting vouchers or invoices.

Federal Power Commission

During the year, procurement and property functions were transferred from the Division of Budget and Finance to a newly established Division of General Services within the Office of Administration. Accounting and budget functions were integrated as a consolidated program of fiscal management, and procurement and property functions were consolidated with supply and other administrative services to afford better management of these activities.

Studies of budget preparation and presentation have been initiated to provide better budgetary administration. The cost accounting system is under review to insure economical operation, full coordination with the budget objectives, more meaningful budget presentations, and adequate operating reports for management purposes.

An Imprest Fund has been established which eliminates considerable paper work heretofore involved in small expense items.

General Accounting Office

A completely revised accounting system for the administrative operations of the General Accounting Office was formally approved by the Comptroller General. This system provides accrual accounting, accounting control over inventories and fixed assets, responsibility accounting, simplified fund control, elimination of duplicate record keeping, and prompt and complete reports to management. A feature of the new system is the Statement of Operating Costs issued monthly to each Division and Office to provide it with cost information regarding activities under its director. In addition, the system of detailed property accounting records was revised to provide complete detailed control by the use of composite equipment record cards with a simplified system of documentation.

The conversion of accounts receivable controls, records, and procedures from a manual to an electric accounting machine basis is being extended to cover claims of carriers against the Government. Savings comparable to those obtained in the mechanization of the accounts, records, and procedures relating to Government-wide carrier overpayments, previously reported, are anticipated.

House of Representatives - Sergeant at Arms

A new accounting system developed near the close of last year for the disbursing operations of the Sergeant at Arms was substantially adopted during 1955, and has resulted in improved control over operations. During the year the system has been further simplified and control improved by changes in the cash settlement forms and procedures, revision of the other accounting forms and better control over deposits.

Interstate Commerce Commission

Following a survey of the accounting system of the Commission, with the cooperation of the General Accounting Office, a revised accounting system was developed and installed on a test basis. After the test period the system, with such modifications as may be required, will be submitted for the approval of the Comptroller General. The system under test provides for the development of costs by organizational units and by activities, and is designed to simplify the preparation of reports and other data required by management to control operations.

The installation of parts of the recommended system has resulted in a 50 percent reduction of the cost accounts previously kept. Also, the maintenance of stores records has been materially simplified by elimination of (1) pricing individual stores requisitions and (2) the recording of costs in the detail stores records. The value of stores will be reflected in the general accounts and adjusted on a periodic basis by physical inventories.

Joint Senate and House Recording Facility

This activity produces radio and television transcriptions for members of the Senate and House of Representatives on a reimbursable basis. It is financed jointly from appropriation funds and from a revolving fund in which revenues are deposited.

A revised accounting system was developed during the year and installation is now in progress. Principal features of the new system include: (1) a set of commercial-type general accounts to produce business-type statements and budgets; (2) provision for adequate distribution of costs to the various types of services rendered; (3) accounting control over inventories and fixed assets; (4) realignment of operations to provide better internal controls; and (5) simplification of accounting and billing for sales.

Library of Congress

Through the issuance of administrative memoranda to the several departments and divisions of the Library, improvements have resulted in coordinating operations with financial management. A progress reporting system was established for gift and trust fund activities and for special projects. Nonexpendable property has been placed under accounting control. Better coordination of accounting operations in the book purchasing activity has eliminated duplication of work in the accounts and tabulating offices.

National Advisory Committee for Aeronautics

The outstanding accounting improvements of the year were: (a) a revised accounting system on a full accrual basis was completed; (b) financial reports for research activities are prepared quarterly from the books on the accrued expenditures basis and are reconciled with the allotments to the laboratories; and (c) inventories of materials, supplies, and equipment are under accounting control and are verified at least annually by periodic physical inventories.

An audit staff has been organized under the Fiscal Officer and is making examinations of the fiscal activities of the agency.

National Science Foundation

The accounting system approved by the Comptroller General on November 5, 1954, has been successfully installed.

The rubber research functions of the Federal Facilities Corporation, including the U. S. Government Laboratories at Akron, Ohio, were transferred to the National Science Foundation on June 30, 1955. These facilities are operated under cost reimbursement type contracts and accounting and reporting for these operations has been integrated in the accounting system adopted.

The Foundation has, since 1951, given continued attention to the subject of indirect costs connected with research supported by the Federal Government at educational institutions. In 1954, the Bureau of the Budget requested the Foundation to complete its studies on the amount of indirect costs which should be allowed by similar agencies for research contracts of a similar nature. The Foundation submitted a report in June 1955 on its recommendations for a uniform policy for paying these indirect costs. The report has been circulated by the Bureau to all agencies for their comments.

Small Business Administration

The manual covering the accounting system installed July 1, 1954, by the Small Business Administration was formally approved by the Comptroller General July 27, 1955. In conformity with the requirements of the approved system, additional and supplemental procedures were issued covering major accounting operations and practices in the following areas: (1) acquired collateral; (2) administrative property; (3) imprest funds; (4) loan disbursements; (5) allotment accounts and records; (6) billing and collection of loans; and (7) uniform records maintenance and disposal.

Progress was made in the program of decentralization of loan accounting and disbursing by establishing new fiscal offices in Kansas City and New York.

APPENDIX A

THE BACKGROUND, NATURE, AND OBJECTIVES OF THE JOINT PROGRAM TO IMPROVE ACCOUNTING IN THE FEDERAL GOVERNMENT

Origin and Background of the Program

The Joint Program to Improve Accounting in the Federal Government grew out of mutual efforts begun shortly after the close of World War II by the Comptroller General, the Secretary of the Treasury, and the Director of the Bureau of the Budget, to find a more effective means for discharging their interrelated responsibilities for leadership in their respective fields. Through the prior years, accounting and related central fiscal agency requirements had become an unwieldy centralized structure too singularly dedicated to the purpose of insuring accountability and compliance with legal limitations with respect to the receipt, expenditure, and custody of public funds. Essential as the latter purpose was, and still is, accounting processes designed to accomplish only this objective could not cope with the dynamically changing needs of the Congress, the President, and agency management.

Nature and Purpose of the Program

The Joint Program is a Government-wide cooperative effort under the joint leadership of the Comptroller General of the United States, the Secretary of the Treasury, and the Director of the Bureau of the Budget, to make accounting of maximum usefulness to all concerned. Its purpose is to give the executive branch better information for management purposes, the Congress better information for acting upon appropriations and other legislation, and the public a clearer picture of the financial condition and operations of the Federal Government.

Concepts and Objectives of the Program

The fundamental concepts on which the program is based were expressed in a joint program policy statement issued on January 6, 1949, as follows:

"(1) The maintenance of accounting systems and the producing of financial reports are and must continue to be functions of the executive branch.

"(2) There must be an audit independent of the executive branch which will give appropriate recognition to necessary features of internal audit and control. Properly designed accounting systems are a vital factor to the effectiveness of such independent audit.

"(3) Full opportunity is to be afforded to the executive branch for participation in the development of accounting systems as an essential to meeting the needs and responsibilities of both the legislative and executive branches in the establishment of accounting and reporting requirements."

These statements still convey the underlying philosophy of the program.

The basic objectives of the program are the modernization and simplification of accounting in the Government to meet the needs of the legislative and executive branches. In brief, the program contemplates that the accounting of the Government should serve management and others: (a) by reflecting revenues and their sources; (b) by showing the cost of carrying out the responsibilities placed upon the executive branch by actions of Congress; (c) by supplying a basis for estimating the cost of proposed activities; and (d) by furnishing a yardstick to measure accomplishments against planned objectives. In addition, it should serve to safeguard the public funds and inform the Congress and the taxpayers clearly of what happens to the funds provided for Government activities.

Legal Authority for the Program

The underlying philosophies expressed in the fundamental concepts and objectives of the program were enacted into law by the Congress in the Budget and Accounting Procedures Act of 1950. The Act provides for the first time specific legislation which defines the responsibilities for accounting, auditing, and financial reporting in the Government. It includes provisions setting forth (a) the basic concept of agency responsibility for adequate systems of accounting and internal control; (b) the responsibility of the Comptroller General of the United States to prescribe accounting systems in terms of principles, standards, and related requirements; (c) the responsibility of the Treasury Department for central accounting and financial reporting of the Government; and (d) authority sufficiently flexible to permit keeping the fiscal machinery of the Government on a modern basis when further changes are required. It also provided for the joint leadership of the program by the Comptroller General, the Secretary of the Treasury, and the Director of the Bureau of the Budget. Related legislation concerning financial control in the Post Office was also enacted in 1950. The joint program became the principal means of carrying out the provisions of these Acts.

Cooperative Working Arrangements of the Program

The individual departments and agencies as essential working partners in the joint effort assume prime responsibility for developing their systems of accounting and internal control which will recognize and service the unique management needs springing from the highly diversified and complex programs and operations which they conduct. The central fiscal agencies--the Treasury Department, the Bureau of the Budget, and the General Accounting Office--cooperatively assist the agencies in those basic ground level steps and also conduct an intensive program aimed at simplification of central requirements and the elimination of any overlapping and duplicating central accounting, auditing, and reporting processes and requirements. The cooperative plan also provides for appropriate integration of the accounting of the Treasury Department with that of each agency, with the paramount objective of providing a basis for full disclosure of the over-all financial results of the Government's operations.

APPENDIX B

CUMULATIVE EFFECT OF THE JOINT PROGRAM

To those many individuals who have been participants in the Joint Program from the beginning as representatives of the operating agencies, the inherent advantages of the cooperative working arrangement between the central fiscal agencies and their own organizations in achieving progress is an accepted fact. To others who have entered the program more recently, or who are more remote from the scene, a brief treatment of its cumulative aspects may be helpful in gaining a full understanding of its potentialities for continuing achievements.

The Joint Program to Improve Accounting in the Federal Government was devised, and is being conducted, as an orderly evolutionary process. In this process, both in its central or Government-wide aspects and in the improvement of individual agency accounting, progressive developments which lay a firm foundation for other improvements have been emphasized rather than a "crash" approach which might overtax existing facilities and disrupt the continuity of accounting and reporting operations. Immediate improvements, in the right direction, are effected even though they may fall short of ultimate objectives.

The present over-all accounting function in the Federal Government bears little resemblance to that which existed at the close of World War II. Evolving from the changed philosophy and approaches embodied in the Joint Program, the former rigidity of agency accounting, which was too exclusively geared to service burdensome central fiscal requirements, has given way substantially to flexible, multipurpose systems of accounting and internal control. These systems are being tailor-made to serve agency management needs and yet provide, in common, a better basis for budget presentation and control, and for appropriate interlocking relationships with Government-wide accounting and financial reporting needs centering in the Treasury Department. Meanwhile, the central paper mill, which had unduly constricted the purposes of agency accounting and fostered "red-tape", has been largely dismantled. In its place, there has been erected on an evolutionary basis a simplified structure of accounting and reporting processes consistent with the ultimate goal of establishing a better and fully integrated basis for financial reporting of the Government as a whole while at the same time continuing adequate controls from an accountability standpoint. Geared to these accounting developments is the conversion of auditing approaches of the General Accounting Office from a centralized detailed transactions audit to an audit conducted at the site of operations utilizing generally accepted auditing principles and standards for commercial enterprises to the extent applicable and with provision for appropriate determination of legal compliance.

