THE INSTITUTE FOR GOVERNMENT RESEARCH
OF
THE BROOKINGS INSTITUTION

PAMPHLET No. 18

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THE BROOKINGS INSTITUTION
PAMPHLET SERIES
No. 18

THE ADMINISTRATION OF FEDERAL FINANCES

BY
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THE BROOKINGS INSTITUTION
WASHINGTON, D.C.
1937

Set up and printed

Published August 1937

Printed in the United States of America
George Banta Publishing Company
Menasha, Wisconsin

DIRECTOR'S PREFACE

When, early in 1936, the Brookings Institution undertook to assist the Senate Select Committee to Investigate Executive Agencies of the Government, and the corresponding committee of the House of Representatives, it agreed to do two things: to present such facts as it considered relevant to an understanding of the problems involved and to make recommendations. It did so under a number of functional heads, one of which, "Financial Administration," appears as a chapter in the general report submitted to Congress. The analysis was made without reference to the discussions or proposals on the subject made by any other organization, public or private.

The Brookings' report does not agree with the presentation on the same subject by the President's Committee on Administrative Management, and it is the purpose of this pamphlet to show wherein the difference lies. That the difference is fundamental will be apparent to anyone who examines the pages that follow.

In the conduct of this study and the presentation of the results the author had the cooperation of an advisory committee consisting of Lewis Meriam, L. F. Schmeckebier, H. G. Moulton, and myself.

FRED W. POWELL
Acting Director

Institute for Government Research
August 1937

4596

CONTENTS

INTRODUCTION

The studies of organization and administrative management which have been made for Congress[1] and the President[2] respectively have resulted in two divergent plans for improving federal financial administration. The plan presented to committees of both House and Senate by the Brookings Institution proposes improvement of the existing system by facilitating its operation and strengthening the elements of authority and responsibility which are shared by Congress and the President. The plan presented by the President's Committee on Administrative Management proposes what is virtually a new system with full responsibility for financial management and control lodged in the executive branch of the government and exercised by the President through the agency of a reorganized Department of the Treasury.

The reports which contain these plans were submitted independently. Neither report made reference to or attempted to refute the analysis presented in the other. For their intelligent consideration, a clear statement should be made of (1) the essential features of the existing system including, of course, its defects, and (2) the issues which are raised by the two sets of recommendations.

To permit a concise comparison of the two plans as they would modify the existing system, the following table presents in columnar form the principal features of

[1] 75 Cong. 1 sess., *Financial Administration of the Federal Government,* Report to the Select Committee to Investigate Executive Agencies of the Government, No. 5, prepared by the Brookings Institution.

[2] *Administrative Management in the Government of the United States,* Report of the President's Committee on Administrative Management, 1937.

existing procedure together with the important changes which are proposed.

EXISTING AND SUGGESTED FINANCIAL PROCEDURE[a]

I. The Existing System	II. Suggestions of the President's Committee on Administrative Management	III. Suggestions of the Brookings Institution
1. Accounting: Forms and procedures prescribed by General Accounting Office.	1. Accounting: Transferred to Secretary of Treasury.	1. Accounting: Should be Accounting Division under Director of Budget. Forms and procedures should be concurred in jointly by Director of Budget and Auditor General. (See below.)
2. Budget: Nominally under Secretary of Treasury. Limited funds available.	2. Budget: Under the President. Expand organization.	2. Budget: Place directly under President. Expand functions and organization.
3. Apportionment of appropriations: Made by Budget Bureau.	3. Apportionment of appropriations: No change.	3. Apportionment of appropriations: No change.
4. Allotment of appropriations: Made by departments and bureau heads.	4. Allotment of appropriations: No change.	4. Allotment of appropriations: No change.
5. Encumbrance of appropriations and allotments: Made by departments and bureau heads. Approval of contracts obtained from Comptroller General.	5. Encumbrance of appropriations and allotments: Made by departments and bureau heads. Approval of contracts obtained from Secretary of Treasury.	5. Encumbrance of appropriations and allotments: Made by department and bureau heads. Approval of contracts obtained from Auditor General.
6. Disbursements: Vouchers drawn by departments. Checks drawn by Treasury disbursing officers.	6. Disbursements: No change . . .	6. Disbursements: No change except to expedite payments.
7. Final settlement: Made by Comptroller General, responsible to Congress.	7. Final settlement: Made by Secretary of Treasury, with rulings by Attorney General on major legal issues.	7. Final settlement: Made by Auditor General, responsible to Congress.
8. Audit: Made by Comptroller General, responsible to Congress.	8. Audit: Made continuously by Auditor General, responsible to Congress but without power to disallow payments.	8. Audit: Made continuously by Auditor General, responsible to Congress, with power to make suspensions and disallowances.

[a] Reprinted from statement of Lewis Meriam and Daniel T. Selko, Brookings Institution, in *Hearings before the Joint Committee on Government Organization*, 75 Cong. 1 sess., p. 281.

The purpose of the following analysis is to bring sharply into focus the issues presented by the two sets of recommendations with a view to promoting clear thinking on the problems of federal financial administration. Part I will contain, in the simplest terms possible, a critical description of the existing system of financial administration. Part II will contain an analysis of the issues raised by the two reports. Those familiar with the existing system and its defects may proceed directly to a consideration of the issues presented in Part II.[3]

[3] For the benefit of those unfamiliar with the terminology of federal financial administration, there is appended a glossary of financial terms as used by the officers of the federal government.

PART I

ANALYSIS OF EXISTING SYSTEM

The government is ultimately dependent upon its power to raise money from the public in the interest of its chosen objectives. As in any productive enterprise, therefore, the functions of the financial organization consist of receiving, keeping, and disbursing money, estimating financial needs, directing the expenditure of funds, safeguarding the Treasury, and producing and recording financial information.

The government derives its income from its various business enterprises as well as from taxes, licenses, fines, fees, sales of property, rentals, etc. It makes expenditures on personal services, materials, supplies, furniture and fixtures, equipment of various sorts, land, buildings, rentals, investments, and other objects involved in the conduct of its activities. It regularly borrows funds in anticipation of collections, lends special funds and funds on trust account, and furnishes capital to government-owned and controlled corporations. Its collections in the form of money and credits must be handled by the banks. They must be credited to the proper accounts with the United States, transferred to the parts of the country where needed, and disbursed on order of proper officers. All of these transactions affect the condition of the United States Treasury and their effect must, in a measure at least, be anticipated in order that funds may be available when required.

The anticipation of Treasury requirements involves a considerable amount both of guessing and of choosing in advance between possible objectives. A program of activity must be authorized annually for each agency of the government in order that provision may be made for raising the necessary revenue. The availability of revenue must also be considered in order that the annual expenditure program may not be too far in excess of available resources. When revenues fall short of expenditures, arrangements must be made for borrowing funds and for promptly paying both interest and principal in order that the public credit may not be impaired. In short, all necessary provisions must be made by the financial organization for a continued flow of funds through the Treasury.

Congress, of course, is the ultimate fund-raising and fund-granting authority and exercises its power both to determine objectives and to raise the necessary revenues. The duty of the financial organization thus becomes one of conducting the flow of funds through the Treasury in the manner which Congress prescribes.

EXISTING FINANCIAL ORGANIZATION

The existing financial system is clearly a case of "wheels within wheels." The federal government is far from being a compact, single-headed enterprise. Its vast organization, engaging in a multitude of differing operations, and serving millions of people in all parts of the world, represents a complex of subdivisions with an almost limitless number of administrative relationships. Financial operations, with which all subdivisions are concerned in a greater or less degree, are sufficiently specialized to warrant centralizing their administration. Thus the financial organization is composed of a number of related agencies which conduct a specified group of operations for the government as a whole.

Treasury Department

Most of the agencies of financial administration are offices, bureaus, or divisions of the Treasury Department under the administrative direction of the Secretary of the Treasury. These are the Office of the Commissioner of Accounts and Deposits, Treasury of the United States, Division of Disbursement, Division of Bookkeeping and Warrants, Public Debt Service, Bureau of Customs, Bureau of Internal Revenue, and the fiscal agencies and depositaries serving the Treasury in various parts of the country.

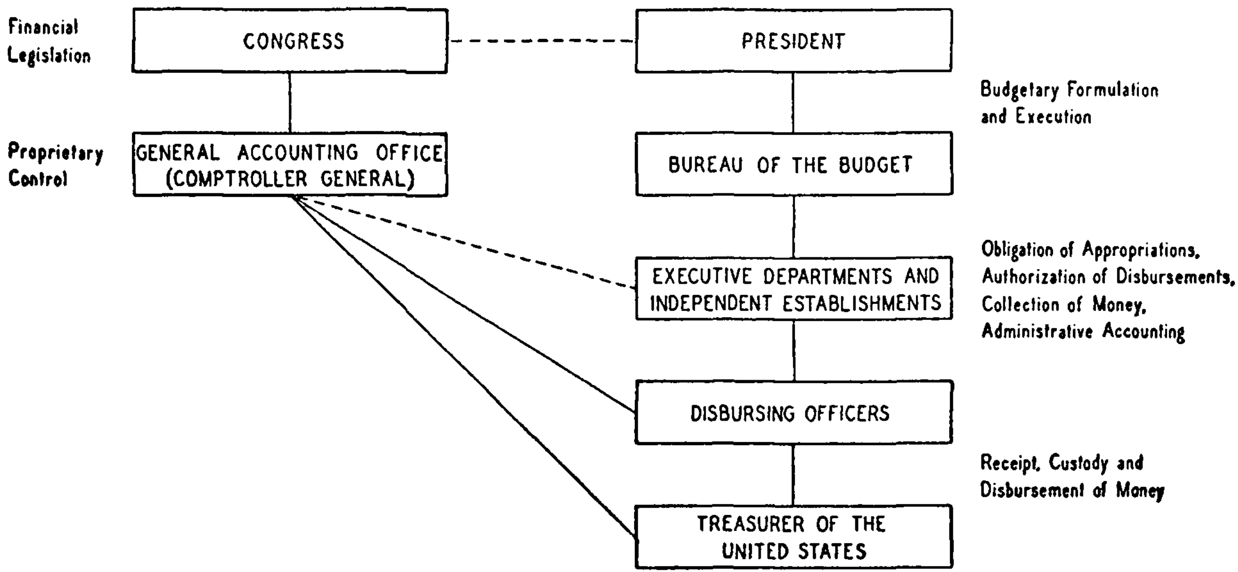
Of the functions previously mentioned, the ones falling to these agencies are largely ministerial, relating to the collection, deposit, custody, and disbursement of money, and the management of the public debt. In the past the conduct of these functions has presented certain problems of organization, owing chiefly to the size of the country and the character of the banking system; but establishment of adequate systems of fiscal agencies, depositaries, and disbursing officers has largely eliminated the difficulties of organization. The problems which affect the Treasury agencies today lie chiefly in the direction of improving the techniques by which these systems are operated.

