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January 12, 1950

PROGRESS UNDER THE JOINT PROGRAM  
TO IMPROVE ACCOUNTING IN THE FEDERAL GOVERNMENT

Under the Budget and Accounting Act, as supplemented, authority and responsibility for prescribing accounting systems in the executive departments and establishments of the Government is in the Comptroller General of the United States. However, the responsibility for the day-to-day maintenance of the accounting systems is and must be a responsibility of the various administrative agencies where the work and operations are performed. Moreover, the Treasury Department and Bureau of the Budget have important legal responsibilities, from the standpoint of fiscal administration of the Government, which have a definite relationship to the prescribing of accounting requirements and the operation of accounting systems. In order to coordinate all of these responsibilities and to make accounting, reporting, and budgeting more effective as instruments of fiscal control and management, on January 6, 1949, the Comptroller General of the United States, the Director of the Bureau of the Budget, and the Secretary of the Treasury approved the joint program containing the following as fundamental principles:

Current accounting and financial reporting are proper functions of the executive branch and accounting systems prescribed by the Comptroller General should be in recognition of this as a fundamental principle;

Audit, independent of the executive branch, is an essential and proper function of the General Accounting Office and properly designed accounting systems are a vital factor to the effectiveness of such independent audit;

Accounting systems should be developed as a co-operative undertaking as an essential to meeting the needs and responsibilities of both the executive and legislative branches of the Government.

At the same time, they announced the following as major objectives of the program:

To provide a body of sound accounting and reporting principles and standards for general observance;

To improve the accounting organizations and the systems of accounting in the various departments and agencies;

To strengthen the facilities and accounting of the Treasury Department as the operating center for current accounting and overall financial reports of the Government;

To produce more informative financial reports,  
at less accounting costs;

To improve, simplify, and strengthen the  
Government's system of audit and control in line  
with the increased effectiveness of accounting  
systems;

To coordinate and integrate budget, accounting,  
and reporting processes.

The following summary, indicative of the kind of progress being made, was recently prepared by the joint working staffs for review by the Comptroller General of the United States, Director of the Bureau of the Budget, and Secretary of the Treasury:

#### Accounting Principles and Terminology

A comprehensive statement has been prepared dealing with 42 subjects concerning accounting principles and practices and providing the framework for a common terminology. This tentative statement is receiving intensive joint review. Meanwhile, many of these principles are being embodied in the accounting systems of particular agencies, thus providing the benefit of practical experience. Based in part on a joint study and recommendations involving inventory control methods, a separate statement of tentative principles and standards for property accounting is being prepared for early consideration by all Government agencies as a step leading to the establishment of ultimate requirements under the provisions of the Federal Property and Administrative Services Act of 1949.

#### Reporting and Budgetary Specifications

Important developmental work has been done in connection with the concept of performance budgeting and the use of the accrual method of accounting so that adequate recognition may be given to assets, liabilities, and the true cost of performing work and services by functions or activities. This work has taken advantage of the installation of improved systems of accounting and reporting in such agencies as the Bureau of Reclamation (Interior) and Atomic Energy Commission. The Budget Director has approved in principle, the use of accounting results on the accrual basis for budgetary presentation subject to a full consideration of its practical implications in three large agencies ( of which the Treasury Department is one) before deciding upon time schedules for the general use of data on such a basis for budgetary purposes. In addition, Budget-Treasury Regulation No. 1, dealing with apportionments and reports on the status of appropriations, is being completely revised but will need to be reviewed with agencies before making the revision effective. In this connection, separate reports to the General Accounting Office, relating to such data, are being eliminated. Real progress is being made, subject to the approval of Congress, toward improving the appropriation structure for certain agencies both as to reduction in

number of appropriations and as to better budgeting and accounting results.