The general nature of the broad achievements of the Program in two main areas - central accounting and agency accounting - are described below. They are necessarily brief and for fuller details reference should be made to the several Annual Progress Reports.

Central Accounting and Fiscal Procedures

The changes which have been made in this area have been based on the fundamental policy of placing primary emphasis, for all purposes to be served, on the systems of accounting and internal control in the operating agencies. In line with this policy there has been steady progress in dismantling and otherwise eliminating central accounting and related fiscal procedures and requirements which duplicated or were in lieu of agency accounting, or which were incompatible with the proper developments of agency accounting to serve the many diverse management needs involved. There follows a general description of some fundamental changes which have been made in this area:

1. The General Accounting Office is no longer in the account-keeping business for the Government as a whole. Two developments are of particular significance in this connection:

a. The General Accounting Office eliminated its Accounting and Bookkeeping Division on December 31, 1950, and the related requirements for submission by the agencies of millions of collection and expenditure documents and reports used as posting and control media for over 500,000 accounts and control ledgers previously maintained. This action was taken on December 31, 1950, about 90 days after the passage of the authorizing Budget and Accounting Procedures Act of 1950 (which wrote the concepts, policies, and objectives of the Joint Program into law). This fundamental change in the accounting make-up of the Federal Government was done on the basis of increased utilization of safeguards and controls established in systems of accounting and internal control in the administrative agencies, coupled with extension of General Accounting Office audit processes to the accounts maintained in the Treasury Department and administrative agencies. This included provisions for reviews of procedures incident to, and examination of, reconciliations of cash transactions between the agencies and the Treasury Department.

b. With strong recommendation from the General Accounting Office, supported by the Treasury Department and the Bureau of the Budget, the Congress enacted the Post Office Department Control Act of 1950 on August 17, 1950, transferring the responsibility of postal accounts from the General Accounting Office to the Post Office Department. On November 15, 1950, about 90 days after passage of the act, the General Accounting Office abolished its Postal Accounts Division and transferred its functions and personnel (about 770 people) to the Post Office Department. This change was made possible by the assumption of responsibilities on the part of the Department for establishing its system of accounting and internal control, together with the extension of the comprehensive audit program of the General Accounting Office to the entire operations of the Post Office Department and the postal service.

2. As indicated in Part I, two further steps were taken in 1955, in the direction of further elimination of detailed processes in the General Accounting Office on the basis of greater utilization of accounting and internal control procedures at the points of operation. They are:

a. Following a joint study by the staffs of the Treasury Department, Bureau of the Budget, and General Accounting Office, the Secretary of the Treasury and the Comptroller General approved a course of action for establishing in the Treasury Department a completely revamped procedure for "payment" of all checks drawn by Government disbursing officers on the Treasurer of the United States. The revamped operation, which is based on establishment of an electronic data processing system, will integrate the processes concerned with "paying" such checks with those required for reconciling the paid checks against issue records. This will make it unnecessary for the General Accounting Office to continue its present detailed processes in connection with the reconciliation of paid checks. Thus, by utilizing the results of revamped internal controls in the Treasury, the General Accounting Office will eliminate further its detailed work in connection with its audit functions.

b. Legislation recommended by the Joint Program will, if enacted, repeal present legal requirements under which the General Accounting Office must maintain on its books accounts for some 35,000 "lapsed" appropriations and will place such accounting responsibilities in the agencies.

3. A complete change of approach in the account prescribing function of the Comptroller General of the United States has been made in line with the shift of prime responsibility for accounting to the administrative agencies and the concurrent removal of the concentration of fiscal controls in the General Accounting Office. In place of the former emphasis on across-the-board uniformity with respect to accounting system details, the Comptroller General, under the enlightened provisions of the Budget and Accounting Procedures Act of 1950, now exercises his prescribing authority in terms of general principles and standards and related requirements of accounting for observance by the executive agencies. This is done after consulting the Secretary of the Treasury and the Director of the Bureau of the Budget concerning their accounting, financial reporting and budgetary needs and after considering the needs of the agencies. Thus, flexibility is provided to recognize the diverse management needs of all concerned and enable the agency heads to mold their accounting systems to the widely varied operating programs they administer.

To replace the old system of numerous prescriptions as to accounting details, the Comptroller General has adopted the policy of issuing few but well-considered and well-defined accounting policy statements supplemented by explanatory and illustrative material and by General Accounting Office Staff participation with the agencies in the particular accounting problems. In commenting on the principles and standards for accounting developed by the Comptroller General under the Joint Program, the Hoover Commission in its June 1955 report on Budget and Accounting stated:

> "The Comptroller General's responsibility for prescribing the principles, standards and related requirements for accounting to be observed by each executive agency has resulted in his issuing a statement of accounting principles and standards for guidance of the agencies. These principles and standards which were developed in consultation with the executive branch have been set broadly, are sound, and permit flexibility in their application. They have been helpful and in our opinion are in complete harmony with the proper objectives of accounting improvement in the executive branch."

4. Receipt, appropriation and related fund accounts in the agencies and in the central accounts of the Treasury Department have been completely revised and greatly improved; the outmoded warrant system has been virtually eliminated; duplication in accounts, reports, and procedures of the accounting and disbursing functions of the agencies and the Treasury Department has been reduced; and the central accounting and reporting function of the Treasury Department has been reorganized and streamlined. The list of these changes is long and, for this reason and because 1955 changes substantially rounded out a cycle involving these many changes, a separate Appendix C is included in this report covering their cumulative effect.

5. Substantial improvements have been made in budgeting under the leadership of the Bureau of the Budget consistent with the improvements in accounting. Among them has been a substantial simplification of the financing pattern which provides greater flexibility and an improved basis for establishment of effective program controls utilizing modern accounting methods. Greater use of costs, based on accrual accounting, in the budget process has been a corollary development. The following illustrate the developments along these lines:

In Fiscal Year 1950, there were 758 current and permanent appropriations; in Fiscal Year 1956, the number of such appropriations had been reduced to 491. In Fiscal Year 1950, only 28 budget presentations were made on the basis of accrued costs; in the Fiscal Year 1956, such presentations had increased to 118. A further advance occurred in the 1957 Budget when this number increased to 120 (116 "business-type" and four "cost-type" presentations) and accrued cost budget statements were submitted for 37 other appropriations for use as supplementary materials in the budget processes. Starting with Fiscal Year 1951, all budgets presented financial data as to the activities being performed under each appropriation and the activity classifications have been continuously refined and made more meaningful since that time.

These budgeting improvements have been correlated with accounting improvements toward one of the most fundamental objectives of the Joint Program - that of providing a common basis for program planning, budget preparation, accounting and managerial control, including realistic performance data in reports.

Agency Accounting

As previously stated, a primary objective of the Joint Program has been to mold and shape accounting to make it of maximum usefulness to management. This has required emphasis on adapting the individual accounting systems for the many diversified operations and activities to the particular management problems involved in each case. The problems under this approach vary substantially as between agencies, and as to different activities within such agencies. It is therefore not possible to provide a concise summary of the cumulative effect of agency accounting improvements under the Joint Program which will appropriately recognize the many types of improvements in the several different types of accounting units found throughout the agencies. This summary is therefore limited to a brief description of some of the more general types of improvements which have been emphasized in the work which is being done by the agencies throughout the Government.

1. Accrual Accounting. Application to an appropriate degree of the accrual basis of accounting, including the development of cost data, has received emphasis from the

very beginning of the Joint Program. At this time, a significant number of the departments and agencies have incorporated this basis of accounting in their accounting systems. It should be pointed out that the degree of application of the accrual basis, from the standpoint of its practical usefulness for management and control purposes, varies considerably in different types of situations. These range all the way from industrial or business type activities which require complete application of accrual accounting on the basis comparable to the best that private industry employs to relatively simple administrative units where minor adaptations of cash accounting are sufficient.

2. Property Accounting. An important element of the accrual basis of accounting has been the emphasis on financial accounting for the Government's resources in the basic accounting systems of the agencies who administer them. It is not possible to furnish any summary as to the dollar amount of assets which were under accounting control in the agencies before the Joint Program started. Attempts to develop this information generally failed or, where figures were included in the reports of commissions and others which studied the matter, they were largely informed estimates or appraisals. Today, under the impetus generated by the Joint Program, much (but not yet all) of the Government's assets are under financial accounting control. At June 30, 1955, an analysis of reports of various agencies which have established financial property accounting as an integral part of their general accounting systems discloses gross fixed assets of $66.4 billion, inventories of $31.4 billion, and other assets[1] of $50.1 billion. These are in addition to the Government Corporation reports which include an additional $3.1 billion in gross fixed assets and $5.1 billion of inventories under accounting control. In addition,

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1 These assets include substantial amounts of agency investments in public debt securities of the United States, interagency accounts receivable and other assets which would be eliminated in a consolidated balance sheet of the entire Federal Government.

inventories and other properties aggregating $54 billion in the Army and the Air Force (exclusive of amounts included in the figures previously cited) are stated in financial reports of those departments pursuant to monetary property accounting systems in process of development and integration with their basic financial accounting systems.

3. Development of Costs. In a number of the agencies whose assets are included in the above figures the amounts reported were produced from accrual accounting systems in which the usage or consumption of the assets are reflected as costs of operations. As evidence of the extent of this development, 60 bureaus or agencies produced accrued cost statements ("business-type" and "cost-type" statements) in 1955 for the presentation and analysis of Fiscal Year 1957 Budgets. In other agencies cost-based budgets are utilized in controlling some of the internal operations although they have not yet been extended to the formal presentation for appropriation budget purposes.

4. Decentralization of Accounting. The shift of emphasis under the Joint Program from concentration of accounting in the central fiscal agencies of the Government to the prime responsibility for accounting by the operating agencies carried with it a corresponding need for reorienting internal agency accounting. Prior to the beginning of the Joint Program much internal agency accounting was concentrated in the Washington, D. C., or other main offices of the agencies. In many cases the accounting in the main office duplicated accounting which the field offices and other installations kept for their own management needs. Vigorous programs have been conducted in practically all agencies to decentralize the detail accounting to field offices and installations with consolidated reporting to the main office where summary control accounts are maintained. This is in line with the principle of the Joint Accounting Program that agency accounting should be designed to serve the needs of management and should be administered at the points of greatest effectiveness without duplication in the various levels of management.