Independent Agencies

The remaining financial agencies are independent of the department heads, and in certain respects of the President himself. These are the Bureau of the Budget and the General Accounting Office.[4] Their functions relate to financial management and control, including formulation and execution of budgetary programs and protection of the Treasury.

[4] Other independent agencies having to do with financial matters are the United States Customs Court, Court of Customs and Patent Appeals, Board of Tax Appeals, and Court of Claims. Their functions relate primarily to the adjustment of disputes arising out of administrative situations, however, and have little direct relation to the conduct of financial functions.

EXISTING PLAN OF FINANCIAL ORGANIZATION



The Bureau of the Budget is the President's agency for the formulation and execution of the government's financial program. Although it is quartered in the Treasury Department, its Director is not subordinate to the Secretary of the Treasury. He is appointed by the President and takes his orders directly from the Executive Office. In matters relating to financial administration, the Bureau of the Budget stands between the President and his administrative subordinates and serves both as counsellor and coordinator.

The General Accounting Office, headed by the Comptroller General, is the government's agency for protection of the Treasury. Established to protect the government from administrative misuse of funds, this office is generally viewed as an agency of Congress. The Comptroller General is appointed by the President with the advice and consent of the Senate, for a fifteen-year term. He is not subject to reappointment, and cannot be removed from office except by concurrent resolution of both houses of Congress. His office is thus in large measure independent of the President, and in respect to financial matters it stands outside the administrative framework.

The accompanying diagram indicates roughly the distribution of financial functions among the several administrative and financial agencies of the government. Congress is the source of all financial legislation, and through the agency of the Comptroller General Congress exercises control of the receipt and expenditure of public funds. The President with the aid of the Bureau of the Budget prepares and submits his budgetary estimates to Congress, and supervises and directs the execution of the administrative program. Subject to orders from the President the executive departments and independent establishments conduct the financial operations which pertain to their administrative activities. Financial officers, subject to control by the General Accounting Office, make collections and disbursements and have custody of public moneys.

Objectives of the Existing Organization

The existing organization thus briefly described has been built up with three objectives in view: (1) to enable the government to conduct its financial operations with a minimum of delay and expense; (2) to permit centralization in the office of the President of the functions of budgetary and administrative management, and (3) to provide for an effective, independent financial control which will protect the government from administrative misue of funds. These three objectives form the basis for the relationships which each of the agencies bears to the others and to the federal organization as a whole, and in a large measure govern the procedure which is followed in the conduct of financial operations.

CONDUCT OF FINANCIAL OPERATIONS

To provide a prompt and efficient system of financial administration which can be centrally managed and controlled is largely a physical problem. The government's vast organization employs more than 800,000 people, of whom more than 700,000 are stationed outside of Washington with the various field units representing the major government agencies in all parts of the world.

Because of its widely scattered field services, it is obvious that the government's business could not be transacted promptly and efficiently if it were all handled through headquarters in Washington. To make sure, on the other hand, that none of the hundreds of administrative officers has been guilty, through exceeding an allotment, of overspending an appropriation, the unexpended balances of all the allotments must be compared in Washington with the unexpended balances in the Treasury of the total amounts appropriated. Thus the government's administrative organization requires that its business be transacted locally but that management and control be exercised centrally.

To meet this requirement the federal government almost from its beginning has had a system by which bonded officers stationed at various points throughout its organization could receive money for deposit and make prompt payments subject to adjustment and final settlement when their accounts are examined in Washington.

Collection of Money

As already observed, the money which the government spends must first be collected from the public. Amounts due the government must be determined whenever taxes are levied, fees are charged, fines are imposd, or any form of business is transacted. Since charges of some sort are imposed by nearly every branch of the government, the most convenient and effective organization for collecting money is that which provides for its collection by the person or agency which imposes the charge.

Through a nation-wide system of depositary banks, provision is made for the deposit of all collections in account with the Treasurer of the United States to the credit of three groups of funds: general funds, special funds, and trust funds. The great bulk of all collections are deposited for general fund purposes and may not be expended until appropriated by Congress. Certain collections, however, are "ear-marked" for special purposes and may be expended from the special funds provided without further appropriation. The remaining collections are not public moneys at all but are held in separate trust funds according to the terms of a trust agreement, and are expended by the government as trustee.

Collections must be identified by the collecting officers, for properly crediting the books of the Treasury. Thus each collecting officer prepares daily lists or schedules of his collections in accordance with regulations which are standard throughout the government. These schedules are required to contain sufficient information for the complete identification of every item collected.

To insure the safe conduct of moneys from the collecting officers to the depositary banks, deposits are made by bonded disbursing officers and are accompanied by sufficient information, according to standard regulations, for their proper identification. In case the collecting officer is not a bonded officer, his collections are forwarded to a bonded officer for deposit. Information regarding each collection is forwarded independently to the Treasury Department and to the General Accounting Office both by collecting officers and by officers making deposits. Thus from the time a collection is initially reported by the collecting officer it can theoretically be charged in Washington to the officer properly responsible and credited on the books of the Treasury Department to the proper receipt account.[5]

Localized Disbursement of Money

Funds are made available to the various spending agencies of the government according to the terms of appropriation or other authorizing acts of Congress. These appropriations are ordinarily made to a department or independent establishment as a whole, and specify in greater or lesser detail the objects for which money may be spent. Administrative officers in charge of these agen-

[5] But see reference to lack of information relating to receipts, pp. 31-33.

cies allot appropriations to their administrative subdivisions and authorize the officers in charge of these subdivisions to incur obligations for specified purposes within the limit of their allotments. Thus the authority to incur obligations and make expenditures is transmitted to the numerous local representatives of the government's administrative establishments. But while these administrative officers have authority to make expenditures they have no actual cash to disburse. Cash for disbursement is made available locally through the depositary banks which have already been mentioned, and disbursements are made by checks on the Treasurer of the United States drawn by bonded disbursing officers.

To prevent expenditures in excess of appropriations, the amounts which disbursing officers can pay out are limited to the amounts requested by administrative officers; the amounts which administrative officers may request are limited by the current needs of these officers under their authority to make expenditures.

Before administrative officers may obligate appropriations allotted to them, they must submit a standard requisition for funds to be placed to the credit of the proper disbursing officer. This requisition must be examined and approved both by the administrative agency and by the General Accounting Office, and then transmitted to the Treasury Department for issuance of a so-called accountable warrant which states the amount placed to the credit of the disbursing officer's checking account. The accountable warrant is then returned to the General Accounting Office for the countersignature of the Comptroller General, and both administrative and disbursing officers are advised accordingly.

With this procedure, little opportunity exists for making funds available in excess of amounts appropriated, or for making disbursements in excess of available cash. If administrative officers commit no errors, therefore, in the process of incurring or liquidating their obligations, the vouchers they prepare should be promptly paid from the funds placed to the credit of the disbursing officers.[6]

It goes without saying, however, that financial processes are not automatic. They must not only be authorized, initiated, and conducted, but they must be given proper direction and subjected to adequate restraints. It has already been shown that while business must be transacted locally in the conduct of the government's varied undertakings, direction and control must be exercised through agencies centrally located in the governmental organization. The smooth operation of the financial system depends in large measure on the work of these central agencies. They are generally regarded as *control* agencies; their functions are commonly referred to under the head of *financial control.* Financial control receives more discussion than almost any other subject in the field of financial administration. It is essential, therefore, to understand clearly what the term *control* comprehends.

FINANCIAL CONTROL

Control of the federal financial system involves the exercise of two distinct types of control functions. One is directional, aimed at attaining defined objectives or accomplishing specified results. The other is restrictive, designed to prevent the harmful results of unauthorized or improperly directed financial activity.

The first type, directional control, is provided in our existing organization through an agency of the chief executive, provided with such powers and equipped with such facilities as will enable the executive to exercise managerial supervision over his entire budgetary and ad-

[6] But see reference to delay in the disbursement of money, pp. 61-64.

ministrative program. The second type, restrictive control, is provided through an agency of Congress which is largely independent of the executive agencies and strongly equipped for proprietary supervision of the public's funds.

No little confusion has arisen because of the use of the term *control* in these different senses. In the following pages, therefore, the type of control which is exercised by the President will be referred to as *budgetary and administrative management;* that which is exercised by Congress will be referred to as *independent proprietary control.*

Budgetary and Administrative Management

Centralized budgetary and administrative management in the federal government dates from 1921 when the Budget and Accounting Act was passed. Previous to that time there was no provision for centralized review of the proposed expenditures of the executive branch as a whole with reference either to available resources or the consistency of administrative objectives. Requests for appropriations were prepared by the heads of the spending agencies and transmitted to Congress without revision by the Secretary of the Treasury. Appropriations were expended independently by the administrative agencies. The President was without suitable means of passing on the expenditure program as it was submitted to Congress each year or of exercising effective supervision over the administrative agencies in the use of their appropriations.

With the growth of government business both in size and complexity, a movement developed to increase the responsibility of executive officers and make the President the business manager of the government. At the center of this movement was the executive budget idea which contemplates the initial formulation as well as the execution of the government's budgetary program by the chief executive. The Budget and Accounting Act made the President responsible for (1) transmitting to Congress each year a comprehensive program of proposed expenditures related to the estimated resources of the government, and (2) supervising the conduct of the program approved by Congress. It created the Bureau of the Budget to assist him in formulating his proposals to Congress and in executing the details of his administrative program. Thus Congress charged the President with definite financial responsibilities and made him in theory the business manager of the government.

(1) Budget Bureau's functions. It is evident that the President could not properly discharge these managerial responsibilities without accurate knowledge of the administrative activities coming under his supervision. Reliable information regarding administrative activities is, in fact, the basic requirement for successful budgetary and administrative management. To accumulate such information and prepare it in proper form for use by the President was therefore made the primary function of the Bureau of the Budget.

But to put information to effective use, the President must be able to act upon it. Thus the Bureau of the Budget should be equipped to assist him not only with the preparation of his annual budget estimates, but also with (1) the direction and supervision of his budgetary and administrative programs; (2) the review of all contemplated action, legislation, executive orders, proclamations, etc., which may affect the budgetary or administrative program; and (3) the coordination of routine matters relating to business management.