#### Auditing Concepts

In line with its present audit concepts, the General Accounting Office has set up a program for a comprehensive type of audit. This audit program recognizes that the accounting and internal control procedures of each agency are the basic points for effective control of the Government's financial operations. In line with this, it is the policy of the General Accounting Office to utilize audit processes based on an evaluation of accounting systems and the effectiveness of related internal checks and controls in the agencies at the site of operations, to the maximum extent practicable, as a means for fuller and more effective discharge of the Comptroller General's responsibility to the Congress. A new office subdivision has been set up in the General Accounting Office as a means of carrying out the comprehensive audit program. The United States Coast Guard (Treasury) and Maritime Commission have been placed on a comprehensive audit basis. This is in addition to the hundreds of site audits being performed by the General Accounting Office. Various Government-wide requirements for the submission of documents or reports to the General Accounting Office have already been eliminated, and as the comprehensive audit program progresses such present accounting and auditing processes of the General Accounting Office, based on central review and processing of documents and reports originating with agencies, as are determined to be unnecessary or inappropriate will be eliminated or modified.

#### Organizational and Staffing Concepts

Progress has been made in the application by some agencies of improved organizational and staffing concepts for accounting performance. The importance of this has been recognized in the Department of Defense, Atomic Energy Commission, Economic Cooperation Administration, and General Services Administration. The role and status of accounting have been strengthened also in the Bureau of Reclamation and Bureau of Land Management (Interior) and the United States Coast Guard (Treasury).

#### Legislative Recommendations

Examples of work done on legislative recommendations are, the property accounting and audit provisions of the Federal Property and Administrative Services Act of 1949; Title IV of the National Security Act Amendments of 1949, establishing the controller function and organization with respect to budgetary, accounting, and auditing along business lines; and consideration of reorganization of accounting and budgeting in the Post Office Department along business lines. In addition, proposals for changes in basic laws needed for carrying out the policies and work of the joint program are being jointly considered.

#### Disbursement and Collection Procedures

Intensive work has been done in simplifying basic procedures for the collection, deposit, disbursement, and audit of funds in certain agencies.

Experience is thus gained for wider application of simplified procedures in the Government generally, in coordination with improved internal control procedures and the expansion of comprehensive audit at the site of operations.

Voucher payment, examination, and audit processes with respect to certain agencies have been simplified by adopting a schedule type of voucher on which a number of authorized payments to different payees are listed. This avoids sending many individual vouchers to the disbursing officers. Instead, the individual vouchers are retained in the agencies for either on-the-site audit or direct transmission to the General Accounting Office. In addition, this new procedure is being given a complete test for all agencies served by the Treasury disbursing office in St. Louis in order to evaluate savings in paper work, double handling of documents, and cost of transporting documents, with the view to its possible broader adoption.

Under procedure developed for trial installation in the United States Coast Guard (Treasury), the accounts of operating agencies will be made to serve as the key points of advance control over the spending of appropriations with a corresponding reduction of accounting work on the part of the Treasury and General Accounting Office, and simplification of the control processes now based on the warrants issued by the Treasury Department and countersigned in the General Accounting Office. The practical problems involved are being worked out in connection with the new accounting installation in the United States Coast Guard, and the results will be reviewed from the viewpoint of wider application in the Government. This development has great potential advantages not only from the standpoint of economy but also as a means for providing proper integration between the central appropriation and cash accounting of the Treasury Department and the accounting of other agencies as the basis for good composite financial reports for the Government as a whole. If properly developed and installed for the entire Government, the improved procedure has the potentiality of eliminating millions of repetitive handlings and postings of documents each year.

The possibility of introducing an improved and more economical system for reconciling the checking accounts of disbursing officers of the Government is being fully explored by the General Accounting Office and Treasury Department together. In this undertaking all related operations are being considered - starting with the issuance of checks and following through to their final payment, along with the necessary processes of accounting and audit. It should be emphasized that at this stage it is a matter of looking fully into a large and costly operation to see what possibility there may be of strengthening, improving and simplifying present methods with attendant economy to the Government. Certain proposals and procedures which have been developed are being carefully considered but conclusions as to their merit cannot be reached without a thorough analysis and testing in the light of all operating and policy factors.

Simplified collection procedures, involving elimination of the preparation of schedules of collection and their submission to disbursing officers and the General Accounting Office, have been installed in the U.S. Maritime Commission and U.S. Coast Guard. Wider application of such procedures will

follow extension of on-the-site comprehensive audit to other agencies in appropriate circumstances.