5. Integrated Programming, Budgeting, Accounting and Reporting. Use of accrual accounting systems and related cost data along with common-denominator classifications for programming, budgeting, accounting and financial reporting has received continuing emphasis under the Joint Program. Such integrated systems facilitate budget preparation and presentation and provide realistic performance data for comparison of actual results with budget projections. Fully integrated systems of this nature have been developed by numerous agencies and progress along these lines is continuing. Virtually all of the agencies carrying out public works type of programs incorporate these features in their systems.

6. The Allotment System. A major fault of the allotment system for the control of funds prior to the time the Joint Program started was that, in its concern that funds expended did not exceed limitations, it often carried internal control to an extreme of detail that was unnecessarily restrictive and cumbersome. Recognizing that a multiplicity of detailed allotments, suballotments, and sub-suballotments, often for very small sums, was not the best method to obtain adequate economy and efficiency in agency operations with proper safeguards against overexpenditure of authorized funds, the Joint Program has emphasized a new look at this phase of internal control. The result has been substantial reductions in the number and kinds of allotments and subdivisions of allotments without diminution of essential safeguards. A few typical examples will illustrate the degree of simplification which has been accomplished in this general area. (a) in 1953, the Selective Service System installed a control system of a single allotment to each State office and thereby eliminated about 4,650 allotment accounts in the field offices and 1,200 general ledger accounts in the central office; (b) the Veterans Administration has reduced the number of allotments to the operating units and installations by about 90% during the past two years resulting in a reduction in allotment accounts from about 48,000 to about 3,600; and (c) the Agricultural Research Service of the Agriculture Department reduced the number of its allotments from 274 in Fiscal Year 1954 to 35 in the 1955 Fiscal Year.

7. Internal Audit. A major facet in the improvement of internal control within agencies has been the development of internal audit techniques and organizations. Prior to the enactment of the Budget and Accounting Procedures Act of 1950, such internal auditing as existed in the agencies (other than audit of contractor's records for "contract audit" purposes) was confined rather generally to checking the clerical accuracy of disbursement documents. Since 1950 some two dozen agencies have initiated broader internal audit programs. There has been an increasing awareness on the part of top agency management of inadequacies in existing systems of operation to provide necessary safeguards at all operating levels for control over costs and expenditures, receipts and revenues, and assets, and assurances that authorized programs or activities are being conducted in an effective, efficient, and economical manner. While the systems of internal audit established to meet this management need vary as to the date of establishment, coverage, and scope of authority in the several departments and agencies, the increasing use of internal auditing as an independent appraisal activity within agencies for the review of the accounting, financial and other operations as a basis for protective and constructive service to management represents noteworthy progress in the development of effective agency internal control.

Administrative Savings

The central objective of the Joint Program is the development of the kind of accounting which will produce timely and reliable financial data which enables management at all levels, and all others concerned, to plan, direct, supervise and control operations more effectively and economically. The economies from more efficient operations resulting from achievement of these objectives are by their nature largely unmeasurable and not directly identifiable with the accounting improvements which help make them possible.

While concentrating on this main objective, attention has also been directed at effecting savings in the performance of the accounting operations themselves through elimination of duplication, unnecessary paperwork, mechanization of accounting processes, application of advanced techniques, etc. The annual progress reports contain many illustrations of this type of improvements and others with which the agencies concerned have been able directly to identify specific savings.

It is not possible here to provide any concise summary of the innumerable savings of this type which have been realized since the Joint Program began. Some general indication of the significance of what has been done in this area can, however, be obtained from the following illustrations.

1. There has been a reduction in the number of employees in the General Accounting Office of over 3,000 since the Joint Program began (i.e., since the fiscal year ending June 30, 1949). This is generally indicative of the effect of the elimination of centralized recordkeeping and reduction in clerical work in connection with central auditing processes combined with utilization of systems of accounting and internal control in the operating agencies through on-site audits and otherwise.

2. The elimination of General Accounting Office central accounting and reduction in central audit processes naturally carried with it elimination of requirements for preparation of millions of vouchers, reports, or other documents by all agencies which formerly were prepared to "feed" such central processes. Therefore, the reduction in the size of the General Accounting Office is also reflected, in substantial part at least, in simplified procedures throughout all agencies of the Government.

3. As is brought out in Appendix C, the cumulative effect of the evolutionary changes which have been made in streamlining the Treasury's system of central accounting and reporting have resulted in readily identifiable annual savings of about $1,000,000, in that Department. These changes are also reflected in simplified procedures throughout all agencies of the Government.

4. The projected establishment of an integrated electronic system for paying and reconciling checks will save an additional $1.75 million annually in the General Accounting Office and Treasury Department as well as about $500,000 annually in the Federal Reserve Banks.

5. Savings made by the various administrative agencies which are directly relatable to improved internal systems and procedures have in the aggregate been even more significant. Typical examples have been illustrated throughout the various annual Progress Reports. The list is too long and diversified to repeat or illustrate here but it represents improvements in administrative accounting processes through simplification of procedures and elimination of paper work which in the aggregate amounts to many millions of dollars in recurring annual savings.

A concise summary such as this cannot do justice to all the benefits obtained throughout Government from the improvements in accounting and related financial management functions since the start of the Joint Program. All elements of Government - the Congress, the General Accounting Office, the Treasury Department, the Bureau of the Budget, the departments and independent establishments, the bureaus and other agencies of such departments and establishments, the field activities, and the many other branches and types of Government organizations - have participated. It is in the parts of the whole, the parts where operations are planned, directed, and supervised by individual management, that effective and economical accounting which meets the needs of such individual management and still produces financial data required for top Government management and direction produces its greatest benefits.

APPENDIX C

CENTRAL ACCOUNTING AND REPORTING BY THE TREASURY DEPARTMENT 1/

The System of Central Accounting

The Budget and Accounting Procedures Act of 1950 (64 Stat. 832) is the legal basis for what has been done in the past five years in reorganizing the central accounting and reporting of the Treasury Department relating to the extensive cash operations of the Federal Government. This reorganization, because of its widespread effect in the Government, has necessarily been somewhat evolutionary in nature.

In developing the new accounting system to its present stage, two primary objectives have been present. These objectives, which underlie the provisions of the 1950 Act itself were:

1. To eliminate or simplify, without the sacrifice of essential safeguards, certain complicated and unduly restrictive procedural requirements involving the receipt and expenditure of Government funds and the accounting therefor; and

2. To bring ever closer the realization of a complete and integrated system of accounting for the cash operations of the Government as a whole (not only the Treasury) based on the progressive revision or elimination of traditional central control processes.

To best understand what has been accomplished in carrying out these objectives, it is necessary to consider: first, the main features of the system (or more appropriately the centralized procedures) which existed prior to the 1950 Act; second, the progressive modification of the old system which has taken place from 1950 to 1955, providing the necessary basis for installation of the new central accounting processes and accomplishing substantial annual savings on a government-wide basis; 2/ and finally, the purpose and structure of the new system of central accounts being installed as of July 1, 1955.

1/ This appendix is taken from Parts III and IV of the "Report on Accounting Developments in the Treasury Department" prepared by the Treasury Bureau of Accounts, Fiscal Service, under date of December 31, 1955.

2/ Annual savings which have been identified, mostly in areas involving Treasury activities, aggregate about $1 million. In addition, another $1 million were saved annually by the abolition, on December 31, 1950, of the Accounting and Bookkeeping Division of the General Accounting Office under the impetus of the 1950 Act. It should by no means be inferred that these are all the dollar savings which have been realized as a result of the conversion of the central accounting processes since 1950. To a large extent the benefits of the simplification of procedure are widely spread in varying degrees throughout the Government. Hence, much of the economy achieved cannot very well be expressed in dollars.

The most logical, accurate and least expensive place to make a formal accounting for the Government's day-to-day cash transactions is as close as possible to the cash operations themselves. Such cash operations are conducted (a) by fiscal (accountable) officers, speaking collectively, who handle collections for deposit with the Treasury or for other authorized disposition or make expenditures by drawing checks on the Treasurer of the United States or effecting payments in some other manner; and (b) the Treasurer of the United States whose office is responsible for the receipt and custody of money deposited by fiscal officers and the payment of checks drawn by fiscal officers on the Treasurer. The role of the Treasury's central accounts (located in the Bureau of Accounts) is essentially to consolidate financial information reported periodically from these two large operating segments of the Government so that the results of cash operations may be presented in central financial reports on a unified basis for the Government as a whole.

<u>The System Prior to 1950</u>. Prior to 1950, the Bureau of Accounts (through its Division of Bookkeeping and Warrants) occupied a day-to-day operating position, based on certain rigid requirements of law, in the system for the receipt and expenditure of Government funds.

No disbursing officer could pay the vouchers of an administrative agency until such agency requisitioned funds for that purpose to be "advanced" to the disbursing officer within the limits of the appropriation involved and a document, known as an accountable warrant, was issued for the Secretary of the Treasury and countersigned by the Comptroller General of the United States. Pursuant to such accountable warrant the amount of the "advance" was placed to the credit of the disbursing officer in a checking account with the Treasurer of the United States. Disbursing officers had to make an accounting for such "advances" according to each appropriation involved. Without engaging in a discussion of the highly technical aspects of these procedures, it is important to note that the law required so much emphasis and formality in accounting for what was authorized to be spent that little was done to provide an integrated system for bringing together currently and on a consistent basis the actual results of disbursing operations. Only once a year, for the purpose of preparing the historical Combined Statement of Receipts, Expenditures and Balances of the United States Government, were expenditure data compiled on the basis of disbursing officers' accounts.

On the receipts side, requirements of law likewise interfered with the performance of accounting in a normal manner. Money collected for deposit with the Treasury was not recognized for credit to receipt accounts or as repayments for credit to appropriation or other fund accounts until the certificates of deposit were received through banking channels by the Treasurer in Washington, were processed in the Treasurer's Office, and were stated by the Bureau of Accounts (Division of Bookkeeping and Warrants) on documents, known as covering warrants, which were issued for the Secretary and countersigned by the Comptroller General. It is significant that this procedure did not provide an accounting for the receipts and repayments according to the month or other period in which the money was collected or even the period in which the Treasurer actually received credit for the deposit of collections. The system was cumbersome also because of the delay in making available for disbursement certain collections even though the money was already appropriated at the time of collection. Not only did such collections have to go through the "covering" process in Washington, as described, but the formality of issuing accountable warrants and "advancing" the funds to disbursing officers had to be observed.

Four separate sets of appropriation accounts were maintained: one set, collectively speaking, in the various administrative agencies to which the appropriations were made; another set in the Division of Bookkeeping and Warrants of the Treasury Department; a third set in the Accounting and Bookkeeping Division of the General Accounting Office; and a fourth set, again collectively speaking, by the disbursing officers of the Government to whom "advances" under the appropriations were made. The administrative agencies, the Treasury Department and the General Accounting Office each also maintained a set of receipt accounts. These different sets of accounts for the same data frequently were not necessarily kept on the same basis with respect to the timing of entries with the result that conflicting information often was provided in financial reports.