(2) Lack of adequate budgetary information. Students of financial administration are generally agreed that the

Bureau of the Budget is neither adequately staffed nor properly equipped to perform all the functions required of a central staff agency for budgetary management. Effective specialization of activity is impossible with the result that a disproportionate share of its energy at present is demanded by proposed and pending legislation together with routine matters relating to business management.

Prior to 1933, it was intended that the major executive functions relating to business management would be handled through specialized coordinating committees acting in cooperation with the Bureau of the Budget. In 1933, however, all but one of these committees were abolished by executive order[7] and their records and files together with the vestiges of their functions inherited by the Bureau of the Budget.

Since the bulk of the coordinating work related to public buildings and the procurement of supplies, it was expected that the new Procurement Division established June 10, 1933 in the Treasury Department would handle all but a small part of the work performed previously by the coordinating committees. The sudden expansion of administrative activities, however, together with the added managerial responsibilities of the President increased materially the amount of all functions which the Bureau of the Budget was given to perform. Owing to its small staff and meager facilities, it was obliged to abandon practically all activity of an investigative character and give more attention to matters of current busi-

[7] The most important of the coordinating committees were (1) Permanent Conference on Printing, (2) General Supply Committee, (3) Federal Purchasing Board, (4) Federal Liquidation Board, (5) Federal Motor Transport Agent, (6) Federal Traffic Board, (7) Federal Specifications Board, (8) Interdepartmental Board of Contracts and Adjustments, (9) Federal Real Estate Board, (10) Interdepartmental Board on Simplified Office Procedure, (11) Federal Board of Hospitalization, and (12) Interdepartmental Patents Board. The Federal Board of Hospitalization is the only one which remains.

ness. As a result of this emphasis on its managerial activities, the Budget Bureau has become increasingly dependent for the information it requires on others than members of its own staff.

(3) Sources of budgetary information. There are two broad classes of administrative information which the Bureau of the Budget could use to advantage and might be expected to obtain for itself: (1) continuous current information relating to the obligation of appropriations and funds and the liquidation of obligations; and (2) periodic or occasional information relating to the methods of conducting governmental activities.

The first type can be readily obtained at brief regular intervals from the bookkeeping records maintained throughout the administrative branch of the government by means of statements showing respectively (1) the current status of each appropriation and fund; (2) the obligations against each appropriation and fund allotment since the last report; and (3) the rate at which cash is being withdrawn from the Treasury. Where cost records are kept by administrative agencies, additional reports might be called for based on these records.

The second type of administrative information can only be obtained by investigation and first-hand observation. Its preparation requires the formation of qualitative judgments which involve an intimate knowledge of the work to be performed, and cannot be based upon financial records alone. To acquire such intimate knowledge of administrative activity, the Budget Bureau should have a well-trained staff which will not become involved in the routine affairs of the Bureau. Such a staff should be free to make studies in the field as well as in Washington, and should be permitted as much freedom in its choice of subjects to investigate as the needs of the President suggest.

Taken together these two types of information would be complementary. They would be useful not only in the preparation of budget estimates, but also in the exercise of budgetary management. They would provide a basis for control of the rate of expenditures, promotion of administrative efficiency and economy, evaluation of administrative results, selection of activities for intensive investigation, and coordination of activities where coordination appears desirable or necessary.

(4) Effects of inadequate current information. The existing lack of current information is unfortunate with respect both to preparing the annual budget estimates and to controlling the current rate of expenditures.

(a) Preparation of estimates. Budgetary estimates transmitted to Congress in the President's budget message are based on preliminary estimates prepared by the Director of the Bureau of the Budget. In preparing these preliminary estimates, the Director depends upon budget officers attached to the departments and independent establishments for information upon which to base his recommendations. Hearings are arranged by the Bureau of the Budget at which each department and establishment is represented for the submission of its estimates by its own budget officer. Since each of these budget officers represents the interests of an administrative agency which ordinarily has a program to be advanced and a clientele to be served, it is his business to get as much money as possible for the activities in which his establishment is engaged. It is hardly to be expected that he will volunteer information which is inimical to his own best interests. Unless the Budget Bureau's employees are extremely skillful, therefore, in conducting their hearings of these officers, they should prepare themselves with information of their own selection.

(b) Control of expenditure rate. Control of the rate

of expenditures is important to prevent the expenditure of appropriations before the end of the fiscal year to which they belong. It is based on the practice, required by the Anti-deficiency Act of 1906, of dividing each appropriation into monthly apportionments and restricting the amount of each month's obligations to the amount apportioned for that month. Since 1933, the authority to make, waive, or modify apportionments has been exercised by the Director of the Budget to whom it was transferred by executive order. In the exercise of this authority the Director depends for information upon (1) proposed apportionment figures and (2) monthly obligation reports. Both are prepared by the several departments and establishments in accordance with regulations prescribed by the Treasury Department rather than the Bureau of the Budget.

The proposed apportionments are submitted directly to the Budget Bureau for the approval of the Director, but the obligation reports are submitted to the Division of Bookkeeping and Warrants where they serve as posting media for the books of the Treasury Department.

Although these reports are available to the Bureau of the Budget, they are in no sense a substitute for the bookkeeping statements referred to in the preceding section. Their form and contents were prescribed primarily with a view to obtaining a figure for the accruing liability of the government by appropriations. They fail to provide any information in regard to administrative allotments, and do not yield themselves therefore to an analysis of obligations either by organization subdivisions or by projects. Thus they afford little aid to the Budget Bureau in the collection of the basic information for budgetary purposes.

(5) Status of research and investigation. In regard to research and investigation the record is even more discouraging. Prior to 1933 it was intended that all in-

vestigative work for budgetary purposes would be conducted by the Bureau of Efficiency. When the Bureau of Efficiency was abolished March 3, 1933, its records and files were transferred to the Bureau of the Budget, but no provision was made for the future conduct of work of an investigative character. The result was the virtual abandonment of all budgetary research and investigation.

To remedy this situation an effort was made in 1935 to provide the Bureau of the Budget with a staff for research and investigation by appropriating funds for about six additional employees. But with the preparation of deficiency estimates each year since 1933 and the press of emergency duties imposed on the Bureau this new staff has been utilized in keeping abreast of current business and has had little opportunity for research or investigation. Thus at present the work of the Budget Bureau is practically reduced to three activities: (1) the routine preparation of budget estimates based on hearings of the administrative budget officers, (2) the conduct of routine duties related to legislation and business management, and (3) the approval of apportionments.

(6) Improvement in budgetary management. For the Bureau of the Budget to function as it should, provision should be made for (1) the proper conduct of budgetary research and investigation, (2) the conduct of its routine coordinating functions apart from its functions of research and investigation, and (3) the accumulation of the basic information which the President needs for centralized budgetary and administrative management.

Detailed recommendations with respect to such provisions have been made in the report of the Brookings Institution to the Senate Committee on Investigation of Executive Agencies of the Government.[8] The more im-

[8] *Financial Administration of the Federal Government*, pp. 61-64, 104-05.

portant of the recommendations are: (1) the Division of Research and Investigation should be relieved of all routine duties and coordinating activities and devote its entire time to studies of administrative costs and methods; (2) a new Division of Coordination should be created for the conduct of all routine functions relating to business management; and (3) the existing Division of Estimates should be expanded into a properly equipped Division of Budgetary Accounting for the analysis of budgetary information currently collected from the records of administrative departments and establishments.

These recommendations would be acceptable in the main to the President's Committee on Administrative Management. The issues relating to budgetary management arise with regard to the proper relation of the Bureau of the Budget to the Treasury Department. These issues will be discussed in Part II.

Independent Proprietary Control

Independent control of the financial acts of administrative officers dates from the beginning of the federal government, although the organization established in the beginning has been modified with the passage of time. Provision was made by the act of September 2, 1789 for preventing (1) the receipt of collections without proper identification, (2) the availability of cash in excess of amounts appropriated by Congress, (3) the expenditure of appropriations in excess of available cash, and (4) the final settlement of a financial officer's account except after independent examination of each of its items. Thus it was intended that each receipt should be credited to the proper account and that each expenditure should be made by the proper officer according to law and regulation, and kept within the amounts appropriated.

The financial officers provided by the act of 1789 were the Secretary of the Treasury, Comptroller, Auditor, Treasurer, and Register (bookkeeper). The functions of these officers were specialized in such a way that no officer had full responsibility for carrying a process through to completion. Each one in the conduct of his respective functions was intended to serve as a check on all the others. The Secretary of the Treasury issued warrants crediting receipts to the proper accounts, and authorizing the payment of money from the Treasury, but the Treasurer could not honor them until they were countersigned by the Comptroller. The Comptroller countersigned warrants, made final settlement of all accounts examined by the Auditor, and certified the correct accounting balances to the Register. He heard any appeals which might be made from adjustments made by the Auditor and he prescribed the manner of keeping accounts and rendering statements for all officers of the government. The Auditor examined the accounts of all officers and transmitted them to the Comptroller for final settlement and certification to the Register. The Treasurer received and kept all public moneys, disbursing them only on proper order. He rendered a regular account to the Comptroller, and transmitted copies of his settled accounts to the Secretary and to Congress.

Under the act of 1789, all five of these officers were placed in the Treasury Department but each was appointed by the President with the advice and consent of the Senate, and except for the Auditor and Comptroller who cooperated, they were all independent of each other.

As time passed, the Treasury Department became a great spending agency of the government. It then developed that the financial officers were not wholly independent, for while they continued to be independent of each other, they were not independent of the President.

In the first years of the government, when the two-party system had not developed, when the President was allowed practically no discretion in the expenditure of money, and when the several financial functions were one-man jobs, it was a matter of little consequence that the President could remove a financial officer of the government. In later years, however, with the growth of executive authority, it became a matter potentially affecting the balance of power between the executive and legislative branches. If the removal power of the President did not actually influence the action of the Comptroller it cast some doubt, at least, upon his freedom to act independently.

In order to assure the complete independence of the Comptroller, the Budget and Accounting Act created the office of Comptroller General entirely apart from the Treasury Department, prevented the removal of the Comptroller General except by joint resolution of Congress, and permitted him to serve but a single fifteen-year term. The auditors, formerly occupying statutory positions, became appointive subordinates in the office of the Comptroller General.

As already shown in describing the conduct of financial operations, the specialization of activity which was provided by the act of 1789 is continued today through the development of a separate corps of bonded officers for the receipt and disbursement of cash. Proprietary control is exercised by the controlling officers through the settlement of accounts of disbursing officers. Thus independent proprietary control follows the plan inaugurated in 1789 but with modification of organization sufficient to assure the independence of the controlling officers.

