



# REPORT TO THE CONGRESS

Status, Progress, And Problems  
In Federal Agency Accounting  
1969 Annual Report B-115398

B-115398

BY THE COMPTROLLER GENERAL  
OF THE UNITED STATES

DEC. 31, 1970

715661 / 10922191



COMPTROLLER GENERAL OF THE UNITED STATES  
WASHINGTON, D.C. 20548

B-115398

To the President of the Senate and the  
Speaker of the House of Representatives

We are presenting our second annual report, covering calendar year 1969, summarizing progress being made by Federal agencies in developing and improving their accounting systems in accordance with the overall mandates of the Congress and the related principles, standards, and requirements prescribed by the Comptroller General. This report was prepared in response to the recommendation of the House Committee on Government Operations (H. Rept. 1159, 90th Cong., 2d sess., March 5, 1968).

The General Accounting Office is responsible, under the Budget and Accounting Procedures Act of 1950, for cooperating in the development of executive agency accounting systems and for approving them when they are considered to be adequate and in conformity with prescribed accounting principles, standards, and related requirements. Prior to October 1969, our approvals extended to agency systems in actual operation. In order to expedite the development, review, and approval processes, however, we have limited our subsequent approvals to an agency's statement of its principles and standards and to its description of the general design of the accounting system intended for application. Reviews of agency systems in operation would thereafter be made from time to time, as required by law, to determine their effectiveness and efficiency.

Our first annual report, covering calendar year 1968, was largely gleaned from audit and systems reviews made by the General Accounting Office and by agency internal audit staffs. To present a more precise assessment of the agencies' accounting systems development and improvement efforts, this year's report was compiled primarily on the basis of the agencies' own evaluations of their respective improvement efforts. This assessment was obtained through a questionnaire that we addressed to the heads of Federal departments and agencies.

Since we now limit the approval processes to two stages, the statistical accomplishments shown in this year's report treat previously approved accounting systems as concurrent approvals of system

designs and statements of principles and standards. On this basis, the status of approvals as of December 31, 1969, was as follows:

--For civil departments and agencies, 95 of 122 statements of accounting principles and standards, 65 of 144 system designs, and 11 of 42 segments of systems had been approved.

--For Department of Defense activities, 23 segments of statements of principles and standards and six system designs had been approved. The potential number of complete accounting systems and segments of systems in use in Department of Defense activities which may require consideration for approval has not been specifically ascertained by the Department.

Copies of this report are being sent to the Director, Office of Management and Budget, and to the heads of the departments and agencies reported on in chapter 5.



Comptroller General  
of the United States

## C o n t e n t s

CHAPTER		<u>Page</u>
1	INTRODUCTION	1
2	GENERAL REVIEW OF AGENCY EFFORTS, PROBLEMS, AND PROGRESS	3
	Accounting for costs	5
	Accounting for property	6
	Recommendations of the President's Com- mission on Budget Concepts	8
	Staffing and training	11
3	GAO EFFORTS TO IMPROVE FINANCIAL MANAGEMENT	14
	Change to a more effective method for approving accounting systems	14
	Need for financial management improve- ments found during audit and investi- gative work	16
	Settlement of accounts of accountable officers	19
	Accounting system approval activity and status	19
4	OVERALL PROGRESS AND STATUS OF AGENCY COM - PLIANCE WITH THE OBJECTIVES OF THE BUDGET AND ACCOUNTING PROCEDURES ACT OF 1950, AS AMENDED (31 U.S.C. 66)	23
	Need for further improvement in property accounting and in developing periodic and unit operating costs	25
	Principles and standards	28
	Accounting manuals	29
	Accrual accounting	30
	Operating statements	35
	Use of unit costs in managing operations and formulating budgets	37
	Other financial statements	40
	Consistency of budget and accounting classifications	45
	Substantial compliance with the Budget and Accounting Procedures Act of 1950	45