In the administrative agencies, accounting for the sake of preventing the over-obligation of appropriations usually was the paramount concern. The set of appropriation accounts in the Division of Bookkeeping and Warrants was primarily for the purpose of determining how much could be "advanced" to disbursing officers under each appropriation. The accounts in the General Accounting Office were maintained principally for audit purposes and to provide a basis for action by the Comptroller General in approving requisitions for "advances" to disbursing officers and countersigning related warrants. Disbursing officers found it necessary to keep appropriation accounts in discharging their accountability for "advances".

In this situation the administrative agencies in order to prove their accounts had to look, on the one hand, to the official accounts of disbursing officers, as to a bank, with respect to most expenditures; and on the other hand, to monthly statements of the Treasury's Division of Bookkeeping and Warrants with respect to receipts and certain interagency or interfund transactions which were recorded directly in the accounts by warrant action alone.

Under this system reliance was placed primarily on accounting in the Treasurer's office in compiling the data to show currently the Government's receipts, its expenditures (on the basis of when checks were paid by the Treasurer) and the budget results. Extraordinary devices were necessary to obtain this data, with distinction between so-called budget and non-budget receipts and expenditures and subclassifications to identify programs or organizations. A multiplicity of checking accounts, as a rule paralleling groups of appropriations or funds, was created to provide the classified data. Many expenditure transactions, not normally requiring the issuance of checks, nevertheless were run through these checking accounts in the form of checks and deposits in order to obtain a desired classification of certain data. In addition, some expenditure transactions recorded only by warrant in the appropriation accounts of the Division of Bookkeeping and Warrants had to be brought into the picture along with the data derived from the Treasurer's accounts. Another complication was that separate documentation (different forms of certificates of deposit) was required in the depositing of collections for credit to checking accounts as distinguished from depositing receipts or repayments to be covered into the Treasury by warrant. These are some but not all of the devices and expedients which had to be used for current reporting in the absence of a more realistic and integrated system of accounting for the cash operations of the Government.

In 1948 the first step was taken to obtain directly from disbursing officers classified expenditure data (on the basis of their payments made by checks or in cash) for use in compiling the central reports on expenditures. This was only a partial attempt to overcome difficulties of reporting under the existing system because the action applied only to disbursing officers of the Treasury's Division of Disbursement and also because it dealt only with disbursements -- not with receipts and repayments. It was a significant step, however, in view of a number of considerations which later were controlling in shaping the new system of central accounting and reporting under the 1950 Act; namely:

1. The accounting of disbursing and collecting officers for the actual transactions they handle -- not an accounting based on central operations involving warrants and checking accounts -- should be the source for obtaining classified receipt and expenditure data for central accounting and reporting both for current and historical purposes.

2. Cash which disbursing and collecting officers have outside the Treasurer's account, such as disbursing cash on hand, deposits in commercial banks, advances to agents, undeposited collections and deposits in transit, should be an integral part of the central accounting and reporting system along with the cash in the Treasurer's account.

3. Checks drawn by disbursing officers on the Treasurer should, pending payment, be accounted for as liabilities of the Government since they replace other liabilities, on the books of administrative agencies, liquidated by issuance of the checks.

4. The receipts and expenditures shown in the official accounts of disbursing and collecting officers, rendered to the General Accounting Office for audit and settlement, should be tied in on the one hand with the accounts of administrative agencies by means of statements of transactions and, on the other hand, with the accounts of the Treasurer on the basis of cash outside the Treasurer's account and checks outstanding payable by the Treasurer.

5. The kind of central accounting in existence prior to 1950, geared to warrant requirements, should be converted to a system bringing together, in summarized form, information on the receipts, expenditures, and cash operations of the Government invisaged in the first four considerations.

These considerations, with others not the least of which was the objective to save money through the simplification and streamlining of central control processes coupled with the problem of keeping pace with the increasing complexity and decentralization of the Government's operations, were the background for certain provisions in the 1950 Act. These were (a) section 114 dealing with the central accounting and reporting responsibilities of the Secretary of the Treasury and (b) section 115 giving authority to the Secretary of the Treasury and the Comptroller General to waive, by joint regulation, the requirements of law concerning warrant procedures.

Developments from 1950 to 1955. As a result of an intensive review of the central operations of the General Accounting Office and Treasury Department, and consistent with the objectives of the 1950 Act, the Accounting and Bookkeeping Division of the General Accounting Office was abolished by the Comptroller General effective December 31, 1950. As a corollary a great volume of paper work on the part of the executive departments and agencies was cut out during 1950 by the action of the Comptroller General in discontinuing the submission to the General Accounting Office of various documents for auditing and accounting purposes.

From the standpoint of the Treasury Department, the first thing which had to be done, if further progress was to be made in streamlining and otherwise improving the central accounting and reporting in line with the considerations previously mentioned, was for the Secretary of the Treasury and Comptroller General to take advantage of the provisions of the 1950 Act empowering them to relax the rigid requirements of law regarding warrant procedures. Their first joint regulation, pursuant to this authority, was issued September 22, 1950 -- ten days after the 1950 Act became law. The regulation provided that collections representing repayments to appropriations should be deposited with the Treasury for credit directly to the checking accounts of specified disbursing officers. Thus the amount of repayments would become immediately available for disbursement without the necessity of going through a cycle of operations, as previously explained, involving "covering" the collections into the Treasury and making "advances" to disbursing officers. Moreover, the official accounts of disbursing officers could be looked to as the proper source of information on repayments for inclusion in the Treasury's central accounts and reports. It should be noted that with this change of procedure, repayments were to be recorded in the central accounts according to the months in which the transactions appeared in disbursing officers' accounts rather than when covering warrants could be prepared in Washington from certificates of deposit.

The second joint regulation was issued April 16 to become effective May 1, 1951. It provided, with minor exceptions, for "advancing" for disbursing purposes the full amount of each appropriation by using a combined appropriation and accountable warrant. This did away with the necessity of administrative agencies having to requisition disbursing funds and of keeping accounts in such agencies and in the Treasury's Division of Bookkeeping and Warrants to show the unrequisitioned balances of appropriations. Another liberalizing development was that by this time procedures had been modified whereby various types of transfers between appropriations, for both expenditure and non-expenditure transactions, were being handled through the accounts of disbursing officers rather than by central warrant action.[1/]

By July 1, 1951 a new set of central appropriation accounts had been installed to replace the accounts with unrequisitioned balances. The new accounts were designed to show the expenditures (and repayments) and the unexpended balance of each appropriation or fund on the basis of the summarized transactions shown in the official accounts of disbursing officers rendered monthly to the General Accounting Office for audit and settlement. In line with this action, plans were made to modify the form and substance of the official accounts of disbursing officers so as to meet the needs of central accounting and reporting as well as to serve audit purposes. The first modification of the disbursing officer's form of account was effected by Accounting Systems Memorandum No. 18 issued by the General Accounting Office on July 10, 1951 and it consisted of a rearrangement of data in the account to facilitate its use as posting media for the Treasury's central accounts.

1/ See Section 1210 of the General Appropriation Act, 1951.

The third joint regulation was issued June 12, to become effective July 1, 1951. It provided, with a few exceptions, that collections representing special fund receipts and trust fund receipts should be deposited with the Treasury for credit directly to the checking accounts of specified disbursing officers. These are receipts which at the time of collection have already been appropriated by the Congress for expenditure. So the third joint regulation extended the same procedure to these classes of receipts as Joint Regulation No. 1 had provided for repayments to appropriations. This was a further step in using the accounts of disbursing officers as the main source for classified data regarding receipts, expenditures and related cash operations of the Government.

On December 12, 1951 the third joint regulation was amended to apply to a class of transactions initially exempted. These were payroll deductions made by Treasury disbursing officers for employees' contributions to the Civil Service Retirement and Disability Fund. By this amendment, the crediting of the Trust Fund for employees' contributions became a simple matter of making bookkeeping entries in the accounts of the disbursing officers paying the payrolls which accounts, in turn, became the media for postings to the Trust Fund account on the Treasury central books. Formerly, crediting the Trust Fund required a cycle of operations which involved: having disbursing officers draw and deposit with the Treasury checks for the payroll deductions; centrally preparing "covering" warrants from the certificates of deposit; posting the covering warrants to the receipt account for the Trust Fund; issuing appropriation warrants based on the covering warrants; and posting the appropriation warrants to the Trust Fund account.

The three joint regulations issued within the period of a year greatly simplified certain Government-wide procedures and went a long way in providing for better central accounting processes. Therefore, during 1952 most attention was given to: (a) accomplishing some procedural improvements which were essential to a good system but were not dependent upon the issuance of joint regulations of the Secretary and Comptroller General; and (b) creating a better central accounting organization, as contemplated by the 1950 Act.

A better method for the cancellation of checks by disbursing officers was instituted and also disbursing officers were permitted to cancel many checks which formerly required central action in the General Accounting Office. 1/ Incidentally, numerous cancellation transactions were brought, by the new method, into better focus for the reconciliation of disbursing officers' checking accounts performed in the General Accounting Office.

1/ See Accounting Systems Memorandum No. 24 of the General Accounting Office, dated June 16, 1952.

Another procedural improvement was the establishment of accounts, as in business, to take care of small differences of less than $1 (e.g., overpayments and underpayments of vouchers) in the accounts of disbursing officers. 1/ The use of a "small difference account" precluded collection and other work which was too expensive for the sums involved. Still another procedural development in 1952 was the adoption of a policy for the widespread use of imprest funds for small purchases. 2/ The proper use of such funds, as in business, expedites small procurement operations and reduces paper work in accounting.

By Treasury Department Order No. 164, dated December 12, 1952, the Secretary created a Division of Central Accounts, in the Bureau of Accounts, thereby consolidating the bookkeeping functions of the Division of Bookkeeping and Warrants and the Division of Disbursement. It is the responsibility of this new Division to maintain the central accounts of the Government contemplated by Section 114 of the 1950 Act. 3/ An immediate effect of this reorganization was the streamlining of a variety of inter-related accounting operations which previously had been performed separately by the Division of Bookkeeping and Warrants and the Central Office of the Division of Disbursement. At the same time, work in converting the central accounting for receipts to more mechanized methods by the use of tabulating equipment, which had been progressing gradually, was brought to completion.

Consideration of further modifying warrant procedures was concerned next with the concept of the accountability of disbursing officers. Such officers were being held accountable for the "advances" made to them from appropriations, as previously explained. So the disbursing officer was required to render his official accounts for audit and settlement on the basis of the undisbursed balances of individual appropriation or other fund accounts. His liability to the United States was stated in such accounts in terms of the undisbursed balances of the "advances" made according to individual appropriations and of other funds along with an analysis of what purported to be the assets in his custody, consisting of

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1/ See Accounting Systems Memorandum No. 25 of the General Accounting Office, dated October 31, 1952.

2/ See Regulation issued jointly by the General Services Administration, Treasury Department and General Accounting Office, dated March 10, 1952.