(1) Functions of the General Accounting Office. In the exercise of independent proprietary control, the Gen-

eral Accounting Office performs two essential control functions: the control of Treasury receipts and issues and the final settlement of disbursing officers' accounts. As a necessary adjunct to the performance of these functions, it examines all documents submitted for action, audits the accounts of financial officers, prescribes accounting systems and procedures for both administrative and financial officers, and issues decisions regarding the legality, regularity, and accuracy of administrative action which relates to the proprietary condition of the United States government.

(a) Control of Treasury receipts and issues. Receipts and issues of the United States Treasury are controlled theoretically by (1) countersignature of covering warrants by which receipts are properly credited on the books of the Treasury; and (2) action on administrative requisitions for placing funds to the credit of disbursing officers.

By the countersignature of all warrants for the covering of money into the Treasury, the General Accounting Office determines that moneys are deposited in accordance with information furnished by collecting officers to the credit of the proper receipt and appropriation accounts. By action upon the requisitions of administrative officers for funds to be placed to the credit of disbursing officers, it controls the issuance of accountable warrants and thus precludes the availability of cash in excess of amounts appropriated.

Examination of the documents which serve as the basis for action by the Comptroller is an inseparable part of his control of receipts and issues of the United States Treasury. Thus the receipt and custody of these documents together with their examination and preparation for the Comptroller's action are important functions of the General Accounting Office.

(b) Settlement of disbursing officers' accounts. Disbursing officers are personally responsible for all funds received or placed to their credit until their accounts are finally settled in the General Accounting Office as required by Section 236 of the Revised Statutes as amended. Settlement of a disbursing officer's account, depending on the way the expression is used, may refer to (1) the entire process by which the account is examined, or audited, suspended, adjusted, and finally certified as correct; or (2) merely the final certification. In either sense it connotes the government's final approval of the disbursing officer's account as a correct statement of the transactions recorded.

Disbursing officers submit their accounts periodically to the General Accounting Office where each item is examined prior to final settlement. If, upon examination, each item in the account meets with the approval of the examining officers, and no arithmetic errors are discovered, the balance shown by the account is certified as correct, and the account is said to be settled.

To receive the requisite approval for final settlement of an account, each receipt item must have been deposited to the credit of the proper receipt account; each expenditure item must have been (1) authorized by an administrative officer properly designated as responsible for the appropriation affected, (2) expended for a legally authorized object or purpose, (3) expended according to the proper legal procedure, and (4) kept within the amount appropriated.

Particular items may be questioned during the examination of an account. If so, the account is suspended pending suitable explanation or action by the disbursing officer responsible. For failure of the disbursing officer to take action or make explanation satisfactory to the Comptroller General, the questioned items are disallowed and the balance in the account is adjusted accordingly. The government is protected from financial loss by the disbursing officers' bondsmen who are called upon to make immediate settlement with the government for the amount of disbursing officers' discrepancies. Disbursing officers must settle with their bondsmen and recover, if possible, the amount of the disallowed items from the proper parties.

By settlement of the accounts of bonded disbursing officers, the General Accounting Office holds these officers personally responsible under their bonds for all moneys received or placed to the credit of their checking accounts, and is able to protect the Treasury from the disbursement of funds in excess of the amounts which have been properly covered into the Treasury and duly appropriated.

Settlement of accounts of disbursing officers is thus an essential complement to control of Treasury receipts and issues, for whereas Treasury control prevents the availability of funds in excess of amounts which have been duly appropriated, settlement of accounts provides the basis for recovery of erroneous disbursements from funds made available.

(c) Prescribing accounting systems and procedures. Without accurate knowledge of all events or activities which affect the proprietorship of the government, the exercise of the foregoing functions is impossible. Before countersigning a covering warrant, information must be obtained from the collecting officer by means of which his receipts can be properly identified. Before approving a requisition for the placing of funds to the credit of disbursing officers, it must be known that (1) a balance is available in the appropriation named in the requisition, and that (2) the request is made with the knowledge and approval of the head of the department or independent establishment to which the appropriation was made. Be-

fore settlement is made of a disbursing officer's account, proof must be shown that each receipt item has actually been deposited to the proper receipt account and that each expenditure item has been authorized by the proper administrative officer, expended according to legalized procedure for a legally authorized object or purpose, and kept within the amount appropriated.

Section 309 of the Budget and Accounting Act requires the Comptroller General to prescribe the "forms, systems, and procedure for administrative appropriation and fund accounting in the several departments and establishments, and for administrative examination of fiscal officers' accounts and claims against the United States." By prescribing accounting systems and procedures the General Accounting Office obtains all essential proprietary information and prepares it in proper form for its use.

(d) Decisions of the Comptroller General. Decisions which are issued by the Comptroller General as an incident to proprietary control fall into two main classes: (1) regular decisions and (2) advance decisions.

Regular decisions arise in the course of audit and settlement of disbursing officers' accounts and occur after appropriations have been obligated and even after payments have been made.

Advance decisions, as their name implies, precede the disbursement of money. They were authorized by the Dockery Act of 1894 to permit disbursing officers or the heads of departments and independent establishments to apply for a Comptroller's decision with regard to the legality and regularity of a proposed payment and may be requested before an appropriation is obligated. The Comptroller is required to issue an advance decision when requested, and to abide by it in the settlement of disbursing officers' accounts.

(e) Auditing. As applied to the federal system of financial administration, the term "audit" refers only to an examination performed by the General Accounting Office as the basis for settlement of disbursing officers' accounts. Audits are performed, however, both before and after moneys have been disbursed. Those which precede the disbursement of money are termed pre-audits; those which follow the disbursement of money are termed post-audits. Pre-audits enable a disbursing officer to ascertain whether or not a proposed payment meets all the requirements of law and regulation, but his account is not technically settled until *after* a post-audit.

The practice of pre-auditing is a logical outgrowth of the issuance of advance decisions. It results from the same desire of administration and disbursing officers for advance information regarding the legality and regularity of proposed payments, and derives its sanction from the section of the Dockery Act which provides for advance decisions. Pre-audits are made when requested on the basis of vouchers certified by administrative officers as ready for payment. Vouchers for pre-audit are submitted to the General Accounting Office for examination as to legality, regularity, accuracy, and availability of funds, and if approved are transmitted to a disbursing officer for payment. As in the case of advance decisions a decision made in connection with a pre-audit is binding upon the action of the Comptroller in the settlement of disbursing officers' accounts.

(2) Defects with exercise of proprietary control. It is generally agreed among students of the subject that the General Accounting Office has been slow to (1) perfect its control of Treasury receipts and (2) develop comprehensive information for the use of Congress.

(a) Information relating to receipts. Accurate knowledge of the amount and character of every receipt is the

initial requirement for proprietary control, for without such knowledge there is no way of telling how much cash should be charged to the several funds of the Treasury.

In describing the conduct of financial operations it was observed that receipts are reported to controlling officers independently by collecting officers and by officers making deposits. This is true of the great bulk of collections deposited to the credit of the Treasurer of the United States. Deposits are frequently made, however, by persons other than accountable officers, including private persons and officers of government-owned or controlled corporations. Such deposits are not reported in the customary way to the General Accounting Office.

Deposits made by private persons are ordinarily credited to the general funds of the Treasury and information regarding these deposits ultimately reaches the controlling officers through the accounts current of the Treasurer of the United States. Deposits made by corporate officers, however, are held by the Treasurer of the United States in special deposit accounts subject to check by the officers of the corporations. Information regarding these deposits does not reach the controlling officers through any regular channels of information.

These deposits, made by persons other than bonded disbursing officers, are termed "deposits without personal credit," since they do not involve the personal liability of a government financial officer. Owing to the fact that controlling officers have no statement from the person making such deposits as to the amount and character of the funds deposited, they have no way of knowing the total amount of cash which should be on deposit with the Treasurer of the United States at any given time. Thus they have no basis for control of Treasury cash.

Deposits without personal credit can not be entirely eliminated unless government depositaries are prohibited from accepting deposits from all persons other than accountable officers. Since such a prohibition would prevent deposits made by private persons, its enforcement would not be practical. Probably the simplest way to correct the defect which now exists and permit charging the Treasurer of the United States with the total amount of cash which should be in his possession would be to provide that all depositaries, including the Treasury at Washington, prepare schedules of collections for immediate transmittal to the General Accounting Office stating all necessary information relating to such deposits. This practice would permit the Treasurer of the United States to accept special deposits from officers of government-owned and controlled corporations and would at the same time provide necessary information for control of the Treasury.

(b) Information for transmittal to Congress. To furnish the financial basis for evaluating past experience and determining future policies, it is generally agreed that Congress requires prompt, comprehensive reports on the financial condition and operations of the federal government as a whole. Section 312 of the Budget and Accounting Act requires the Comptroller General to submit various reports containing recommendations for legislative action in the interest of more effective control and more economical and efficient expenditure of money, but it does not require the submission of such comprehensive reports as are generally conceded to be necessary to Congress.

Owing in part to the absence of legislative requirement and in part to the existing accounting organization, information is nowhere available at present to fill the need which is here suggested. In addition to the lack of central information relating to receipts there is no central source of information relating to the accruing assets and liabilities of the government. This information is obtain-able only from the budgetary record maintained by the administrative departments and establishments, and while not a part of the essential record for proprietary control would be necessary if the Comptroller General were expected to give a complete report to Congress on the financial condition and operations of the government. Information would also be required in summarized form relating to the purchase and disposal of government property.

(3) Improvement of proprietary control. To provide proper control of the moneys and appropriated funds of the government, and prompt, comprehensive reports on the financial condition and operations of the federal government as a whole, the Brookings Institution, in its report to the committees of Congress, made detailed recommendations for (1) the proper certification of all deposits in account with the Treasurer of the United States and (2) compiling the necessary accounting information for prompt reports to Congress on the financial condition and operations of the government.

The issues over proprietary control have not arisen, however, with respect to these recommendations but with respect to the relation of the General Accounting Office to the executive branch of the government. Discussion of these issues is reserved for Part II.

FEDERAL SYSTEM OF ACCOUNTING AND REPORTING

To the extent that the existing system is successful in preventing irregularities and in providing the basis for correcting those which result, it is dependent in a very large measure on the effectiveness of the accounting system. A detailed analysis of the system designed for so vast an organization as the federal government cannot be attempted here, but its principal features will be broadly outlined as a basis for some of the discussion which follows.

There are two basic groups of accounts in the federal accounting system: (1) budgetary or appropriation accounts which record the various steps taken by administrative officers both in the obligation of appropriations and funds and the liquidation of obligations, and (2) proprietary accounts which record all transactions affecting the cash, property, and appropriated funds of the government. Both groups of accounts are maintained in detail by the administrative establishments, to which Congress makes appropriations throughout the government's entire organization.

