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The Honorable
The Secretary of Agriculture

My dear Mr. Secretary:

This is in response to your letter of April 10, 1952, in which you ask for guidance from this Office on property accounting in terms of the principles, standards, and related requirements for accounting contemplated by the Budget and Accounting Procedures Act of 1950, 64 Stat. 832, Public Law 784, 81st Congress, and the Federal Property and Administrative Services Act of 1949, Public Law 152, 81st Congress, 63 Stat. 377.

As you know, it has been our aim since the inception of the Joint Accounting Improvement Program to develop principles and standards based upon experience gained through our cooperative work with the agencies in the establishment of accounting systems. For this reason we have deemed it desirable to accumulate experience through our day-to-day work with the agencies before crystallizing, in a more general way, the principles, standards, and related requirements to be established by this Office pursuant to the cited legislation. However, in view of the wide experience which has been gained in the approximately four years that the joint accounting improvement program has been in operation, we have in recent months devoted considerable effort toward the development of basic statements of principles and standards and, accordingly, your inquiry is very timely. These principles and standards will add to the guidelines available in our cooperative work with the agencies but will not change our approach in dealing with agency accounting developments.

Before discussing the specific questions posed on page 4 of your letter, I should like to generalize on a few basic points. These matters relate primarily to factors discussed in the background portion of your letter. Our work in the property accounting field has emphasized the conclusion that development of property management and property accounting must necessarily go hand-in-hand and should be approached on an integrated basis fitted to the particular situation in order to obtain the maximum benefits to management and minimize the effort involved in record-keeping. Similarly, provision for decentralization of record-keeping in a manner consistent with the assignment of management responsibilities is equally applicable to this segment of accounting as it is to other segments. More specifically, we believe that there should only be one detailed property record which must necessarily be maintained at the location where management and custody of the property is exercised. However, such records should be subject to accounting control, and should constitute the support for the accounts. As is the case with any such broad generalization, we do not intend that this statement be categorical in the sense of ignoring individual problems which may relate to the assignment of management responsibilities within an organization, whether such responsibilities be assigned on a geographic or some other basis.

In passing, I should also like to point out that, while some bureaus of the department appropriately may be following the property accounting provisions of General Regulations No. 100, since the early days of the Joint Accounting Improvement Program there has existed, as you know, an opportunity to develop accounting in a flexible manner specifically designed to best meet the needs of each bureau within such general policies as the department may wish to adopt. It is assumed, of course, that such departmental policy will give cognizance to guidelines established by this Office and the General Services Administration under the legislation referred to in the opening paragraph. I should also like to take this opportunity to emphasize the importance which we attach to the internal control aspects, including internal audit, in this area of operations as well as others. Your letter indicates that attention has been given to many aspects of internal control. Perhaps such efforts could be strengthened by more dependence upon such matters as reconciliation of periodic inventories to independently maintained accounting records, complementary assignment of responsibilities to the different levels of management, and other similar factors, as opposed to the reliance which may at present be placed upon maintenance of duplicate individual records.

Proceeding to your specific inquiries, the following is submitted in response to your questions which have been incorporated for convenient reference:

> "1. In agencies where personal property holdings are substantial, as in the case of the Soil Conservation Service, should general ledger accounting controls be maintained over the property, or are unit-type controls of the type described above considered to be adequate?"

It is our view that accounting control should be established in those cases where personal property holdings are substantial in the interest of adequate property control and in order to permit the preparation of meaningful financial statements for management, budget and other purposes, in terms of resources in use. We realize that in some cases present requirements may not be designed to fully utilize the financial information which can then be developed but appropriate changes should logically follow when such information is generally available through improved accounting systems developed by efforts such as those which you are now contemplating. While the primary test should be the usefulness of the data to management, we believe that such data can also be made generally significant in terms of the needs of other agencies in the Executive branch of the Government as well as the Congress, with particular reference to the resources in use.

> "2. In the event the principles, standards, and related requirements for accounting for real property will differ from those applicable to personal property, what are the requirements with respect to real property?"