Improved and simplified collection controls, based on site audit, have also been installed by the Bureau of Land Management (Interior). Billing and collection procedures in that agency have been simplified and integrated with its control over accounts receivable.

Regulations of the General Accounting Office have been amended to provide for Government-wide discontinuance of the submissions to that Office of advance copies of all schedules of collection prepared by administrative agencies. In addition to the saving in paper work involved in the submission and handling of these documents, there is a saving in eliminating the posting of the collection schedule numbers on the covering warrants issued by the Treasury Department.

#### Accounting Systems of Agencies

Work under the program has been concentrated heavily on the improvement of the accounting systems and procedures of individual agencies. This approach is of great importance not only from the standpoint of benefits to the individual agencies involved but also of providing realistic and practical methods, which have stood the test of actual experience, for Government-wide application.

A new series of accounting releases has been initiated by the General Accounting Office to accomplish interim modifications of existing regulations and otherwise provide a flexible basis for stimulating accounting development by agencies themselves consistent with principles and other broad requirements necessary to effect proper integration of accounting in the Government generally and permit assembling overall financial data on the proper plane. All agencies were advised that the present basic regulations of the General Accounting Office on accounting (General Regulations No. 100) were to be regarded as a flexible starting point for developing improved accounting. This has provided an effective means for revising existing requirements along the right lines and for obtaining the proper degree of initiative on the part of the agencies in contributing to such revisions. Work done along these lines has reached into almost every agency of the Government but only a few of the agencies in which the work has concerned major accounting installations or conversions are cited here as examples.

A completely revamped accounting system for the Bureau of Reclamation (Interior) has been installed. Operations have largely been decentralized to projects, with a resulting reduction of accounting work loads in Washington and the regional offices. Accrual accounting, with development of project costs, has been integrated with appropriation accounting. A completely revised system of financial reporting provides the information needed by management from an operating standpoint and affords the basis for a performance-budget in terms of actual costs.

Major revision of the accounting system of the U.S. Maritime Commission has accomplished a strengthening of the control over all assets and

greatly simplified and improved the accounting procedures. Such simplification and improvement has been principally concerned with receivables and related collection procedures, property accounting, trust fund accounting, and the cleaning up of sizeable backlogs in accounting work. The revisions in accounting procedures have been developed in coordination with application of on-the-site comprehensive audit. Technical improvements have been accompanied by a decrease in the accounting staff.

Work in planning for the accounting system of the Economic Cooperation Administration (before legislation was enacted) contributed to the establishment of the accounting organization at the highest level with the appointment of an outstanding professional accountant as Controller. The system, as developed, has been approved in principle and is being reviewed in actual operation in the light of all needs to be served. Features of the system of special interest from the standpoint of the joint program are: accrual accounting; decentralization of responsibility for control of expenditures to the points of obligating authority, subject to internal audit by the ECA Controller; and special techniques and methods in the direction of simplified and economical account keeping, reporting, and control.

The accounting of contractors dealing with the Atomic Energy Commission has been integrated with the Commission's accounting system, on an accrual basis, thus avoiding duplication and overlapping. This method of accounting has been coordinated with audit procedures utilizing contractors' books of account in lieu of requiring numerous reimbursement vouchers. Only about one voucher a month is needed, supported by statements which key the voucher into the contractor's accounts. Operations for the Commission are drawn together on a cost basis and utilized for budgeting in terms of costs and performance with appropriate reconciliation to total obligations. Accounts have been established for the investment of the Government in capital assets and working capital available for future operations.

Cooperative effort contributed to the development of the provisions of Title IV of the National Security Act Amendments of 1949, which laid the groundwork for a transition to fundamentally improved methods of budgeting, accounting, and reporting for the entire Department of Defense, and established the Office of Comptroller in that Department and coordinated jurisdiction over these functions. Progress is being made, through continuing cooperative effort, in the direction of establishing performance budgeting, accounting in terms of costs on the accrual basis, improved internal control and internal audit, and simplified fiscal accounting and disbursing processes. Full time working liaison has been established from the standpoint of the joint program.