Budgetary Information

All essential facts relating to the obligation of appropriations and the liquidation of obligations are recorded in the books of administrative officers. These facts are not brought together in detailed form except, perhaps, in the preparation of the budget estimates. As already observed, however, the transactions of administrative officers which affect the property of the government or appropriated cash are reported directly to the General Accounting Office as the basis for the control maintained over the accounts of disbursing officers, and through their accounts, over the use of appropriations and funds.

For the reason that this information must be both currently reported and received in form to be recorded on the controlling books, the Comptroller General is required by Section 309 of the Budget and Accounting Act to prescribe the "forms, systems, and procedure for administrative appropriation and fund accounting in the several departments and establishments. . . ." In pursuance of this requirement, standard forms and procedures have been prescribed and are in use throughout the government for scheduling and reporting all necessary information relating to receipts and expenditures of money and the acquisition and disposal of property.

The details of the budgetary or appropriation record have no direct application in the work of either the disbursing or controlling officers. They are primarily the concern of administrative officers. Thus administrative accounting systems are designed primarily to serve the budgetary and administrative needs of the departments and establishments, and are maintained by the administrative officers who require such information.

Proprietary Information

All necessary information relating to the receipt and disbursement of money and the purchase and disposal of property is recorded in the books of administrative officers, and the essential facts for proprietary control are brought together through accounts of disbursing officers whose functions have already been discussed. Each disbursing officer maintains a detailed record classified by appropriations and funds of every transaction affecting the funds received by him or placed to his credit by the Treasury. In keeping this record, he employs a standard uniform accounting system prescribed for all disbursing officers by the General Accounting Office. He renders a monthly account to that office on a standard form prescribed for the purpose, and accompanies his account with all the supporting documents which are required for a satisfactory settlement. Central controlling receipt and appropriation accounts as well as the ledger accounts of fiscal officers, from which final correct balances may be certified, are kept in the General Accounting Office as required by law. Information for these accounts is obtained from documents supplied directly by administrative officers whenever moneys are collected, funds advanced to disbursing officers, vouchers transmitted for payment, transfers made between appropriations or funds, and in general whenever any transaction takes place which directly affects the cash, property, or appropriated funds of the government.

Lack of Centralized Accounting Information

It is evident from the foregoing discussions that the principal defect of the federal system of accounting and reporting is its failure to provide certain information which is needed by the President for budgetary and administrative management and by Congress for proprietary control.

Because dependable information on the accruing liability of the government as a whole is nowhere currently available, the President lacks information by which to supervise the expenditure of appropriations. Similarly, since complete information relating to the receipt, expenditure, and custody of public moneys and the purchase and disposal of property is not being centrally compiled, Congress lacks an adequate basis for evaluating results and formulating policy. Since all information relating to both the use of appropriations and the receipt and disbursement of money is recorded in the books kept by administrative officers, more adequate methods of reporting information to central agencies should be devised.

A decentralized system of administrative accounting places obvious physical obstacles in the way of obtaining information for the use of central agencies. It might appear that with modern methods of accounting, these obstacles could be overcome by means of a centralized accounting system. But in the federal government the administrative organization itself is decentralized. Administrative officers in charge of field units of the government cannot run their establishments effectively without detailed accounting records relating both to the use of appropriations and the receipt and disbursement of money. If centralized administrative accounting is meant to include a central accounting agency making current bookkeeping entries for every event which affects the cash, property, or appropriated funds of the government, then centralized administrative accounting for the entire organization cannot be performed without duplicating records at considerable increase in the overhead cost of the government. A more practical method of obtaining information from the administrative books is to substitute accounting statements and statistical summaries, wherever possible, for original documents or unclassified data from which to post information to central bookkeeping records.

(1) Budgetary reporting. In the case of information for centralized budgetary management, statements (and requests) prepared by administrative officers from their own records can be made to serve every budgetary need. Central records can be maintained in the form of statistical summaries and centralized bookkeeping can be entirely eliminated. An effort has been made, in fact, through forms prescribed by the Treasury Department in accordance with Executive Order 6226 of July 27, 1933 to obtain monthly reports of obligations against the appropriated funds of the government. These reports are intended both to provide information by which the Bureau of the Budget can control the rate of expenditure by months and to permit the Treasury Department to predict the future cash requirements of the government.

In their present form, these reports are unnecessarily cumbersome and they fail to provide comparable information, but the difficulties can be readily overcome by changing the regulations by which they are prepared. All information required for prompt and effective budgetary control can be obtained from every department and establishment by means of (1) a statement of general ledger balances; (2) a summary statement of allotment ledger transactions; and (3) a statement of transactions affecting Treasury cash. A uniform basis for the preparation of such reports is afforded by the accounting systems provided throughout the government and comparable information suitable for statistical treatment could thus be accumulated by the Budget Bureau without the necessity of maintaining bookkeeping records. Moreover such reports would contain information relating to the use of administrative allotments, and by furnishing information relating to accounts receivable would establish a better basis for prediction of Treasury needs.

To enable the Bureau of the Budget to utilize financial information now available in prescribed administrative records, the Brookings Institution in its report to the committees of Congress recommended the expansion of the existing Division of Estimates in the Bureau of the Budget into a Division of Budgetary Accounting with power to prescribe forms and procedures for obtaining necessary budgetary information.

(2) Proprietary reporting. In the case of information for independent proprietary control there is less opportunity to replace original documents by statements prepared by administrative officers. For the exercise of proprietary control it is necessary to have evidence of every event which affects the proprietary condition of the government. Receipt and appropriation accounts which record every transaction affecting the cash, property, or appropriated funds of the government must be kept by the

central agency for proprietary control. With respect to these accounts only original documents are suitable sources of information.

The receipt and appropriation accounts which provide the basis for proprietary control are not the whole of the record, however, by which the condition and operations of the government are recorded. Accounts receivable, encumbrances, and the record of property acquired and sold are essential parts of the complete record. This information, which has its chief use in budgetary management, can be had from the same source as information for budgetary purposes, and can be collected in the same manner as that recommended for the Bureau of the Budget.

As a basis for compiling more comprehensive proprietary information than is now available, a new Division of Accounting and Bookkeeping was established within the General Accounting Office in 1935. It is to be expected that when this division is in full operation, the basis will exist for full reports to Congress. Its chances of success will be increased, however, if legislation is passed to *require* the submission of its reports.

Emergency Accounting System

Pursuant to Executive Order 7034 of May 6, 1935, an auxiliary accounting system was established under the Treasury Department to enable the President:

> 1. To exercise executive control over such funds;
> 2. To provide current financial and accounting information for governmental agencies concerned; and
> 3. To make a complete report to Congress concerning the expenditures made and obligations incurred by classes and amounts. . . .

The new organization, under the direction of the Commissioner of Accounts and Deposits, maintains controlling accounts for all emergency funds through a central accounting office in Washington and regional accounting offices in each of the states. Information to be recorded in the books of this organization is obtained after the same methods employed by the General Accounting Office, namely, the receipt of documentary evidence of all transactions from administrative and financial officers who have to do with emergency funds. But the books of the emergency accounting organization are more comprehensive with respect to emergency appropriations than those of the General Accounting Office, for they contain information relating to the obligation of appropriations as well as to the receipt, custody, and disbursement of money. In other words, they contain budgetary as well as proprietary information, and are intended to provide in one central record the information required for both budgetary management and proprietary control.

It is important to note, however, that the records kept by this emergency accounting organization do not eliminate the need for detailed budgetary records in the various departments and establishments charged with the administration of emergency appropriations. Both administrative and financial officers, for accessibility of information as well as for their own protection, must keep a complete record of all their transactions.

It is likewise important to observe that the emergency accounting records do not modify in any way the need for proprietary information in the General Accounting Office. Independent control of the cash, property, and appropriated funds of the government is no less essential in the case of emergency appropriations than it is in the case of the regular appropriations of the government.

As regards emergency appropriations, therefore, this auxiliary organization for executive control duplicates the accounting work done in the administrative departments and establishments as well as that done in the General Accounting Office. Thus, the Brookings Institution has recommended that the emergency accounting agency be abolished and that all necessary information for centralized management of emergency appropriations be obtained through the channels already provided for the management of regular government appropriations.

PART II

CRITICISMS AND PROPOSED REMEDIES

The advantages claimed for the existing system, described in the foregoing pages, are that (1) by permitting localized collection and disbursement of money it provides for prompt conduct of business throughout the government's entire organization, (2) by requiring the independent examination of every expenditure item prior to the settlement of disbursing officers' accounts, it permits the prompt disclosure in the General Accounting Office of errors, illegalities, or irregularities and thus eliminates the need for periodic audits by another central agency (either within the government or outside it) of the books of disbursing or administrative officers, and (3) by bonding all disbursing officers and permitting the suspension, and adjustment or disallowance of individual expenditure items in their accounts, it protects the government from financial losses arising from erroneous disbursements. Thus the system is intended to serve as an efficient safeguard of Treasury funds while permitting prompt payment of authorized government obligations.

As already shown, however, in describing financial administration under the existing system, no little difficulty has arisen with regard to the exercise, by the Executive, of budgetary and administrative management and, by Congress, of independent proprietary control. The present methods of performing both sets of functions have been extensively criticized. In the reports of the President's Committee on Administrative Management and in the reports to Congress prepared by the Brookings Institution, various proposals have been made to remedy the existing defects in our financial system. The criticisms made, as well as the remedies proposed in these reports, reveal several points of disagreement on issues of fundamental importance to the conduct of financial administration. In the following pages an effort will be made to present these issues for impartial public consideration.

ISSUES RELATING TO BUDGETARY AND ADMINISTRATIVE MANAGEMENT

With regard to budgetary and administrative management, the reports of the President's Committee and the Brookings Institution appear to be in substantial agreement. To provide for centralized budgetary control, the latter report emphasizes a need for reorganization of the Bureau of the Budget along the following lines: (a) the functions of the existing Division of Estimates should be expanded to include the maintenance of a current record of the obligations of appropriations; (b) the existing Division of Research and Investigation should be relieved of all routine duties and coordinating activities and should devote its entire time to studies of administrative costs and records; (c) a new Division of Coordination should be created for the conduct of all routine functions relating to business management.

None of these recommendations appears to be contested by the recommendations of the President's Committee which stress the importance of a general strengthening of the methods of budgetary and administrative control and argue for more adequate staffing of the Bureau of the Budget and an increase in its investigative activities. In a subsequent study by a member of the research staff of the President's Committee there are, however, fundamental points of disagreement. While this study, "Financial Control and Accountability," by A. E. Buck, may possibly not represent the point of view of the Committee on Administrative Management, its publication requires its consideration with respect to the issues raised.