CHAPTER

5	ACCOUNTING SYSTEM DEVELOPMENT IN INDIVIDUAL DEPARTMENTS AND AGENCIES	48
	Department of Agriculture	48
	Department of Commerce	53
	Department of Defense	56
	Department of Health, Education, and Welfare	64
	Department of Housing and Urban Development	68
	Department of the Interior	71
	Department of Justice	77
	Department of Labor	81
	Department of State	83
	Department of Transportation	87
	Department of the Treasury	91
	Agency for International Development	95
	District of Columbia Government	98
	National Aeronautics and Space Administration	101
	National Science Foundation	103
	Office of Economic Opportunity	106
	Peace Corps	108
	Small Business Administration	111
	U.S. Information Agency	113
	Veterans Administration	116
	Other independent agencies	118

APPENDIX

I	Accounting requirements stated by the Congress	123
	Budget and Accounting procedures	123
	Property accounting	125
II	Status of approval of accounting systems	
	Civil departments and agencies	126
III	Civil Department and agency respondents to questionnaire on compliance with the Budget and Accounting Procedures Act of 1950	143

APPENDIX

IV	Office of Management and Budget letter sent to heads of executive departments and agencies dated September 15, 1970	145
----	---	-----

ABBREVIATIONS

GAO	General Accounting Office
PPBS	Planning, Programming, and Budgeting System
OMB	Office of Management and Budget

## CHAPTER 1

### INTRODUCTION

Members of the House Committee on Government Operations and other members of Congress have expressed concern regarding the adequacy of Federal accounting systems and regarding the lack of sufficient progress in developing adequate, useful, current accounting systems which are designed and operated in such manner that they warrant approval by the Comptroller General under the current requirements of law. The Committee has also indicated an awareness of an increase in the rate of progress in financial management improvement efforts among the executive agencies.

This second annual report has been prepared in response to the recommendation of the Committee (H. Rept. 1159, 90th Cong., 2d sess., March 5, 1968) that:

"The General Accounting Office should make an annual report to the Congress summarizing findings relating to inadequate accounting systems and the progress of agencies in developing systems for submission and approval by the Comptroller General."

The first annual report (B-115398) was issued on September 18, 1969. With the exception of Government corporations subject to the provisions of the Government Corporation Control Act (31 U.S.C. 850), the accounting systems of all executive agencies are subject to approval by the Comptroller General.

Chapters 2 and 3 of this report contain observations and comments concerning executive agency efforts, problems, and progress in establishing their systems in accordance with established principles, standards, and related requirements and also contain a resume of General Accounting Office (GAO) efforts to improve financial management.

Chapter 4 summarizes the status of accounting and the degree to which civil department and agency heads believe that they are achieving good financial management practices

using, as criteria, the objectives of the Budget and Accounting Procedures Act of 1950 (31 U.S.C. 66), cited in appendix I, and the related accounting principles and standards prescribed for guidance of Federal agencies by the Comptroller General. The summary is based on answers by heads of Federal departments and agencies to questions concerning performance necessary to meet the requirements of 31 U.S.C. 66.

The magnitude of the task precludes an independent current appraisal of the agency answers to the questions. Primary responsibility for installation and operation of their accounting systems has been placed with the executive departments and agencies and we believe that their current views concerning compliance with congressionally established objectives are pertinent to this report on status, progress, and problems.

Chapter 5 of the report contains information and GAO comments on accounting systems development matters in specific Federal agencies (including the Department of Defense). The status of Federal agency accounting systems subject to approval by the Comptroller General is shown in appendix II.

## CHAPTER 2

### GENERAL REVIEW OF AGENCY EFFORTS PROBLEMS, AND PROGRESS

In 1951 the first accounting system was approved under the Budget and Accounting Procedures Act of 1950. During the period 1952-1959, 39 systems were approved. During the 5-year period 1960-1964, only three systems were approved. The slow pace of compliance with the provisions of the Budget and Accounting Procedures Act led to Congressional hearings before a subcommittee of the House Committee on Government Operations in 1964. Congressional interest in financial management improvement efforts has continued since 1964.