A completely revamped accounting system is being installed in the United States Coast Guard which will provide better control and information, particularly with respect to the cost of operations by programs or activities. Comprehensive audit by the General Accounting Office at the site of operations has been instituted. Collections are being deposited directly with the U.S. Treasurer thereby eliminating double handling of cash and extra accounting.

Further, procedure for controlling and accounting for disbursing funds is being simplified so as to reduce paper work and avoid certain duplication in accounting under present methods which have been traditional in the Government. All that is being done here will be analyzed and reviewed from the standpoint of its wider implications for improving accounting and related fiscal operations in the Treasury and other agencies of the Government.

In the Bureau of Customs procedure for the rendition of collectors' accounts for audit has been improved, providing for a better basis of accounting and overcoming certain administrative difficulties previously encountered. The framework for a revised system of revenue accounting has been developed on the principle of strong internal audit and control, without duplication as between Collectors and Controllers of Customs, and improvement of on-the-site audit by the General Accounting Office.

A complete revamping of the Bureau of Engraving and Printing's accounting system is being cooperatively developed in line with a proposal to give the Bureau a business type budget with a revolving fund method of financing and comprehensive on-the-site audit by the General Accounting Office. Target is the budget for fiscal year 1952 but conversion cannot take place until executive and congressional policy is finally settled in the light of the planning work being done.

An improvement has been made in the accounting in the Treasury Department for interest on the public debt. The expenditures for such interest are now accounted for on the basis of the interest which becomes due and payable rather than payments made by the Treasurer of the United States. Not only does this provide better accounting results but it also has accomplished savings in processing paid interest coupons.

Constant effort is being directed at improving the classifications and bases for reporting the Government's receipts and expenditures in the Daily Statement of the United States Treasury. The public debt interest matter is a case in point. The change made in showing refunds as a deduction from receipts rather than as an expenditure is another example. Also considerable work has been done in developing procedures through which a more current classification might be obtained of the expenditures of the Department of Defense which to some extent must now be distributed for precise classifications on the basis of transfer and counter warrants processed about a month after the transactions take place.

A completely revised system of accounting has been installed in about one fourth of the offices of the United States Marshals. Installation work is proceeding in the remainder. Improved control and information are being accomplished, with substantially less paper work, through adoption of the new system.

A completely revamped accounting system is being installed in the Bureau of Land Management (Interior). This is being coordinated with application of on-the-site comprehensive audit. Simplified disbursement and collection procedures have been installed and integrated with appropriate accounting control over all receivables.

In addition to the aforementioned illustrative cases, intensive work has been done or is under way with the following agencies in accomplishing more or less complete revisions of accounting systems; General Services Administration; Bureau of Mines (Interior); Department of State (military assistance program); Department of Agriculture (working capital fund); Farmers Home Administration and Rural Electrification Administration (both Agriculture); National Advisory Committee for Aeronautics; Veterans Administration (both insurance and finance activities); District of Columbia; Housing and Home Finance Agency (Office of Administrator); Bureau of Standards (Commerce); and Selective Service System.

Work has also been or is being done with the following agencies involving the improvement of special phases of their accounting; Immigration and Naturalization Service (Justice); Geological Survey and Bureau of Indian Affairs (both Interior); Post Office Department; Bureau of Census and Civil Aeronautics Administration (both Commerce); Federal Security Administration; Interstate Commerce Commission; Smithsonian Institution; Federal Power Commission; and Bureau of Internal Revenue (Treasury).

It is impractical to list the many procedural improvements and simplifications which are being accomplished as a day to day proposition of dealing with the accounting problems and work of the various agencies of the Government under the influence and guidance of the policies and objectives of the program. Contacts reach into almost every accounting operation of the Government and hundreds of improvements and simplifications in forms and procedures are being accomplished as a normal course of business - to a considerable extent as the result of proposals originating with the various administrative agencies. A vigorous day-to-day attack is continuing on unnecessary red tape and antiquated methods.

#### Special Aspects of Accounting

In connection with general developmental work under the program and the actual installation of improved accounting systems in particular agencies, considerable attention has been given to various aspects of accounting having Government-wide import. Their application is important in the interest of improved accounting results and the simplification of accounting processes.