Mr. Buck argues that not only does the Budget Bureau require thorough reorganization but that the reorganized bureau should become "the pivot of the Treasury organization" and that "budgetary control over expenditures . . . should be exercised through a system of apportionments and allotments which should be geared into the general accounts maintained by the proposed fiscal control unit of the Treasury Department."

The Brookings report on the other hand emphasizes the need for a complete separation of budgetary management from Treasury administration in order to give the President more direct control of budgetary matters. Thus if we consider the opinions of the research staff of the President's Committee there appear to be two points of fundamental issue between the persons representing that committee and those preparing the Brookings report; namely (1) the proper relation of the Budget Bureau to the Treasury Department and (2) the proper means of exercising centralized budgetary management. In order that these issues may be sharply drawn each will be stated in the form of a question and will be followed by a brief discussion intended to throw light on the significant considerations.

(1) Should the Bureau of the Budget be the pivot of Treasury organization? Mr. Buck's argument for a closer relation between the Bureau of the Budget and the Treasury Department is based upon the assumption that adequate means of financial administration and control can only be provided through a unified agency of financial management.

As noted in an earlier section of this pamphlet the existing structure of the Treasury Department provides for the conduct of ministerial rather than discretionary functions related to Treasury operation and management. The primary function of the Treasury Department as it now exists is to provide cash to meet obligations when they become due and payable. The Secretary of the Treasury should be informed currently of the cash position of the government in order that he may make proper provision for future financing arrangements. He is concerned with the balancing of expenditures and receipts. He needs to know, therefore, the current balance of unexpended appropriated cash. On the other hand, matters which relate to the apportionment and allotment of appropriations, to the obligation of allotments, or to the liquidation of obligations are of no direct concern in Treasury administration. These are functions which relate to the supervision of expenditures and the measurement of results rather than the amount of expenditures and their effect on the proprietary condition of the government.

If the Secretary of the Treasury requires advance information with respect to the accruing liability of the government, this should be obtained from the agencies of the government which direct and control the use of appropriations. With the establishment of the Bureau of the Budget, with provision for adequate budgetary information, there should be no need for the Treasury Department to obtain such information directly from the spending agencies. Such information should be assembled and prepared for use by the Treasury Department in the Bureau of the Budget. Under the recommendations of the Brookings Institution this function would be lodged in the expanded Division of Estimates, with power to prescribe the systems and procedures for production of such information.

(2) Should budgetary management be exercised by an

agency of the Treasury Department? In order to see clearly what is involved in this question it must be understood that under the existing system regular appropriations are made by Congress directly to the several departments and independent establishments. These spending agencies are themselves the principal organs of budgetary management. If budgetary management with respect to all expenditures were to be exercised by an agency of the Treasury Department it would mean, first, that the departments would, in effect, be placed under the control of another department hitherto coordinate in rank; and, second, that Congress would henceforth have to appropriate money, not in specified amounts to the various departments and establishments, but in lump sums to the Treasury for allocation by an agency of this Department. It may be assumed, of course, that the Treasury Department would itself be subject to the control of the President.

It is argued by Mr. Buck that the centralized system of administrative accounting prescribed in 1935 by the Treasury Department for control of *emergency expenditures* has demonstrated the practicability of that method for budgetary management in general. It should be readily apparent that this experience merely demonstrates that it is possible to manage expenditures in this way. It throws no light upon the efficiency and wisdom with which the emergency expenditures have been managed, or upon the desirability of applying this system of management to all expenditures of public money.

ISSUES RELATING TO PROPRIETARY CONTROL

With regard to the exercise of proprietary control, that is, the control of cash, property, and appropriated funds of the government, the reports of the President's Committee and the Brookings Institution are in fundamental disagreement. As in the case of budgetary management, the Brookings Institution takes no exception to the principles on which the existing system is based, and confines its recommendations to the means of making it more effective.

It will be recalled that the principal defects in the existing system are its failure (1) to provide for the proper identification of all collections, and (2) to produce comprehensive reports on the proprietary condition of the government as a whole. To provide for the proper identification of collections and to ascertain the total amount of cash with which to charge the Treasurer of the United States, recommendations were made to eliminate deposits without personal credit. To provide comprehensive current reports on the condition and operations of the government as a whole, legislation was recommended to require such information.

The President's Committee makes no effort to improve the operation of the existing system, but attacks the principles on which it is based. The Committee contends (1) that financial control is a function of the executive branch of the government, and should be distinguished from auditing which is a function of the legislative branch; (2) that the exercise of financial control by an agency which is independent of the executive branch of the government inevitably interferes with administration and leads to conflicts with administrative officers and delays the payment of obligations; (3) that there is a fundamental inconsistency in having the same officer act as comptroller and auditor in the settlement of accounts of disbursing officers which prevents Congress from holding the executive branch truly accountable.

To provide proper control of financial transactions, and expedite the payment of obligations, the Committee recommends the transfer to the Treasury Department of the authority both to prescribe administrative accounting systems and procedures and to settle and adjust all claims and accounts in which the United States is interested.[9] As a means of holding the executive branch strictly accountable to Congress, the Committee recommends an independent auditor with power to audit all expenditures and with the duty of reporting exceptions to the Congress "through such committees or joint committees as the Congress may choose to designate."[10]

To avoid possible conflicts between the Secretary of the Treasury and other administrative officers "as to the jurisdiction of the Secretary to settle public accounts . . . and to make it impossible for the Secretary of the Treasury to usurp any of the powers vested in the heads of departments by Congress" the Committee recommends that the Attorney General be authorized to render binding decisions "on such questions of jurisdiction (but not on the merits of the case) upon the request of the head of the department or upon the request of the Secretary of the Treasury."[11]

Discussion of the issues raised by recommendations of the President's Committee will be based on consideration of the following questions:

(1) Does the exercise of proprietary control through the settlement of disbursing officers' accounts belong properly to the executive or to the legislative branch? As already observed the President's Committee contends that the exercise of proprietary control belongs properly to the executive branch of the government. The Com-

[9] *Administrative Management in the Government of the United States*, p. 23.

[10] The same, p. 24.

[11] The same, p. 23.

mittee's argument to support this contention may be summarized in the following statements:

1. The Constitution provides (Art. II, Sec. 3) that the President "shall take care that the laws be faithfully executed. . . ."

2. This imposes an obligation on the President to see that appropriation acts are properly enforced.

3. In order that Congress may hold the executive branch strictly accountable it should give the Executive full authority to make expenditures pursuant to the terms of appropriation acts.

4. The vesting of the power to make final settlements in the Comptroller General who is not responsible to the President prevents a truly independent and prompt audit whereby Congress may hold the executive branch strictly accountable.

5. Therefore the settlement of accounts is a function which properly belongs to the executive branch of the government.

The corresponding argument of the Brookings Institution may be summarized as follows:

1. The Constitution provides (Art. I, Sec. 9) that "no money shall be drawn from the Treasury but in consequence of appropriations made by law. . . ."

2. This imposes an obligation upon Congress to see that no money is spent except in consequence of appropriation acts.

3. In order to discharge this obligation properly (that is, to make sure that no improper payments are made) Congress must have the power to recover erroneous payments or at least to discharge the individuals responsible for such payments.

4. If Congress delegates the power to make final settlement of accounts to the executive branch, Congress has no recourse even though it has definite knowledge of erroneous payment. Congress can not sue or discharge the individual responsible or recover the loss from his bondsman because the authority to make final settlement has been delegated.

5. Therefore, the settlement of accounts is a function which should not be delegated to the Executive—another way of saying it properly belongs to the legislative branch.

Under our form of government it has always been assumed that Congress, like the Executive, is responsible to the people. Congress, as the ultimate authority for the raising and granting of public funds, has always undertaken to determine the purposes for which public money should be spent and to see that it is spent in accordance with provisions stipulated in the law. The President's Committee asserts that it is unconstitutional for Congress to exercise—by means of an agent independent of the Executive—any continuing control over the expenditure of appropriated public moneys with a view to making sure that such expenditures are legally made.

In this connection it must be pointed out that from the very beginning of our government, indeed from colonial times, the legislative branch has in fact exercised such control; and that this power has never been directly challenged in the courts. In the light of this situation the Brookings Institution simply takes the position that Congress has the undoubted right to exercise such a continuing control. On the other hand, Congress would also seem to have the right, if it desired to do so, to delegate full control to the executive branch of the government.

The vital issue to be considered is whether, if Congress should relinquish control of disbursements by delegating authority to disallow payments, it would retain any effective control over the expenditure of appropriated moneys by the executive branch. Consideration of this issue follows.

(2) Can Congress hold the executive branch accountable through a post-audit by a congressional agency without power to disallow payments? The President's Committee contends that once Congress has made an appropriation, the responsibility for the expenditure of money devolves upon the Executive; and that to hold the Executive accountable, Congress needs, and should have, no further information than that afforded by subsequent "independent audit made by an independent auditor who

will report promptly to the Congress his criticisms and exceptions of the actions of the Executive."[12] It is the contention of the Committee that on the evidence furnished by this independent auditor, Congress may call upon executive officers to explain their actions and if their actions are deemed illegal or irregular, Congress can take steps necessary to preclude such action in the future.

When questioned in hearings before the Joint Committee on Government Organization as to the efficacy of such a post-audit for purposes of congessional control, Mr. Luther Gulick, speaking for the President's Committee, testified that under the Committee's plan Congress would be adequately protected. According to Mr. Gulick: "There would be a current post-audit, or what we call a 'hot' audit, carried on under the direction of the Auditor General. He would have his men scattered around wherever there are settlement officers of the government watching the thing as it is being carried forward, then if he discovered any irregularity in connection with the very first payment that was made, that would be reported."[13]

It is apparent that the plan proposed by the President's Committee would require the setting up of a second extensive auditing system which would in large measure duplicate the auditing force required by the Treasury Department in its proposed audit of accounts for settlement. It is estimated by the Brookings Institution that if the system which Mr. Gulick suggests were to be established, it would involve additional expenditures of several million dollars annually.

Under this plan the so-called post-audit would be made so currently that the independent auditor would

[12] The same, p. 43.