The executive branch of the Government has also supported, at the highest levels, improved systems of financial management. Interest has also been created through the recommendations on accrual accounting contained in the report of the President's Commission on Budget Concepts in October 1967 and reaffirmed by the President in February 1969.

Evidencing the renewed interest, in calendar year 1969, 21 statements of principles and standards and eight system designs were approved for civil departments and agencies. Of the 122 civil department and agency statements of principles and standards and 144 systems designs subject to approval at the end of the year, 95 statements of principles and standards and 65 designs had been approved. In addition there were 42 segments of systems subject to approval as of December 31, 1969, of which 11 had been approved. In the Department of Defense, eight statements of principles and standards and three system designs were approved during the year.

The concept of accrual accounting has been generally agreed to throughout the Government. Current problems relate primarily to application of the concept and maintenance of adequate systems.

The task of developing an accounting system to the point where it can be approved by the Comptroller General varies from agency to agency and system to system. There are scores of agencies, hundreds of programs, hundreds of geographic locations, and a wide variety of activities for which improved accounting must be accomplished. Some agencies and programs are relatively small and not too complex; others are extremely large and very complex. Some involve many large contract and grant operations with industry, universities, and others. Some involve substantial programs with State and local governments and nonprofit organizations. Appropriate coordination of these interlocking operations is a task of some magnitude for the larger agencies involved.

As indicated in chapter 4, many agencies are making significant efforts to improve their financial management practices in general and their accounting systems in particular. We are not satisfied, however, with the overall progress being made. We feel that current agency efforts should be maintained and accelerated in keeping with current agency schedules to obtain approval of their accounting systems. The efforts, problems, and progress of each of 20 agencies are described briefly in chapter 5 of this report along with our specific comments.

The Budget and Accounting Procedures Act of 1950, as amended, requires accrual accounting, and this law, as well as other laws, specifically requires adequate property accounting. (See app. I.) Property accounting and cost accounting are two areas where improvements are needed in the accounting systems of the executive agencies. Both property and cost accounting are integral parts of an accrual accounting system.

## ACCOUNTING FOR COSTS

GAO encourages agencies to adopt internal cost-based budgeting procedures, as required by law. We believe that such a requirement, as stated in the law since 1956 (see app. I), should be recognized by each agency and that the Office of Management and Budget<sup>1</sup> should provide the leadership to achieve this objective. Adoption of this basis of budgeting for internal management purposes would relate plans and budgets, developed on an accrued cost basis, to the agency accounts which are required to be maintained on an accrual basis. This procedure would provide the basis for improved information in the hands of managers for use in controlling costs of operations.

The production and reporting of significant cost information are essential ingredients of effective financial management. Cost information is useful in decisionmaking which involves the selection of alternative courses of action, in measuring actual performance in relation to planned performance, and in comparing costs of similar activities.

The Planning-Programming-Budgeting System (PPBS), which has been implemented to varying degrees in the major Federal agencies, was instituted to aid in making judgments between alternative courses of action. Accounting systems are required to provide data in support for such systems.

Federal agencies will increase the benefit they can derive from their accounting systems if all agency officials with financial information needs, including budgeting staffs, tell the accountant what they need in the way of financial information and use the information when it is given to them.

Although most agencies state that they prepare monthly statements of operating costs, only about half of them

---

<sup>1</sup>Bureau of the Budget was redesignated as the Office of Management and Budget, effective July 1, 1970, by the President's Reorganization Plan No. 2 of 1970.

(see ch. 4) indicated that they take the additional step to produce and use unit costs for day-to-day management and budget formulation. Although a sizeable proportion of Federal departments and agencies reported that they are using unit cost in budget formulation and management, in our opinion there are still too few good cost accounting systems in the Federal Government. In an effort to promote better agency accounting for costs, we have distributed and will continue to distribute to other agencies examples of good cost control practices involving accounting for costs.

Chapters 4 and 5 frequently mention the need for better cost accounting to provide cost information for agency management purposes.