3/ The same departmental order established, in the Bureau of Accounts, a Division of Central Reports to carry out the Secretary's responsibilities for central financial reporting under Section 114 of the 1950 Act. It also made the Commissioner of Accounts responsible for the development and administration for the Secretary of internal auditing requirements to be observed by the several bureaus and offices of the Department, in line with Section 113 of the 1950 Act.

his "check book" balance with the Treasurer and various real assets such as cash on hand, deposits in banks (if any), and cash advanced to agents. It should be noted that according to this concept each disbursing officer was held accountable for not exceeding the "advances" made to him in respect of each individual appropriation -- notwithstanding the fact that the administrative agencies, in approving vouchers for payment, are primarily responsible for keeping expenditures within the limits of their appropriations. 1/

A number of special accounting operations, peculiar to the disbursing activity alone, were required to carry out this concept of accountability. Much paper work was required to make "transfers of funds" from central funding officers (to whom "advances" were made by accountable warrant) to disbursing officers in regional or other field locations. These transfers were based on estimates made by the administrative agencies concerned of the payments that would need to be made during a month or other period by disbursing officers at different locations. Checks and deposits were processed through banking channels to give effect to these transfers in the checking accounts of disbursing officers. In addition to the initial transfers from funding officers to disbursing officers, there were many transfers required, in normal course, between disbursing officers and back to funding officers. And, of course, disbursing officers, other than those in the Defense Department, had to keep appropriation accounts and collateral records in order to disclose currently the available balances for paying vouchers according to the appropriations or funds against which drawn.

The first of three steps taken to establish a more logical concept of accountability for disbursing officers, and one which calls for the use of much simpler procedure, was the issuance of a fourth joint regulation on June 30, 1953. Briefly, this new concept was to hold a disbursing officer accountable only for the actual financial transactions of himself and his agents; namely, for the checks he issues and whatever actual cash he may receive. Joint Regulation No. 4 waived the requirements of law for "advances" to disbursing officers. It also discontinued the preparation and use of warrants for the covering of receipts into the Treasury. But the joint regulation did not, at this time, go all the way in accomplishing procedural simplification in this area. It provided that checking accounts for disbursing officers should continue to be funded from appropriations but on an administrative basis instead of on a legal basis with accountable warrants. Nor was the procedure changed, at this time, in another respect. Disbursing officers continued to maintain

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1/ In the Defense Department, however, disbursing officers did not receive "advances" according to individual appropriations and so recorded payments only against the balances of their checking accounts. Subsequently, such payments were classified in accounting offices of the Department as charges to appropriations or other funds on the basis of the paid vouchers.

accounts showing the amount which could be disbursed with respect to individual appropriations. These accounts were also to be funded administratively to correspond with the credits made administratively in the checking accounts. The immediate effect of the fourth joint regulation was to relieve disbursing officers of accountability in a legal sense for making payments against balances maintained with respect to individual appropriations and other funds. Therefore, the practice in disbursing offices of maintaining and checking current records to assure the sufficiency of balances prior to the payment of vouchers was discontinued.

Treasury Department Circular No. 926 was issued on June 30, 1953 to ease one aspect of the checking account problem. Since "advances" to disbursing officers by accountable warrant had been of a personal nature the resultant checking accounts with the Treasurer were being carried in the names of the disbursing officers. So with every change of disbursing officers a new account had to be added to the multiplicity of existing checking accounts, each requiring transfers of funds, new check stock and other special actions. Pursuant to the Department Circular checking accounts ceased to be carried in the names of disbursing officers and became permanent accounts for disbursing stations.

Work during the latter part of 1953 and into 1954 was concentrated on completing a specific plan for a comprehensive and unified system of central accounts pertaining to the cash operations of the Government. This work culminated in the issuance of Treasury Department Circular No. 945, on May 11, 1954, establishing the framework for such a system. Another purpose of the circular was to furnish, for the guidance of all departments and agencies, advance information concerning further procedural changes in the offing which were necessary to make the new system effective. This accounting plan originally had to be based on the continued use by disbursing officers of funded checking accounts for the drawing of checks on the Treasurer but was later to be modified in this respect.

In addition to the issuance of Department Circular No. 945, four important changes in procedure were instituted in 1954 as steps preliminary to the installation of the new system of accounts. These were:

1. Effective July 1, 1954, the administrative practice of making advances of funds to disbursing officers according to individual appropriations was discontinued. 1/ This was the second of three steps to establish a more logical concept of accountability for disbursing officers and permitted such officers to discontinue keeping accounts for undisbursed balances of advances by individual appropriations. As a result the various agencies spending appropriations could reconcile

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1/ See Accounting Systems Memorandum No. 34 of the General Accounting Office, dated May 17, 1954.

their accounts with those of disbursing officers on the basis of the actual disbursement transactions for the period without the necessity of an additional reciprocal relationship in terms of undisbursed balances. But the practice of funding checking accounts, by making credits in lump sums as administrative advances, remained in the picture because policy approval for the discontinuance of funded checking accounts had not yet been obtained. It should be noted that by now the central appropriation accounts in the Treasury Department, maintained on the basis of appropriation warrants and monthly summaries of disbursing officers' transactions, had become the only set of appropriation accounts in the Government other than those maintained for operating purposes by the agencies spending the appropriations.

2. For many years miscellaneous receipts and repayments to appropriations were required to be sent by collecting officers to disbursing (accountable) officers for deposit in the Treasury. Over the years, however, exceptions were made for certain agencies. Such agencies were allowed to deposit their collections directly in the Treasurer's general account with Federal Reserve Banks and other depositaries but had to send documentation consisting of schedules of collection and copies of certificates of deposit to disbursing officers in order that the collection transactions might be picked up in the official disbursing accounts. On January 18, 1954, Treasury Department Circular No. 937 and General Accounting Office Accounting Systems Memorandum No. 31 were issued to make the exception the rule; that is, to have all deposits made directly in the Treasurer's account. This change of procedure was accomplished progressively over a six month period ending June 30, 1954. In addition to eliminating double handling of collections themselves this action was the basis for eliminating considerable paper work. The preparation of schedules of collection by administrative agencies was no longer required, the certificate of deposit itself serving both as a collection and deposit document. A copy of the certificate of deposit, however, still had to be sent by the administrative agency to the Treasury disbursing officer concerned.

3. It had always been the practice for the approximately 600 general depositaries within the 48 States to submit directly to the Treasurer their daily transcripts of transactions in the Treasurer's account together with the related certificates of deposit. This procedure was progressively changed over a five month period ending September 30, 1954, with the result that the number of daily transcripts for general depositaries received by the Treasurer was reduced from about 600 to 36.1/ Under the new procedure the general depositaries send their documentation to Federal Reserve Banks and Branches to be consolidated and submitted to the Treasurer along with the regular daily transcripts of the Federal Reserve Banks and Branches. This action fitted in with plans to make it unnecessary for administrative agencies to send copies of certificates of

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1/ See instructions to Federal Reserve Banks and Branches and the Treasurer of the United States, contained in Fiscal Operations Memorandum No. 14 of the Fiscal Service, dated April 26, 1954.

deposit to Treasury disbursing officers for accounting purposes. These plans contemplated that original certificates of deposit would flow currently from Federal Reserve Banks and Branches to accounting units in Treasury disbursing offices to be classified for accounting purposes and tied into the Treasurer's account through summary certificates of deposit supporting the Banks' transcripts. This decentralization of the processing of certificates of deposit for the purpose of obtaining an accounting for classified receipts and repayments was not accomplished however until 1955 as later explained.

4. Because of many of the procedural changes accomplished to this point, and the more simplified approach to accounting, the way was now clear to discontinue the use of many checking accounts which were only being kept by the Treasurer and disbursing officers to obtain a classification of expenditures on the basis of checks paid by the Treasurer, as explained earlier in connection with the system prior to 1950. A total of 326 such special accounts were eliminated in 1954.

Beginning in November 1954, efforts were directed at presenting for policy consideration the kind of system of central accounts, and underlying disbursement and collection procedures, tied in with the audit processes of the General Accounting Office, which could be established to better advantage by going all the way in eliminating warrant procedures and funded checking accounts as authorized by the 1950 Act. In order to understand all the considerations involved in this move, reference should be made to: "Memorandum supporting the recommendation for eliminating checking accounts within the general account of the Treasurer of the United States". Such memorandum is an official document supporting the action of the Secretary of the Treasury and Comptroller General in revising Joint Regulation No. 4. After considerable deliberation the revision of the joint regulation was issued on April 29, 1955, providing that effective July 1, 1955 the great majority of disbursing officers would draw checks directly on the general account of the Treasurer without the use of intermediate checking accounts funded with amounts of appropriations and deposits of certain collections.1/ Simultaneously a revision of Treasury Department Circular No. 945, containing the modifications

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1/ Under the revision of Joint Regulation No. 4, funded checking accounts were discontinued for the Department of Defense, the Division of Disbursement of the Treasury Department, the United States Marshals, and certain disbursing activities of the Judiciary. Like action with respect to other disbursing officers, principally those in the Post Office Department and in Government corporations, will require further revision of the joint regulation.

necessary as the result of the revision of the joint regulation, was released. Also, additional regulations were issued to establish improved procedures in those areas in which the use of funded checking accounts were no longer required. 1/ The immediate improvements of procedure, made possible by the discontinuance of funded checking accounts, were:

1. Certain special purpose certificates of deposit were eliminated. Also, the two main types of certificate of deposit were converted into a single form of document, without the need of making the former distinction required between collections deposited for credit to checking accounts and those deposited for credit to receipt accounts.

2. The flow of all deposit documents from administrative agencies making deposits to accounting units in Treasury disbursing offices was discontinued. The originals of certificates of deposit are now transmitted currently by Federal Reserve Banks and Branches to Treasury disbursing offices at which points the accounting for classified receipts as well as repayments now takes place. Prior to this change in procedure, the accounting for receipts was performed centrally by the Bureau of Accounts in Washington on the basis of the original certificates of deposit received by the Treasurer from the Federal Reserve Banks and Branches in support of their daily transcripts of transactions in the Treasurer's account. For their cash relationship with the Treasurer, the Federal Reserve Banks and Branches now use summary certificates of deposit. Monthly totals of these summary certificates of deposit are entered in the Department's central accounts (in the Bureau of Accounts) for the purpose of tying together the deposits in the Treasurer's account and the classified receipts and repayments reported in the official accounts of Treasury disbursing officers.

3. The practice of having disbursing officers include in their official accounts certain transactions representing the transfer of sums between appropriation accounts, was discontinued. These transactions are simply transfers of spending authority made pursuant to law and do not represent actual expenditures under the appropriations charged or repayments to the appropriations credited. Such transfer transactions are now being handled in the Department's central accounts on the basis of documentation submitted directly to the Bureau of Accounts by the administrative agencies concerned.