[13] *Hearing before the Joint Committee on Government Organization,* 75 Cong. 1 sess. p. 54.

be able to report to Congress with respect to illegal expenditures before an appropriation was entirely expended, or at least before the accounts were finally settled. It is difficult, however, to see what value this would be if Congress had already delegated to the Comptroller in the Treasury Department the power to make the *final settlement* of accounts. The post-audit of expenditures by an agent of Congress would give Congress no power to protect the government from loss occasioned by illegal or irregular payment. If erroneous disbursements were reported, Congress could take no action against the individual responsible either through suit to recover the amount of loss or by discharge of the individual. By delegating authority to make the final settlement of claims and accounts to the executive department, Congress would be helpless to enforce compliance with appropriation acts. Once an account had been settled by the Comptroller in the Treasury Department Congress could take no action against an administrative or financial officer, or their sureties, because the authority to settle accounts had been delegated.

Thus if Congress desires to hold the executive branch of the government strictly accountable for the use of appropriated funds, disbursing officers' accounts must be settled by an agency directly responsible to Congress. Under the system proposed by the President's Committee the only thing Congress could do in the event of illegality or irregularity would be to exhort against the continuance of such practices or to tighten the laws so as to make it more difficult for funds to be misapplied in the future.

The plan of the President's Committee embodies two proposals which are difficult to reconcile with generally accepted principles of accounting control. It vests in the executive branch of the government the power to pass upon the legality and regularity of its own financial transactions; and it places upon a designated administrative officer—a comptroller in the Treasury Department—responsibility for passing upon the acts of his own superiors.

(3) Is there a fundamental inconsistency in having the same officer act both as comptroller and as auditor? The President's Committee contends that "the existing Comptroller General is in an anomalous and inconsistent position"[14] and that "a true audit can be conducted only by other officers than those charged with the making of decisions upon expenditures. No public officer should be authorized to audit his own accounts or financial acts and decisions."[15]

The President's Committee is clearly confused as to the nature of the existing Comptroller's function. He is not an officer of the executive branch authorized to audit his own accounts. It should be clearly understood that the expenditures which the Comptroller passes upon, as an agent of Congress, are those which have been authorized by administrative officers in the executive departments and independent establishments. It may also be recalled that the disbursing officers' accounts have already been examined, or audited, by officers of the departments concerned. The Comptroller's primary function is simply to pass upon the legality, regularity, and accuracy of these accounting statements before certifying them as correct and hence finally settled. The control that he is able to exercise by virtue of his authority to disallow payments does not mean that he has authorized expenditures or made disbursements of money.

In exercising his functions the Comptroller is thus in no sense passing on the legality and regularity of his own actions. He is an independent officer working for

[14] *Administrative Management in the Government of the United States*, p. 23.

[15] The same, p. 20.

Congress both in auditing and settling the accounts of executive agencies. In the Brookings Institution proposals it is suggested that the title be changed to Auditor General in order to eliminate the confusion of thought which arises from the use of the term Comptroller.

(4) Does the exercise of control through an agency responsible to Congress inevitably interfere with administrative action? It is reasoned by the President's Committee that interference with administration is inevitable under the existing system, owing to the independence of the Comptroller General's office. The Committee contends that since he both prescribes administrative accounting systems and renders decisions with respect to action taken by administrative officers, the Comptroller General causes delay, uncertainty, and unavoidable conflict with administrative officers.

As shown in Part I the exercise of proprietary control should include the authority to prescribe the accounting systems and procedures by which to obtain information. But in prescribing the accounting systems and procedures for the production of necessary information for the Comptroller, provision must also be made for supplying the need of administrative officers for detailed administrative information. The production of both types of information within a single set of accounts is not only possible but as already shown is the essence of the administrative accounting systems which have been prescribed and are in use throughout the government. Classification of accounts both by organization units and by appropriations and funds is required for sound administrative practice as well as for proprietary control. With the appropriations and funds as the basis of classification the needs of controlling officers may be served and at the same time administrative information can be developed in the degree of detail required. Thus the Comptroller's authority to prescribe administrative accounting systems does not inevitably interfere with administration.

(a) Conflicts with administrative officers. In the administration of the system friction has actually arisen in connection with only a small percentage of the total disbursements made by the government. According to a representative of the President's Committee "90 per cent of the expenditures go out before there is any audit by the Comptroller General."[16] The area within which conflicts arise is thus limited to the 10 per cent of expenditures where pre-audit is made or advance decisions given.

Conflicts between administrative officers and controlling officers have arisen in the main over public contracts with regard to supplies, construction, and real estate. It is common knowledge that scandalous conditions have developed in the past with regard to the making of public contracts. To preclude the recurrence of such conditions, Congress has passed laws governing in detail the procedure with regard to contracting. The general rule which Congress has adopted is that a contract must be let, after advertising for competitive bids, to the lowest responsible bidder. But detailed procedure has been devised for particular types of contracts to cover methods of advertising, submission, and consideration of bids and notification of parties to whom contracts were awarded.

The principal purpose of these detailed regulations relating to contracts has been the preservation of true competitive bidding. It is a comparatively easy matter to draft purchase specifications to "fit" a particular branded or patented commodity and thus to prevent or restrict competition among bidders. It is possible, of course, that a branded or patented article may be the only one suitable for a given administrative purpose. In such a case specifications drawn to fit that purpose will necessarily exclude

[16] *Hearings before the Joint Committee on Government Organization*, p. 204.

all but the acceptable article. On the other hand, it may well be that unbranded goods or the branded goods of several potential bidders are equally suitable to the administrative purpose in view. Responsible bids submitted on the basis of written specifications will ordinarily provide all assurance necessary in regard to the quality of the articles purchased. But an essential part of proprietary control under a system of competitive bidding is the examination of specifications and contracts to determine that bidding has been truly competitive.

Section 3743 of the Revised Statutes, as amended, provides that "all contracts to be made, by virtue of any law, and requiring the advance of money, or any matter connected with the settlement of public accounts, should be deposited promptly in the General Accounting Office. . . ." This section does not require that contracts be deposited in advance of the obligation of an appropriation or the disbursement of money. It simply provides the controlling officers of the government with necessary accounting information and establishes a central depository for all information relating to contracts entered into by the government of the United States.

In the execution of contracts, however, great opportunity exists for misunderstandings to arise through ignorance on the part of administrative officers or ambiguity in the law. Owing to the enormous number of government representatives in the field, questions arise continually with respect to contract procedure. Owing, further, to the responsibility which disbursing officers bear for the proper disposition of funds received by them or placed to their credit there is great pressure for advance decisions which will govern the execution of a contract and protect the disbursing officer from personal loss at the time his account is settled.

The Dockery Act, as already observed, provided that any administrative or disbursing officer might apply for advance decisions from the Comptroller General (then the Comptroller of the Treasury) and the Comptroller General is required to render a decision which is binding upon him in the settlement of accounts of disbursing officers affected by such decision. No administrative officer is required to submit any contract or proposed expenditure to the Comptroller General for an advance decision. But in view of the many questions which arise with regard to the legality of contracts and the regularity of the procedure followed in executing them it has become customary for administrative and disbursing officers to submit a great many questions regarding the legality and regularity of contract procedure to the Comptroller General for advance decisions.

An advance decision of the Comptroller General does not bind the administrative officer to a particular type of action but in the face of an adverse decision disbursing officers are reluctant to make disbursements. Thus administrative officers occasionally complain that the Comptroller General interferes with administrative action. But in a system which requires legal authority for the expenditure of money, decisions with regard to applicability of law to a proposed expenditure can scarcely be regarded as interference initiated by the controlling officers. They are properly regarded only as the requirement of the system to which the controlling officers themselves must adhere. Moreover, such decisions do not cause uncertainty on the part of administrative officers, as the President's Committee asserts. On the contrary, by providing advance knowledge of the legal status of a proposed expenditure, they remove the basis for administrative officers' uncertainty.

Conflicts of the kind just described would seem to be inevitable under any system which requires that money be expended only in accordance with legal authority and procedure. They arose formerly when the controlling officers were located in the Treasury Deartment; and they would doubtless arise were their present location to be changed. When laws are ambiguous or procedures are required which administrative officers consider inimical to the government's best interests, only one course of action is proper in the last analysis; namely, to seek legislation which will clarify the existing law or modify existing procedure. No other method is a satisfactory substitute when legal authority is required as a basis for action. Controlling officers have no authority to amend or interpolate the laws passed by Congress and they can not be expected to assume responsibility for unauthorized or irregular administrative action.

(b) Delays. Delays in the expenditure of money occur in the main just prior to the disbursement of money because of a disbursing officer's uncertainty with respect to the legality and regularity of a proposed payment. Disbursing officers as already observed have always been personally liable for the government's financial losses through illegal or irregular expenditures. Thus for their own protection they have been obliged to exercise the greatest care to see that each payment they make meets all the requirements of law and regulation. Under these circumstances their interests are antagonistic, for in seeking to protect themselves they tend to delay payments, while in hastening payments they endanger themselves.

Disbursing officers were formerly attached to the executive departments and independent establishments and were thus subordinate to the executive heads of these agencies. A disbursing officer could be consulted by his administrative superior and could advise him before an obligation was incurred, but his position was extremely embarrassing if his superior, either with or without his advice, incurred an obligation which the disbursing officer deemed illegal or in some manner irregular, and requested him to pay it. The provision of the Dockery Act of 1894 relating to advance decisions relieved the embarrassment of disbursing officers to some extent, for they could pass on to the Comptroller the responsibility for passing judgment on the legality and regularity of a doubtful expenditure. This provision did not, however, spare them the necessity of examining every voucher before making payment. Thus while it relieved them of a certain amount of responsibility, it tended to delay the disbursement of money in doubtful cases until a decision could be obtained from the Comptroller.

To free disbursing officers of all responsibility for improper authorizations of administrative officers, it was deemed necessary to remove disbursing officers from their subordinate position in the administrative establishments. This change was made in 1933 by Executive Order 6166 which transferred the disbursing officers of all civilian executive agencies, except the Post Office and Panama Canal, to the Treasury Department.

No further need exists, presumably, for a disbursing officer to hesitate in refusing to make payment in doubtful cases, for outside the military establishments, the Post Office Department, and the Panama Canal, the instances in which a certifying officer would be a disbursing officer's administrative superior would be limited to payments for the Treasury Department itself and would thus be comparatively rare.

It has not been determined, however, to what extent disbursing officers have actually been relieved of responsibility for improper certifications. Their bonds continue to be the government's guarantee against loss, and no test has yet been made of the effect of Executive Order 6166 in that respect. Disbursing officers are not freely disposed as yet to make payments before assuring themselves that each proposed payment meets all the requirements of legality and regularity not only as regards their own action but also as regards that of the administrative officers. Thus the reason for delay in the expenditure of money has not yet been entirely removed. But the primary reason for delay is not that the Comptroller General interferes with administration and delays the payment of obligations, but that responsibility is not properly distributed between administrative and financial officers.