Progress has been made in the practical application of accrual accounting. Such method of accounting results in having the accounts and reports of agencies reflect, classify, and analyze expenditures of appropriated money in terms of amounts of goods and services received - not simply contracted for or ordered. Expenditures under the accrual concept represent disbursements in combination with unpaid liabilities. Inventories acquired are taken up as assets and recorded as costs when they are applied to specific purposes. Accounts receivable and other controls over money due the Government are also factors. Actual experience is providing a basis for reviewing Government-wide application of accrual accounting to both expenditures and receipts. Development of accounting in this direction is leading to simplification of accounting for obligations and commitments and enabling the latter type of accounting better to perform its primary

function of control to avoid over spending of appropriations or other limitations. These developments in accounting should ultimately make it possible for the Executive, the Congress, and the ordinary citizen to have a much better idea of the actual costs of the work and services the Government performs.

The establishment of accounting control over Government property is a special and important phase of the application of the accrual method of accounting. A comprehensive joint study and report on the property accounting problem was completed, in June 1949, by the Bureau of the Budget, Treasury Department, and General Accounting Office and was made available to all Government agencies after obtaining concurrence by the General Services Administration which was created by the Federal Property and Administrative Services Act of 1949. Further, cooperative working arrangements have been established with the General Services Administration in this area. The report reflects comments and suggestions of all Federal agencies and various outside professional groups (such as the "Controllers" Institute, American Institute of Accountants, and others). It provided the basis for much of the work done in connection with the Federal Property and Administrative Services Act of 1949. It has also been used as a guide in specific work done in developing the property phases of accounting in certain agencies. A tentative statement of property accounting principles and standards required to be established by the General Accounting Office under the aforementioned Act is being prepared and will be issued to agencies for comment in the near future. Provision has been made for the assignment of staff of the Corporation Audits Division of the General Accounting Office to make surveys and initiate cooperative work with various agencies for the development of improvements in property accounting. This will be coordinated with other accounting systems work under the program and with the development of appropriate on-the-site property audits.

There has been much progress in decentralizing accounting operations to the points of operating responsibility in agencies so as to make accounting more useful for purposes of current management. This has been done by using "branch office" accounting techniques, common to business, and has resulted in substantial savings from elimination of duplicating and overlapping accounting records as between central offices and field offices. In the systems used, each segment of the accounting system is interlocked into the system as a whole by means of reciprocal accounting relationships, thus providing an effective basis for internal control and for composite reports derived through consolidation of interlocking individual statements. Repetitive recording of transactions (either on a summary or individual transaction basis) and maintenance of many forms of memorandum records have been eliminated with resulting economy. Steps are being taken to obtain general adoption of this principle for the accounting structure of the entire Government.

One of the important objectives of the program is to effect proper integration between certain accounting of the Treasury Department and the accounting of other agencies. It is intended to accomplish this: first, by effecting reconciliations between the accounts of each agency and those of the Treasury Department pertaining to appropriations, disbursing funds, and receipts and repayments; second, by developing interrelated accounting processes which will avoid or simplify aspects of such reconciliations and

establish necessary accounting relationships in the direction of coordinating central reporting for the Government as a whole. A start has been made on tying into the appropriation and receipt accounting of the Treasury Department the related accounting of other agencies through reconciliations of the records as they now exist. In line with this approach, provision has been made by the General Accounting Office for eliminating various present requirements for the submission of reports to that Office. Present requirements for the submission by agencies of transcripts of their appropriation accounts will be eliminated. Requirements for the submission of reports on the status of appropriations and trial balances have been eliminated for many agencies in which accounting systems have been developed and approved. Government-wide elimination of these latter reporting requirements has been approved in the General Accounting Office and will take effect shortly. Reporting requirements relating to disbursements according to appropriation limitations are being eliminated on an agency-by-agency basis wherever comprehensive or other site audit has been started or where determination has been made by the General Accounting Office that an adequate system of control over limitations is in effect in the agency and arrangements have been made for the periodic inspection of such system.

Cooperative work has been done and is continuing in developing hospital accounting in agencies on an appropriately integrated basis with reporting requirements of the Bureau of the Budget with respect to costs of various phases of hospital operations. This work is being done with a view to the needs of management for cost data in day-to-day administration.