4. A great many transactions heretofore required to fund checking accounts by the use of checks and deposits, including the keeping of checkbook balances at the same levels as appropriation balances, were eliminated in the operations of disbursing officers, the Treasurer, and others concerned. Further, the discontinuance of balances in most

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1/ See Supplement No. 1, dated May 3, 1955, and Supplement No. 3, dated May 19, 1955, to Treasury Department Circular No. 945-Revised; and General Regulations No. 122 of the General Accounting Office, dated May 5, 1955.

of the several thousand disbursing (checking) accounts maintained by the Treasurer's office and certain like accounts with balances maintained by Federal Reserve Banks, is a decided simplification. 1/

5. A new form for the use of disbursing officers in rendering their official accounts for audit and settlement was adopted. The new form of account consists of a statement of accountability and a supporting statement of receipts and disbursements classified according to the receipt, appropriation and other fund accounts involved. The statement of accountability consists of monthly totals of the various classes of cash transactions handled by the disbursing officer; e.g., checks issued, vouchers paid, collections, deposits, etc., and the resulting balances for which the disbursing officer is accountable. These balances basically represent cash held outside the account of the Treasurer, including deposits in transit. Previously, the check and deposit transactions were reported by disbursing officers to the General Accounting Office in separate statements of depositary (checking) accounts. As indicated, these transactions are now reported in the new statement of accountability and the separate statements of depositary accounts have been discontinued. The new statement of classified receipts and disbursements is a simplification of the form in which such data used to be presented in the old form of account. Moreover, the data is now so organized that the statement of classified receipts and disbursements can be used conveniently as the posting media for central summary accounts with respect to classified receipts and expenditures. Thus the statements of accountability and classified receipts and disbursements comprising the new form of account (rendered for audit and settlement) are the means by which the accounting of disbursing and collecting officers and the related accounting of the Treasurer are unified through the Department's system of central accounts. Such central accounts, in turn, are the basis for the Department's central financial reports on the cash operations of the Government as a whole. In this connection, passing reference should be made to the fact that certain fundamental differences in accounting for cash transactions which formerly existed as between the Department of Defense and other departments or agencies have disappeared.

The New System of Central Accounts. The new system is based on the premise that, in the final analysis, real control over the paying out of public funds cannot be exercised by any one agency but depends on proper discharge of the interrelated functions of all the different agencies which handle the cash transactions of the Government. Due weight must

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1/ In connection with checks designated for payment through specified Federal Reserve Banks, such as card checks issued by Treasury disbursing officers, it was formerly necessary for the Banks as well as the Treasurer to maintain funded checking accounts.

therefore be given to and reliance placed upon the responsibilities fulfilled by each of these agencies for a composite system of control. The most fundamental responsibilities which are the foundation for the new system, on the expenditure side, are:

1. Determination, by the administrative agencies which incur the obligations and certify vouchers to disbursing officers for payment, that there are funds available, including sufficient balances in the appropriation or other accounts involved, for the payment of such vouchers;

2. Determination by disbursing officers that payments are made only in accordance with properly certified vouchers, in the required form;

3. Determination by the Treasurer of the United States that checks presented for payment are authentic with respect to drawers' signatures and absence of alterations, and that there are no bars to payment by reason of proper requests to stop payment or doubtful questions of law or fact;

4. Disclosure, in central accounts and reports of the Treasury, of the unexpended balance of each appropriation or fund of the Government, based on appropriations of the Congress and transactions reported in the official accounts of disbursing officers;

5. Determination by the General Accounting Office that amounts of disbursements reported in disbursing officers' accounts are supported by valid vouchers; and

6. Detailed proofs by the General Accounting Office that amounts of checks paid by the Treasurer are in agreement with the amounts of such checks reported to have been drawn by disbursing officers and charged in their accounts. 1/

What had long been lacking in the system as a whole were certain basic financial data needed to anchor the receipts and expenditures of the Government to the cash in the Treasury. The two most significant elements missing were (1) the cash held by Government officers outside the Treasurer's general account, including deposits in transit to Federal depositaries, and (2) the amounts of checks outstanding, i.e., those issued which have not yet been paid by the Treasurer.

1/ A plan has been approved and the conversion is underway whereby the Treasury Department, with the use of electronic equipment, will accomplish both the payment and proof of checks in the same operation subject to audit review by the General Accounting Office.

The purpose of the new system of central accounts being installed in the Bureau of Accounts, effective July 1, 1955, is to disclose complete and current (monthly as well as fiscal year) information on:

1. The Government's receipts, by principal sources, and its expenditures according to the individual appropriations and other funds involved; and

2. the various types of cash transactions, together with certain directly related assets and liabilities, which underlie such receipts and expenditures.

The structure of this new system of central accounts is such that it provides for a reconciliation, on a firm accounting basis, between the published reports of receipts and expenditures (and budget results) for the Government as a whole and the changes in the Treasurer's cash balance. 1/

The installation, climaxing five years of procedural simplification and improvement, is complementary to the modernization of accounting, along accrual lines, which has been taking place in recent years in the various departments and agencies of the Government under the impetus of the joint accounting improvement program which was translated into law by the 1950 Act. For a number of reasons, not the least of which is the fact that the annual budget results (surplus or deficit) of the Federal Government are expressed essentially on a cash basis, a proper accounting disclosure of the results of cash operations is an essential element of a composite disclosure of the results of all financial activities. This may be illustrated by citing one very important area in which disclosure of the Government's liabilities was deficient. Disclosure in the accounts of administrative agencies of real liabilities for goods and services received (as distinguished from contractual commitments known as "obligations") has been and continues to be given emphasis where such information is significant for management purposes. Such liabilities are extinguished when disbursements are made in favor of public creditors, usually by drawing checks on the Treasurer. In business, such disbursements serve to reduce an asset (cash in bank) for the corresponding reduction of liabilities. The situation in the Federal Government, however, is different because most of its cash is held by the Treasurer of the United States -- not by commercial banks. Therefore, the action of drawing checks on the Treasurer creates new liabilities, which should be on the Treasury Department's books, in place of those on the books of administrative agencies which were extinguished by the payment of vouchers. One of the several objectives in the development of appropriate accounting for cash operations has been to provide for disclosure of the foregoing type of liability along with certain other types of liabilities and assets which are germane to cash operations and essential factors in the bridge between receipts and expenditures overall and the changes in the Treasury's cash position.

1/ For format of reconciliation, see Exhibit A of this Appendix.

All of this is by way of explaining that a double entry system of general accounts has been needed centrally to develop, in proper relationship, the actual financial transactions of disbursing and collecting officers on the one hand and those of the Treasurer on the other. The type of data being consolidated in these central accounts, on the basis of transactions reported by the Treasurer and all other accountable officers of the Government, is indicated by the following summary.

ASSETS

(1) Various classes of monetary assets for which the Treasurer is accountable.

(2) Various classes of cash assets held by Government officers outside the Treasurer's account, including deposits in transit to Federal depositaries for credit to the Treasurer's account. 1/

(3) Certain public debt expenditures which are temporarily capitalized, such as deferred discount on Treasury bills.

(4) Investments in public debt securities, held by wholly-owned Government corporations and agencies. 2/

LIABILITIES

(1) Various classes of liabilities directly related to assets for which the Treasurer is accountable, such as gold and silver certificates outstanding.

(2) Liability for checks drawn on the Treasurer by disbursing officers, which are not yet paid. 3/

(3) Net liability for checks drawn on the Treasurer which are not yet paid less deposits in transit, in connection with those disbursing accounts for which funded checking accounts (with balances) continue to exist.

(4) Various liabilities for trust and deposit funds.

1/ The asset accounts are devised to establish an interlocking relationship to prove that all cash reported as deposited has in fact been credited in the Treasurer's account.

2/ The expenditures for these intra-Government investments must be capitalized to offset the corresponding increase in the public debt outstanding.

3/ The system is designed to effect a tie-in between the balances of checks outstanding, according to each disbursing account, with the detailed proof of checks paid with checks reported as issued. In this connection see footnote 1 on page 130.

(5) Liability for military payment certificates issued to authorized personnel in certain overseas areas in discharge of obligations incurred under appropriations for the Department of Defense and redeemable by that Department with goods, services or dollars.

(6) Various classes of liabilities pertaining to the payment of interest on public debt securities, such as interest due and accrued.

(7) Liabilities for borrowings from the public through wholly-owned Government corporations or agencies rather than by the direct issuance of public debt securities.

(8) Liability for the public debt outstanding.

SURPLUS OR DEFICIT

(1) The excess of budget receipts or expenditures for the current fiscal year (to be closed annually into an account for the cumulative amount of the deficit).

(2) The cumulative deficit, i.e., excess of budget expenditures over budget receipts, representing the total difference between the foregoing liabilities and assets after the accounts have been closed for a fiscal year.

RECEIPTS AND EXPENDITURES

(1) The various classes of budget receipts for the fiscal year, consisting of internal revenue, customs and miscellaneous receipts.

(2) The various classes of budget expenditures for the current fiscal year.

Note: The balances in the accounts for these budget receipts and expenditures are closed annually into the surplus or deficit account for the current fiscal year, previously mentioned.

(3) The various classes of receipts and expenditures representing trust and deposit funds. The balances in the accounts for these non-budget receipts and expenditures are carried to appropriate accounts for the trust and deposit liabilities.

Note: The chart of accounts includes certain suspense accounts which are needed, due to time lags in accounting or reporting, to record on a temporary

> basis during a fiscal year certain transactions as between two different organizational units of the Government. The system contemplates that such transactions will be appropriately cleared out of the suspense accounts before closing the general accounts for the fiscal year to which the suspense items relate.

The individual receipt, appropriation and fund accounts maintained by the Treasury Department pursuant to the Act of July 31, 1894 constitute subsidiary detail to the general accounts for budget receipts and expenditures and the liability accounts for trust and deposit funds.

A feature of the new system, which is not so well known because it involves the accounting for receipts, deserves mention. Deposits of cash in the Treasurer's general account have involved the processing of nearly a million certificates of deposit annually although this number had been reduced materially by the new system. The interlocking accounts in the new system with respect to deposit transactions are designed to determine that all deposits reported to have been made by each of the several thousand officers concerned have actually been entered in the Treasurer's account for the accounting period involved. Formerly, this determination was made as a part of the audit processes of the General Accounting Office by matching the individual deposits reported by the officers concerned with the corresponding deposits reported as received by the Treasurer. This was a manual audit operation which was many times more expensive, per item, than the mechanized audit operation of proving checks paid with checks issued. The determination that all receipts are in fact deposited is now a reciprocal feature of the central accounting itself and it will be necessary to resort to a detailed matching job only in instances when the central accounts fail to reveal that the total amounts reported by a particular officer and the Treasurer for a given month are not the same.

It is contemplated that by the end of the fiscal year 1956 the complete new system of central accounts will be installed and in operation for all practical purposes. There remain, however, a number of improvements which can be made chiefly in the way of refinements and simplifications to facilitate operation of the system. These are:

1. Consideration should be given to extending the provisions of Joint Regulation No. 4-Revised, to those executive agencies which were initially exempted. At present, the continuation of funded checking accounts in certain areas necessitates, in effect, the use of two distinct types of procedure for the same kinds of transactions. Also, it prevents developing fully in the central accounts the factors necessary to disclose the cash operations of the Government and related assets and liabilities such as deposits in transit and checks outstanding.