Obviously, delays may also occur as a result of arbitrary refusal to give prompt decisions or because of inefficiency or neglect of duty on the part of the Comptroller's office. There has undoubtedly been just cause for complaint. But abuse or inefficiency in practice does not warrant the abandonment of sound principles of procedure.

The report of the Brookings Institution contains detailed recommendations for effecting a proper distribution of responsibility between financial and administrative officers and expediting the payment of obligations and the settlement of accounts. To relieve disbursing officers of responsibility for illegal or irregular obligation of appropriated funds and to place this responsibility directly upon the administrative officers to whom appropriations are made, recommendation is made for the bonding of proper administrative officers. Disbursing officers should continue to be bonded, of course, for the protection of funds received by them or placed to the credit of their checking accounts.

To expedite the payment of obligations and at the same time to provide the basis for speedier settlement of disbursing officers' accounts, the Brookings Institution recommends extension of the pre-auditing service of the General Accounting Office, especially to the field units of the administrative departments and establishments, and encouraging more general use of existing provisions for advance decisions and direct settlement of routine claims.

(5) *Can conflicts be avoided by vesting in the Attorney General the authority to decide questions of jurisdiction between the Secretary of the Treasury and administrative officers?* As shown by the foregoing discussion, conflicts do not normally arise over questions of jurisdiction, but over questions of law or of fact after decisions have been rendered. Administrative officers do not submit questions to the Comptroller General for an opinion but for an advanced decision which will later determine his action in the settlement of an account. Thus it is owing to respect for the authority of the Comptroller General, rather than any doubt about it, that administrative officers submit questions to him for decision.

It is true that situations have arisen following an advance decision of the Comptroller in which his authority has been questioned. In a few instances matters once decided by the Comptroller General have been referred to the Attorney General for an opinion. In such instances, however, the Attorney General's opinion carries little weight, for the Comptroller General's decisions may be enforced through his authority of settlement and adjustment. Unless the Attorney General is given appellate authority to decide questions of fact as well as of law taken from the Comptroller's decisions, the Attorney General can not prevent conflict between controlling and administrative officers. On the other hand to vest in the Attorney General such appellate authority would be to transfer to the Attorney General the authority to pass legally upon the action of other administrative officers, hitherto coordinate with him in rank. In any case, the elimination of conflicts over questions of law and fact pertaining to the use of appropriated moneys would preclude the proper course of action in the exercise of control. It would therefore be unwise to attempt to eliminate conflicts.

It is the opinion of the Brookings Institution, however, that opportunity exists for the establishment of better relations between the Comptroller General and administrative officers of the government. To effect improved relations in regard to problems of financial administration, the Institution has recommended the establishment of an inter-agency committee composed of representatives of the General Accounting Office, the Bureau of the Budget, and such other executive departments and independent establishments as may from time to time be concerned with such problems. The function of this committee would be to study current problems of financial administration and to promote the necessary cooperation between executive agencies for the elimination of unnecessary duplication of information, the establishment of uniformity, and the efficient conduct of financial operations.

CONCLUSION

From the foregoing analysis, the position of the two groups of investigators can not fail to be clear. The President's Committee regards the system of financial administration as having failed during the past fifteen years and concludes that the principles upon which it is based are unsound. The Brookings Institution, on the other hand, regards the existing system as correct in principle. But the Brookings Institution does not contend that the existing system has functioned perfectly during the past fifteen years. It has, in fact, found three major defects in the present system.

These defects are, in brief, that (1) the budgetary system fails to meet all of the requirements of an efficient centralized system of budgetary and administrative management; (2) the system of proprietary control fails to provide complete information with respect to Treasury receipts and to require the preparation of comprehensive statements of the financial condition and operations of the government as a whole; (3) the existing distribution of responsibility between financial and administrative officers leads to unnecessary delays in the liquidation of obligations.

In its report to the committees of Congress, the Brookings Institution has made recommendations: (1) for improving both current information and research techniques of importance to effective budgetary and administrative management; (2) for meeting the need of the General Accounting Office for information which will make possible full control of the Treasury of the United States; and (3) for proper division of responsibility between financial and administrative officers and the expedition of both the liquidation of obligations and the settlement of financial officers' accounts. These recommendations can readily be incorporated in a reorganization of the present system of financial administration.

SUGGESTIONS FOR FURTHER READING

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GLOSSARY OF FINANCIAL TERMS AS USED BY OFFICERS OF THE FEDERAL GOVERNMENT

Account current. Record of accountable officers' transactions (or no transactions) examined and certified by administrative officers concerned, and submitted together with supporting documents, vouchers, etc., to the General Accounting Office for settlement.

Accountable officer. One required by law to make periodic settlement of his accounts with the General Accounting Office. Includes Treasurer of the United States, civilian disbursing officers, finance officers of the Army, paymasters of the Navy, and collectors of customs and internal revenue.

Administrative examination. Examination of books, vouchers, documents, etc., conducted by officers within an administrative establishment. Sometimes referred to as *internal audit.* To be distinguished from *audit* performed only by the General Accounting Office. *See Audit.*

Administrative officer. (1) One employed in the executive or administrative branch of the government. (2) One other than an accountable officer.

Advance decision. Decision required by law to be issued by the Comptroller General at the request of either administrative or disbursing officers prior to making a disbursement of money. Advance decisions are binding on the Comptroller General in the settlement of fiscal officers' accounts, but do not prohibit contrary action by administrative officers.

Allotment. (1) Procedure followed by officers in charge of a department or independent establishment of dividing an appropriation among the several bureaus and divisions of the department or establishment for expenditure pursuant to law; (2) a part of an appropriation so divided.

Appropriation. (1) Procedure followed by Congress of specifying by statute the purposes and objects for which public moneys may be expended. (2) A sum so designated or appropriated by Congress. Appropriations are made to administrative officers or agencies designated in the appropriation acts, and are allotted by them to their administrative subordinates. *See Allotment.*

Audit. Independent examination made by the General Accounting Office or its representatives of the accounts of accountable officers for legality, regularity, and accuracy. *See Account current; Accountable officer.* Audit is an inseparable part of the settlement of an account and should be distinguished from *administrative examination. See Administrative examination; Settlement.*

Budget. Statement of estimated receipts, expenditures, and balances together with detailed statement of appropriations. *See Appropriation.*

Budgetary account. Balanced record of transactions relating to the use of an appropriated fund.

Budgetary management. Executive direction and supervision of the use of appropriated funds. Centralized budgetary management looks toward promoting economy and efficiency in administration and preventing the exhaustion of appropriated funds before the end of the period for which they are appropriated.

Centralized accounting. Recording in one central set of records all events which affect the cash, property, and appropriated funds of the government.

Control. See Financial control; Proprietary control.

Covering in. Process of crediting moneys received for deposit to the proper funds of the Treasury; funding. *See Fund.* Moneys received and held by the Treasurer prior to funding are termed "uncovered moneys."

Deposits without personal credit. Moneys deposited by others than accountable officers. *See Personal credit.*

Direct settlement. Certification by the General Accounting Office to the legality and accuracy of a claim against the United States prior to the disbursement of money. In the comparatively few cases in which payments are made by direct settlement, claims are examined and certificates of settlements are issued by the General Accounting Office. If a balance exists, under the appropriation chargeable to the credit of a disbursing officer, the certificate of settlement is transmitted to the disbursing officer for payment. If such a balance does not exist, the certificate of settlement is transmitted to the Division of Bookkeeping and Warrants, Treasury Department, where a settlement warrant is issued directing payment by the Treasurer of the United States.

Disallowance. Action taken by the General Accounting Office on failure to remove a suspension, denying settlement of an accountable officer's account current. An item disallowed must be adjusted by suitable action of the officer responsible before his account can be settled. *See Settlement; Suspension.*

Disbursement. Payment of money by check or cash from appropriated or other funds of the United States Treasury.

Encumbrance. Obligation chargeable against the appropriated or other funds of the Treasury. Obligation or encumbrance is the first step taken in the expenditure of an appropriation. It does not call for the immediate disbursement of cash but reserves a part of the appropriation pending liquidation or cancellation of the obligation or encumbrance.

Expenditure. (1) Process by which appropriations or other funds are encumbered and the encumbrances liquidated; (2) amount obligated or disbursed. The expenditure of money involves four steps or processes: (1) appropriation, (2) obligation, (3) issuance of checks, and (4) disbursement of cash. Since there is a lapse of time at each successive step, there are at any given time four slightly different figures by which to represent the expenditures of the government. The term expenditure is loosely applied to any of the four figures, but for precise meaning, one of the four terms should be used which designates the step in the process.

Financial control. (1) Executive direction of the use of appropriated funds. *See Budgetary management.* (2) Protection of the Treasury from illegal or irregular expenditures. *See Proprietary control.*

Fiscal. Financial. Strictly speaking, the term fiscal relates only to treasury administration. It is loosely applied, however, to matters of budgetary management as well as proprietary control.

Fund. Classification or division of moneys of the United States Treasury. Three classes of funds are prescribed for the segregation of covered or funded moneys: (a) General Funds, comprising the bulk of all deposits, and expendable only in consequence of appropriation acts of Congress; (b) Special Funds, comprising only those deposits which are "earmarked" for specified purposes and available for those purposes when collected; and (c) Trust Funds, comprising moneys deposited in accordance with a trust agreement, and available only upon fulfillment of the terms of the trust.

Obligation. See Encumbrance.

Payment. See Disbursement.

Personal credit. Credit guaranteed by personal liability. Deposits for personal credit are moneys received by accountable officers for deposit to the credit of the Treasurer of the United States. Disbursing officers are personally responsible for such moneys under bond until their accounts are settled in the General Accounting Office.

Proprietary account. Balanced record of transactions relating to the cash property or appropriated funds of the government.

Proprietary control. Independent verification through accounts and their supporting documents of the legality, regularity, and accuracy of action which affects the cash, property, and appropriated funds of the government. The independent exercise of proprietary control looks toward precluding the availability of funds in excess of appropriations and preventing the loss of public moneys through the expenditure of funds in excess of available cash, or for purposes or by procedures not authorized by law.

Settlement. (1) Procedure followed by the General Accounting Office in the audit, suspension, adjustment, and final certification of an accountable officer's account as to the legality, regularity, and accuracy of each transaction recorded; or which should be recorded; (2)

merely the final certification by the General Accounting Office.

Suspension. Action taken by the General Accounting Office in auditing an accountable officer's account current calling for suitable action or explanation of such officer prior to the settlement of his account.

Voucher. Properly certified document employed as authority for taking financial action and for making entries in the accounting records.

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