Suggested forms and procedure for developing cost data in connection with the acquisition and operation of motor vehicles have been developed in collaboration with the Interdepartmental Motor Equipment Committee. These suggested forms and procedures have been distributed to agencies and are intended to be used as the basis for the cooperative development in each agency of appropriate procedures for accumulating needed management data as well as for reports to the Bureau of the Budget.

#### Central Accounting and Reporting

Joint work is now starting in framing the outlines of the central reporting system for the Government and such central accounting as may be necessary. This involves arriving at conclusions concerning the nature and principles of the central system, taking into consideration all work that is now being done in different fields under the joint program and the evolutionary implications of such work with regard to central reporting and accounting. This is a necessary first phase of one of the most important but challenging undertakings of the program. The conclusions reached are to be presented for policy consideration as to both scope and principles of the central system and a program for its development and installation. Certain of the projects previously mentioned have a special significance for the central system. The work underway on performance budgeting and the application of accrual accounting will have an important bearing. Interim changes which have been made in the principles underlying the preparation of the daily Treasury statement have important implications, such as the new basis of accounting for expenditures for public debt interest as it becomes due and payable, the treatment of refunds as deductions

from receipts, and the more current classification of expenditures on the basis of checks issued rather than checks paid. The installation or conversion of accounting systems in such places as the U. S. Coast Guard, Bureau of Reclamation, Department of Agriculture, and Bureau of Customs is providing a practical means of working out the necessary processes for reconciliation or integration of agency accounting with the central appropriation and cash accounting of the Treasury which is essential if overall financial data is to be compiled on the proper basis.

Since a basic concern of this program is the improvement of accounting, the General Accounting Office has a leading role by virtue of the Comptroller General's legal responsibility for prescribing accounting systems. His staff, therefore, must bear the brunt of the work of the three central fiscal agencies involved in the Government-wide accounting field. This work, however, is so intertwined with the legal responsibilities and interests of the Treasury Department and Bureau of the Budget in related aspects of the program, having to do with operating accounting, budgeting, and fiscal administration, that appropriate participation in the accounting systems work and continual three-way exchange of views and technical consultation is essential.

One of the prime requisites of accounting in the Government is to develop reliable information and control in connection with the formulation, enactment, and execution of the financial program of the Government. Therefore, the active participation of the Bureau of the Budget is essential to the development of accounting requirements in proper relation to improved budget administration and the needs of management. Bureau of the Budget participation also contributes further to the program by providing assistance in connection with management problems which are related to accounting development.

The Treasury Department has a vital interest in the results to be achieved under the program. It is essential that the full potentialities of the Treasury Department's accounting and reporting be developed so as to enable the Department to fulfill its important fiscal responsibilities and furnish current financial information regarding the operations of the Government as a whole. The manner in which this is done will have an important bearing on the determination of general requirements to govern accounting and reporting by other agencies of the Government. It is significant that the Treasury Department has a dual role in participating in the program. By joining with the General Accounting Office and Bureau of the Budget in taking leadership in the program, the Department carries a degree of responsibility in seeing that the program goes along in the right direction and that everything possible is done to make it successful in terms of worth while accomplishments. On the other hand, the Department is in the same position as any other operating agency of the Government. It is confronted with the same question of improving its accounting as a local matter. There is, however, this difference - by virtue of its dual role it behooves the Treasury Department to set an example in making a progressive attack on the problem

of acquiring a model accounting system of its own. As a leader in the program there is no excuse for expecting other agencies with operating accounting responsibilities to do a better job than the Department itself is doing.

The Heads of all departments and agencies in the executive branch have designated responsible representatives through whom arrangements for the effective and continuing participation of the various agencies in the program are handled. It is important to have such central points through which the viewpoints of each agency may be obtained and contact maintained. Much more, however, is needed. The success of the program depends a great deal on how seriously the individual departments and agencies of the Government take their responsibility for developing and maintaining efficient accounting organizations and systems - both for their own purposes and to supply essential information for the budgetary and fiscal administration of the Government generally. Progress under the program will be measured in no small degree by the extent to which the necessary effort toward better accounting is generated by each individual department and agency itself.