### ACCOUNTING FOR PROPERTY

Adequate monetary property accounting includes internal controls which provide management assurance that property is being adequately controlled and accounted for. The importance of property accounting also rests on the fact that, when public funds are invested in such property, there is a need to render an accounting for the use of both the funds and the property.

Since enactment of the property accounting laws cited in appendix I, the executive agencies having significant amounts of property have, with some exceptions, adopted the concept of monetary property accounting in their accounting principles and standards. Most of these exceptions pertain to property for which the managerial benefits of monetary property accounting are not great. For example, an attempt to reconstruct or to estimate and to record the original cost of certain monuments, the public domain, or the original cost of existing roads, streets, and bridges of the District of Columbia would be projects of limited value. There are also practical limitations in monetary accounting for military equipment in combat zones.

In some cases monetary property accounting procedures have not been developed where, in our opinion, there is management significance. For example, the D.C. Government has not installed monetary property accounting for the cost of water and sewer mains which should be a factor for

consideration in the establishment of rates. Another example is the U.S. Coast Guard, Department of Transportation, which has not maintained adequate monetary accounting for significant amounts of property, such as vessels, vehicles, and certain other equipment. Where such procedures have not been developed, however, plans for accounting system improvement generally include consideration of the need for adequate property accounting, as is the case with the Coast Guard.

Some agencies have adopted, but have not satisfactorily implemented, monetary property accounting. For example, we do not believe that the property accounting systems of the Department of State or the Peace Corps have been adequately designed to include the necessary internal controls to provide assurance that reliable data is contained in the property accounts. Officials of the Peace Corps have advised us, however, that they are in the process of developing an accounting system that is specifically designed to coincide with the objective of effective control and accountability for property and other assets. The Department of State has also indicated that further effort was being applied to strengthen monetary property accounting controls.

In connection with stock-funded operations, where the basic concepts of a satisfactory property accounting system have been designed and installed, the system is not being operated effectively. During the course of our audit, we noted instances where stock records of selected Department of Defense depot inventories--averaging in value about \$10.4 billion--had to be adjusted up or down an average of \$2.4 billion annually in order to bring them into agreement with the physical inventory quantities.

In an operation as large as the Federal Government, there will always be problems of varying magnitudes in maintaining property accounts once they have been properly designed and installed. Nevertheless, we believe that more attention to adequate administration and operation of monetary property accounts will produce more accurate information for use in the decisionmaking processes relating to the management of property. Good accounting for property is necessary not only as a matter of accountability, but also for effective use, procurement, and supply of such resources. Specific instances where improvements in property accounting are needed are cited in chapters 4 and 5.

RECOMMENDATIONS OF PRESIDENT'S  
COMMISSION ON BUDGET CONCEPTS

On February 22, 1969, President Nixon reaffirmed the objective of placing the Federal Budget and the companion financial reports of the Treasury Department on the accrual basis as recommended by the President's Commission on Budget Concepts. But, because of the lack of progress by some agencies in converting their accounting systems to an accrual basis, the President postponed the changeover for one year, to be effective with the budget for 1972 to be submitted in January 1971.<sup>1</sup> The heads of departments and agencies were so advised in a memorandum dated March 10, 1969, from the Secretary of the Treasury, Director of Bureau of the Budget, Chairman of Council of Economic Advisers, and the Comptroller General. In the same memorandum, the agencies were encouraged to take action to complete the changes necessary to meet the new timetable and were informed of the following prerequisites for the current test operation to be successful.

"The special monthly reports presently required on the accrual basis must be of such stature, in substance and timeliness, as to enable the Treasury to conduct its central operations for the rest of the current fiscal year and extending through fiscal year 1970 as a comprehensive 'pilot' system, producing everything needed for reporting Government-wide results on the accrual basis short of actually publishing the financial statements on that basis during that period. The basic objective is to produce from that 'pilot' system (a) actual data on accrued revenues and expenditures for fiscal years 1969 and 1970 which will be needed when the financial reports begin to be published on the accrual basis in fiscal 1971; and (b) firm year-end balances of

---

<sup>1</sup>On September 15, 1970, the Office of Management and Budget addressed a letter to heads of executive departments and agencies restoring cash receipts and outlays as the measure of results of the 1972 budget. (See app. IV.)

the various asset and liability accounts on the books of the agencies that represent the bridge between the 'cash' and 'accrual' bases and that are prerequisite to the changeover."