2. The provisions of Joint Regulation No. 4-Revised, and Department Circular No. 945 should be applied to the accounting for public debt principal and interest transactions in order to accomplish simplifications and consistency.

3. The form of accounts rendered by District Directors of Internal Revenue and Collectors of Customs for audit and settlement should be modified and become the basis for posting the Department's central accounts with respect to these classes of receipts as has been done in the case of disbursing officers with respect to other receipts. This is desirable because the central accounts relating to internal revenue and customs receipts still are maintained on the basis of certificates of deposit processed in Washington but the central reports on such receipts are compiled from data reported by the collecting officers concerned.

4. The form of account rendered by United States Disbursing Officers (Department of State) for audit and settlement should be modified so that the data will fit directly into the overall pattern thereby precluding certain work which has to be done to adapt the accounts in their present form as posting media of the Department's central accounts.

5. An improved form of certificate of deposit and related form of debit voucher for uncollectible checks should be adopted for use in light of the changes made in deposit procedure.

6. Where the operations of Treasury disbursing officers are concerned, accounting procedure should be developed which will provide better coordination (for central accounting purposes) of intragovernment transactions involving investments in and redemptions of public debt securities on the part of trust funds, wholly owned Government corporations and other revolving funds.

From all that has been said it will be seen that the system of central accounts of the Treasury Department has been built on the cash operations of the Government and should provide accounting support for the surplus or deficit shown by the Budget. Therefore, integration of the administrative accounting of the various executive departments and agencies and the fiscal accounting of the Treasury Department, required by the 1950 Act, is being accomplished on the most practical basis; i.e., that of cash transactions which are mutually applicable. Of course, the administrative accounting of the executive departments and agencies goes much beyond this for operating purposes - dealing more or less with the control of spending within the limits of appropriations and other authorizations, the collection of receipts, the control of inventories and other assets, the discharge of liabilities and the determination of the cost of operating programs or carrying on other activities. It is not contemplated that such administrative accounting data, beyond the area of cash operations, would be carried in summary or otherwise in the system of central accounts. On the contrary, the Treasury Department would look to the administrative accounting of individual agencies to supply whatever data of this character is needed for central reporting purposes but with the assurance that such administrative accounting fans out to the extent necessary from cash accounting firmly linked to that of the Treasury Department.

Developments in Central Reporting

As in the case of central accounting, the Budget and Accounting Procedures Act of 1950 (64 Stat. 832) is the legal basis for what has been done to improve central financial reporting in recent years. In discussing central reporting some background information should be provided to give a better understanding of how the objectives of the 1950 Act are being carried out. Also, reference should be made to the preceding section of this Appendix which describes the system of central accounting which has been developed over the past five years.

The 1950 Act recognizes the necessity of having means to systematically bring together information needed concerning the results of the financial operations of the Government as a whole. The Act recognizes further that central authority and facilities for that purpose belong in the Treasury Department because of the nature of the fiscal operations, accounting and reporting which the Department must normally perform as the center of the Government's finances. Central reports obviously cannot serve all the many purposes of financial reporting in the Government. They should, however, supply a longstanding need on the part of the legislative and executive branches and the public for more complete and consistent presentations of financial data showing the sources of the Government's revenue and other income, the purposes for which public funds are spent and the Government's position financially.

Reports Relating to Cash Operations. To a large extent, the routine central reporting of the Department has pertained to the cash operations of the Government.

For many years the Daily Statement of the United States Treasury, often referred to as the Daily Treasury Statement, was the only overall financial report currently available for use inside and outside the Government. Further, it was the means by which the budget surplus or deficit (excess of receipts over expenditures or the reverse) was officially determined. In essence, the Daily Treasury Statement was a summary of the monetary assets and liabilities making up the balance of the Treasurer's general account together with a classification of receipts and expenditures which for the most part were based on transactions in that account. The other major report in this area was the Combined Statement of Receipts, Expenditures and Balances of the United States Government submitted annually by the Secretary of the Treasury to the Congress as required by law. The main purpose of this annual report was to show historically, for each fiscal year, receipts by principal sources and the status of appropriation and other fund accounts from the standpoint of the amounts made available for expenditures, the expenditures made and the resulting unexpended balances. The expenditures reported in the Combined Statement were on the basis of payments made by disbursing officers. Hence, the expenditure data in the daily and annual statements did not agree. Also, receipts were not shown in the daily and annual statements on a consistent basis.

Starting in the latter part of 1952 and continuing during 1953 an extensive joint study to improve the reporting of receipts and expenditures was made by staff of the Treasury Department, Bureau of the Budget, Department of Defense and General Accounting Office. Particular emphasis was placed on achieving better current reporting than typified by the Daily Treasury Statement. The study included inquiry, as far as practicable, into the needs of regular users of the daily statement both inside and outside the Government and consideration of how those needs might best be met. Frequency of reporting and promptness of publication had been considered to be of first importance in connection with the Daily Treasury Statement. This policy, coupled with the practice of using quite a detailed classification for receipts and expenditures (particularly the latter) and showing the budget surplus or deficit every day, resulted in having to make rather substantial compromises with respect to the quality of the information contained in the statement. These compromises involved both consistency of the accounting basis for the data reported and correct disclosure of the data for the classifications used.

The findings and conclusions of the joint study were that the Daily Treasury Statement, as a presentation of the budget receipts and expenditures and budget surplus or deficit, was inadequate in the following respects:

1. It was impossible, at any reasonable cost, to obtain complete and accurate daily reports of checks issued and payments made by all Federal agencies, some of which are engaged in world-wide activities;

2. Even where daily reporting was practicable the figures were not on a uniform basis. Some expenditures were reported on an accrual basis; some on a current checks-issued basis; others on a delayed checks-issued basis; and still others on the basis of cash withdrawals from the Treasury (i.e., checks paid by the Treasurer);

3. There was not, by reason of the first two defects, a common basis for comparing actual expenditures with detailed budget estimates.

In a document dated October 5, 1953 the Secretary of the Treasury, Director of the Bureau of the Budget and Comptroller General of the United States gave their joint approval to a program for establishing a new system for reporting the receipts and expenditures of the Federal Government based on the following principles:

1. The Daily Treasury Statement will be limited to a summary of the monetary assets and liabilities in the Treasurer's account, a condensed classification of the cash deposits in and withdrawals from the account, and the effect of the day's operations on the public debt. 1/ The daily statement will not show budget surplus or deficit as was formerly the case.

2. A statement showing classified receipts and expenditures and the budget surplus or deficit as of the end of each month will be regularly published, at approximately mid-month, by the Treasury Department. The initial June 30 statement each year, including a preliminary figure for budget surplus or deficit, will be recognized as preliminary and a final statement for the fiscal year will be prepared to give effect to adjustments required for year-end preciseness in historical accumulations of data. Receipts in the statements will be based on existing practices, i.e., collections or confirmed deposits, but efforts will be continued to convert to a collection basis. Expenditures shown in the statements will be on the basis of payments made by disbursing officers, i.e., checks issued and cash disbursements. Provision will be made for developing accounting processes by which the receipts and expenditures data in the statements will be reconciled with changes in the cash balance of the Treasurer. 2/

3. The Combined Statement of Receipts, Expenditures and Balances of the United States Government, published annually by the Treasury Department, will contain data accumulated for the fiscal year on the final basis, indicated above, and will continue to be recognized as the official historical accumulation of receipts and expenditures data.

4. The receipts and expenditures data included in the Budget of the United States Government will be in agreement with the historical accumulation of data described above. Thus there will no longer be the annual arbitrary adjustment of the Budget to the Daily Treasury Statement basis which had been the practice for many years.

5. In carrying out its independent audit responsibilities, the General Accounting Office will test the reliability of receipts and expenditures data reported to the Treasury Department by other Federal agencies for purposes of the central reports on receipts and expenditures.

1/ On the last day of each month a detailed statement of the public debt outstanding is being published along with the Daily Treasury Statement.

2/ For format of reconciliation, see Exhibit A, page 145.

The new reporting system for receipts and expenditures was put into effect in February, 1954. 1/ This required compiling data retroactively in order to make the new statements complete for the fiscal year 1954. Effective July 1, 1955 a revised and expanded classification of budget expenditures was adopted for the monthly statement. The main objective was to improve comparability between this statement and the detailed expenditure classifications in the Budget document. The new arrangement makes it possible for analysts to readily identify the individual appropriations or other funds comprising the statement classifications by referring to corresponding chapters in the Budget document. Arbitrary classifications familiar to a limited number of people, however significant and well chosen such classifications may have been, are no longer necessary.

There were two significant changes made in the Combined Statement of Receipts, Expenditures and Balances of the United States Government for the fiscal year 1955. First, the tables in the statement showing the details of receipts, expenditures and balances (according to each appropriation and fund) were expanded to include an analysis of the unexpended balances June 30, 1955. 2/ This analysis shows, in columnar form, with respect to each appropriation or fund account:

1. Balance available:
    (a) Unpaid obligations
    (b) Accounts receivable (as an offset)
    (c) Unobligated balances

2. Balance not available (consisting of unobligated balances which have expired; balances reappropriated in the ensuing year; and obligated and unobligated balances which have lapsed by limitation of law)

Second, a new special table was included in the Combined Statement to provide, all together in one place, condensed information concerning the financial resources and obligations of each wholly-owned corporation and other revolving fund of the Government (of which there are nearly one hundred). The special table shows, in columnar form, for each corporation or revolving fund:

Financial position:

1. A condensed classification of assets
2. Liabilities (in total)
3. The net investment of the United States (excess of assets over liabilities)

1/ See joint announcement of the Secretary of the Treasury, Director of the Bureau of the Budget and Comptroller General of the United States regarding the change in reporting, released with the Daily Treasury Statement of February 17, 1954. See also Treasury Department Circular No. 940, dated February 17, 1954.

2/ See Treasury Department Circular No. 965, dated July 21, 1955.

Supplementary data:

1. Contractual commitments in excess of liabilities, and
2. Additional means of financing, consisting of:
   - (a) Authority to obtain capital funds in the form of borrowings from the U. S. Treasury; and
   - (b) Unused authority to borrow from other Federal agencies or in the market.

Another development was that a policy decision was made, in June 1955, to place the accounting and reporting for interest on the public debt on an accrual basis starting with the fiscal year 1955. Previously, the expenditures for interest on the debt had been accounted for and reported on the basis of interest becoming due and payable, causing on occasion rather violent fluctuations of interest expenditures due to large debt refunding operations.