Our views with respect to your real property, other than certain types of lands and public buildings (e.g., public domain and general purpose office buildings) used in carrying out Federal Government activities, are essentially the same as for personal property. For example, we believe real property should be reflected in the accounting records where the facilities are of an industrial type, in those situations where the development of accurate costs is of particular importance because of their use in determining reimbursements, where property is held for sale, and in program activities which involve the use of fixed assets having a substantial investment, whether they be land or structures. More specifically, we believe that the real property in use should be reflected in financial statements of an agency and, to the extent feasible, the financial statements should reflect a value for property transferred without charge from other agencies. However, as indicated above, and consistent with the Federal Property and Administrative Services Act of 1949, we would not propose that an effort be made to assign value to land originally acquired as public domain. On the other hand, in cases where lands have been purchased, we believe that consideration might well be given to showing the cost of such lands along with appropriate quantitative data on those and other holdings which, together, would present an adequate picture of the total resources in use on financial statements. There are, no doubt, many specific problems which need to be considered in the development of accounting for real property in the various bureaus and we shall, of course, be glad to work with you through the usual channels set up to carry out our cooperative systems development work in the further exploration of such problems.

> "3. In agencies which have in their custody relatively small quantities of personal property, consisting principally of office furniture and equipment, should general ledger accounting controls be maintained or are unit-type controls deemed to be sufficient?"

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It is our view that even in agencies whose activities are primarily administrative in character, accounting control generally should be established over furniture and fixtures in the interest of adequate property control, with a single set of records serving as support for the accounts as well as constituting the property record. This can ordinarily be accomplished with a minimum of effort by utilizing composite class records to the maximum extent appropriate in lieu of individual item records. This particular question has been one of the most difficult in which to arrive at a general standard for government-wide application and only after we had developed considerable experience in the making of surveys jointly with the General Services Administration did we reach such a conclusion. Such efforts lead us to believe that if properly integrated accounting and property records are maintained under practices designed to reduce record-keeping to an essential minimum, the result will be worthwhile in providing improved control and such practices ordinarily require little greater effort, if any, than an adequate system of unit-type controls.

"4. In case your answers to the above questions indicate that general ledger controls should be maintained, what guides do you recommend for determining the items of property over which accounting control should be exercised?"

As a generalization, we think that the items of property over which accounting control is to be exercised should be developed by taking into consideration both value and nature of the article. As indicated in your letter, a master list developed by your Department, based primarily on the nature of the article and its estimated useful life, may well have led to the inclusion of many relatively small items in terms of unit value over which it is not desirable to maintain accounting control. Because of the diverse activities of the Department and varied importance which the use of property plays in their programs, we believe the best results would be obtained by having each bureau or major activity develop specific proposals fitted to its own particular situation within more general guidelines laid down by the Department. This would permit the flexible application of such practices as the use of composite class records in lieu of individual item records and other similar devices.

We now have had the benefit of the experience of several other departments and agencies in reaching determinations concerning the items of property to be included under accounting control and I believe that we can be of greater service to you in this regard by more detailed discussion of the practices being followed than it would be feasible to include in this letter. Accordingly, I suggest that our Accounting Systems Division staff work directly with members of your staff in accomplishing a more specific response to this question.

We appreciate the interest of your Department in further developing the property accounting aspect in your general program for accounting improvements and we are glad to have the opportunity to make our views available at this time. In general, the views expressed above are being incorporated in a tentative statement of accounting principles and standards which is in the final stages of development. Members of your staff gave us the benefit of their views after reviewing a preliminary draft of that statement. As you know, we are desirous in all cases of making the greatest contribution that we can through our cooperative accounting systems development work with your Department. In view of the many new problems which you will likely face in your program to emphasize property accounting it would seem particularly appropriate that our Accounting Systems staff work closely with your staff as the program develops.

Sincerely yours,

Lindsay C. Warren

Comptroller General
of the United States