Another type of cash reporting which has been developed in recent years relates to foreign currencies belonging to the United States Government which are acquired by various Federal agencies without purchase with dollars. Prior to World War II, acquisitions of foreign currencies were confined to consular fees and similar small collections. Such currencies were used to defray regular operating expenses of the agencies which made the collections. The appropriations of such agencies were charged with the expenditures and dollars equivalent to the currencies used were deposited into the Treasury as miscellaneous receipts. War requirements and postwar foreign assistance programs, however, tremendously increased the quantities and varieties of foreign currencies acquired by the Government pursuant to intergovernmental agreements. Except for a relatively small portion in the custody of the Treasury Department, these foreign currencies were under the control of the Federal agencies administering the intergovernmental agreements and subject to disposition by such agencies as authorized by the Congress, usually in substantive legislation. The currencies as a whole were not subject to the same fiscal and budgetary controls which govern the dollar funds of the Government, i.e., their use was not subject to regular appropriation processes.

There developed a growing recognition on the part of Congress of the need for a better system of control over foreign currencies. This culminated in the enactment of Section 1415 of the Supplemental Appropriation Act of 1953, approved July 15, 1952, which provided that foreign credits owed to or owned by the United States Treasury would not be available for expenditure by agencies of the United States after June 30, 1953 except as might be provided for annually in appropriation acts. The Act did not specify, however, the precise nature of the appropriation provisions which would be required to carry it into effect. On the basis of a joint study made by staff of the Treasury

Department, Bureau of the Budget and General Accounting Office, in collaboration with staff of the House Committee on Appropriations, recommendations were made to the Congress that the use of foreign currencies be controlled through the regular budgetary processes of the Government. 1/ This would be accomplished by including in regular dollar appropriations sums sufficient for the purchase of all foreign currencies needed for programs. The report also proposed that the custody of all foreign currencies of the Government be taken over by the Secretary of the Treasury. The appropriation enactments of the Congress followed in principle this recommendation although recently the Congress has made available for expenditure, without reimbursement to the Treasury, substantial quantities of foreign currencies derived from the sale of surplus agricultural products under intergovernmental agreements pursuant to law. 2/

Executive Order No. 10488, of September 23, 1953, authorized the Secretary of the Treasury to issue regulations governing the purchase, custody, transfer or sale of foreign exchange by any executive department or agency of the United States. These regulations are contained in Department Circular No. 930, issued October 19 to be effective December 1, 1953. The regulations are based on the following principles:

1. All foreign currencies collected must be turned over to disbursing officers of the Federal Government to be held for account of the Secretary of the Treasury.

2. The currencies must be accounted for in the official accounts of the disbursing officers, subject to audit by the General Accounting Office, and reports relating to the currencies are derived from such accounts.

3. Withdrawals of the currencies are permitted only upon authorizations from the Treasury Department for two purposes; (a) sales for dollars or (b) use without reimbursement to the Treasury as authorized by law.

4. The currencies must be deposited only in depositaries designated by the Treasury Department.

1/ See report on Control Over the Use of Foreign Credits made by the Director of the Bureau of the Budget to the Chairmen of the Senate and House Committees on Appropriations, dated January 19, 1953.

2/ See Section 550 of the Mutual Security Act of 1953 (P.L. 118, approved July 16, 1953); Section 402 of the Mutual Security Act of 1954 (P.L. 665, approved August 26, 1954); and Title I, Section 104 of the Agricultural Trade Development and Assistance Act of 1954 (P.L. 480, approved July 10, 1954).

5. The purchase of currencies in the market is prohibited if the currencies needed for the purpose intended are available in the Treasury.

6. The amount of foreign currencies which can be held by an agency or disbursing officer for current use is limited to requirements for thirty days.

Three basic kinds of central reports on foreign currencies, aside from special reports required from time to time, are prepared -- one at intervals during the year and the other two annually. The main report shows, with respect to each kind of currency, acquisitions by sources and withdrawals from Treasury custody according to whether the currencies are sold for dollars or are requisitioned by agencies for authorized uses without dollar reimbursement to the Treasury, and the balances in Treasury custody. The report shows the dispositions (withdrawals from Treasury custody) also according to accounts indicating the sources from which the currencies were derived. In addition to this periodic report, the Treasury Department compiles annually, for inclusion in the President's Budget, estimates of miscellaneous receipts to be derived from the sale of foreign currencies. The Department also prepares annually a report showing the excess or shortage of foreign currencies for sale for dollars, based upon estimates of what will be available in relation to the estimated spending requirements of Federal agencies. The preparation of the two latter reports involves securing estimates and other information from all Federal agencies.

There are various things which contribute to the complexity and difficulties of accounting and reporting for foreign currencies. The foreign operations of Federal agencies involve the currencies of practically all countries of the world. These currencies are handled by over 100 foreign service officers of the Department of State who disburse under delegation from the Treasury Department and also the disbursing officers of the Department of Defense operating in foreign areas. The currencies must be accounted for by about twenty main sources, aside from collections of a miscellaneous character derived from fees, sale of goods or services, etc. In addition, many of the currencies from specific sources are restricted as to use in accordance with the bilateral agreements with foreign governments. Another problem is the complex nature of the various agreements in connection with the sale of surplus agricultural commodities (Public Law No. 480) which are not uniform in terms and many of which involve different kinds of exchange rate guarantees.

Other Central Reports. There are other regular central reports prepared which go beyond cash operations and get into the area of what the Government owns and owes and what it is committed for in a long-range sense.

For many years the Treasury Department compiled and published periodically (in the Daily Treasury Statement) summaries showing certain assets and liabilities of the Government. These summaries were confined, however, to Government corporations and a few selected agencies. In order to afford more complete coverage and bring central reports during the year in line with presentations of this character in the annual Budget, a new Treasury regulation was developed during 1955 jointly by staff of the Treasury Department, Bureau of the Budget and General Accounting Office. This regulation will be issued early in 1956 as Department Circular No. 966, to replace the present Budget-Treasury Regulation No. 3. The provisions of the new regulation, in draft form, were developed with the cooperation of the corporations and other agencies required to report, including the Department of Defense. For the present, only Government corporations and other activities financed with revolving funds will be required to report. The new regulation, however, provides a framework for ultimately obtaining data necessary to disclose, as completely as may be desirable and practical, the assets, liabilities and related financial operations of the entire Government. The reports of this character are now being published at intervals in the Treasury Bulletin.

For the past ten years the Treasury Department has been compiling, semi-annually, information concerning major long-range financial commitments and contingencies of the Government. This type of information, e.g., loans guaranteed or insured by Government agencies, insurance programs of Government agencies, etc., is important because it affords a look into the future regarding possible large outlays in relation to the current financial program contained in the annual Budget. The new regulation (Department Circular No. 966) to obtain comprehensive reports on assets, liabilities and related financial operations will provide a more systematic method of obtaining and improving the data on long-range commitments and contingencies.

Data contained in all of the previously described reports, as well as a great deal of other data, are included in tables of the Treasury Bulletin or the Annual Report of the Secretary of the Treasury on the State of the Finances. Hence, whatever is done to improve the aforementioned central reports will have a corresponding effect in improving the Treasury Bulletin and the Secretary's Annual Report.

Looking into the immediate future, there are some things which can be done to improve central financial reporting:

1. Attention should be given to having the new regulation (Department Cirular No. 966), calling for financial reports from Government corporations and agencies administering revolving funds,

provide for developing significant data on working capital, i.e., excess of current assets over current liabilities. Working capital is an important factor of financial condition to be considered in relation to contractual commitments which exist in addition to liabilities and additional means of financing available through borrowing authority.

2. Arrangements with the Department of Defense have been about completed whereby the Treasury Department will receive, possibly commencing July 1, 1956, two types of reports: (a) a report every ten days of the Department's expenditures according to major Treasury statement classifications, and (b) a daily report of the total amount of all checks issued by disbursing officers in the continental United States which are drawn on the Treasurer. These reports will provide useful information in connection with financing operations, particularly management of the Treasury's cash position.

3. The Treasury Department and Bureau of the Budget should give attention to making up-to-date revisions in Budget-Treasury Regulation No. 1. This regulation governs apportionment requirements and requires the submission of monthly reports on the status of individual appropriations and funds from the standpoint of appropriations and other authorizations, obligations incurred, expenditures made, and unexpended balances consisting of unliquidated obligations and unobligated balances.

In the development of central reporting, the approach has been to find out about the needs of the users of reports. This has included interviews with staff of Congressional committees, the Bureau of the Budget, the Department of Commerce, the Department of Defense, the Federal Reserve System, and large commercial banks and dealers in securities. Individuals in the Treasury Department having an interest in the material contained in central reports also have been consulted. It is believed that this approach has been unusually productive in the last several years and it is intended to place continued emphasis upon the advice and counsel from such sources in the continuing program for review and modernization of central financial reports. Only thus can such reports be made responsive to the current needs of the Congress, the Executive Branch and the public.

EXHIBIT A

FORMAT FOR RECONCILIATION OF PUBLISHED REPORTS OF RECEIPTS AND EXPENDITURES WITH CHANGES IN BALANCE OF ACCOUNT OF THE TREASURER OF THE UNITED STATES

Excess of Receipts or Expenditures

Budget surplus (+) or deficit (-) .... $______

Excess of trust and deposit fund receipts (+) or expenditures (-).... ______

Excess of public debt receipts (+) or expenditures (-) .... ______

Excess of receipts (+) or expenditures (-) of Government agencies from investments in and redemptions of public debt securities ..... ______

Excess of receipts (+) or expenditures (-) from sale or redemption of obligations of Government agencies in the market .... ______

Excess of receipts (+) or expenditures (-) in the aggregate .... $______

Reconciling Data 1/

Decrease (+) or increase (-) in amount of:

Government deposits and cash not carried in Treasurer's account.... $______

Unamortized discount on public debt obligations (Treasury Bills)... ______

Recoverable payments of public debt interest and principal .... ______

Increase (+) or decrease (-) in amount of:

Checks drawn on the Treasurer, outstanding .... ______

Matured public debt interest coupons, outstanding .... ______

Public debt interest due and payable with principal .... ______

Accrued public debt interest payable, not due .... ______

Military payment certificates redeemable by Department of Defense (included in expenditures when issued) .... ______

Change in balance of account of the Treasurer of the United States .... $______

Proof

Balance in Treasurer's account at beginning of period .... $______

Balance in Treasurer's account at end of period .... ______

Increase (+) or decrease (-) in Treasurer's balance, as above ...... $______

1/ See Note on following page.

Note: In connection with the monthly Treasury Statements of Receipts and Expenditures published during a fiscal year but not the final statement for the complete fiscal year, there are needed three additional lines as follows:

> Net adjustment of Treasurer's balance, by telegraphic advice, to allow for reports of deposits and withdrawals in transit from Federal Reserve Banks.
>
> Excess of deposits (≠) or withdrawals (-) held in suspense in the Treasurer's account pending allocation to specific classes of cash transactions.
>
> Net adjustment for change in amount of disbursing officers' transactions in suspense, pending allocation to specific classes of cash transactions or of receipts and expenditures.