The central financial agencies--Office of Management and Budget, Treasury Department, and GAO--continued their studies into the problems experienced by certain agencies in the recording and reporting of accrued expenditures in the constructive delivery and grant areas. The problem in these areas is to get a timely and reasonably reliable figure on unbilled performance. Some agencies have solved the problem by getting monthly reports from contractors and grantees. Others secure estimates from agency employees familiar with the progress of work. Others have been trying to secure statistical estimates for an entire appropriation rather than for an individual contract. The problem is the greatest in the Defense Department where no adequate solution has yet been found.

In June 1969 GAO issued an illustrative booklet describing acceptable methods of accounting for accrued expenditures for the agencies to properly prepare the monthly accrual reports required by the Treasury Department under Bureau of the Budget Bulletin No. 68-10.

On July 1, 1969, Supplement No. 1 was issued to Bureau of the Budget Bulletin No. 68-10 modifying and amplifying certain of the original instructions pertaining to accruals in the areas of constructive delivery and grants.

The supplement also provided for all agencies to submit cost-based budgets in support of their request for funds in the 1972 budget and to use cost-based operating budgets (as required by Public Law 863, 84th Cong.) in their internal financial management practices as soon as practicable.

The Treasury Department issued Transmittal Letter 36, dated July 25, 1969, containing revised reporting requirements for monthly financial reports on the accrual basis during the fiscal year 1970.

In a memorandum dated August 12, 1969, to the heads of departments and agencies, the President reiterated his

request for the agencies to make a vigorous effort to convert to the accrual basis of accounting for stating budget revenues and expenditures.

In 1969 the House Committee on Appropriations commenced a study of the usefulness of accrual accounting in Federal agencies, as required by law, and of measuring budget results on an accrual instead of on a cash basis, as recommended by the President's Budget Commission.

## STAFFING AND TRAINING

Accounting for the operations of the Federal Government has, over the years, grown more and more complex, necessitating the development of higher skills and the use of more sophisticated equipment. The days when simple fund accounting and manually maintained records were adequate have long since passed. Performance budgeting, as recommended by the Hoover Commissions, and accrual accounting, as required by law (31 U.S.C. 66a) and recommended by the President's Commission on Budget Concepts, had brought new dimensions to the concepts of financial management in the Federal Government.

Also, the advent of PPBS and the recommendations of the President's Commission on Budget Concepts have brought into focus the breadth of improvements needed in accounting for the operations of the Federal establishment and the urgency for their timely achievement. The addition of a large number and variety of new programs, many involving Federal-State relationships, has added problems. The volume of transactions and the need for timeliness in reporting to management have brought electronic computers into extensive use with the attendant need to apply judgment and skill in the planning, management, and operation of this equipment.

Today, accounting systems must include cost systems which provide an accurate and reliable basis for developing and reporting costs of performance in accordance with the PPBS structure, for serving the various needs of each organizational echelon, and for supporting the budgetary system. The complexities of modern accounting systems designed to serve the information needs of management have created a need for an upgrading of accounting skills and the development of skills in the electronic equipment field.

In response to this need, the Civil Service Commission established the Financial Management and Planning, Programming and Budgeting Training Center in Washington, D.C. in 1967. This center provides training for executives and staff specialists in both accounting and budgeting. It also develops specialized training materials and provides advice and assistance to other agencies in matters relating to training.

During 1969 the Financial Management and Planning, Programming, and Budgeting Training Center of the Bureau of Training conducted 85 sessions of 19 training programs in financial management and planning, programming, and budgeting in the Washington area. Some 2,100 Federal, 17 State, and 50 foreign government officials attended these programs. Seven of the programs were introduced during fiscal year 1970.

- Accrual Accounting Workshop
- Economic Investment Analysis
- Statistical Sampling for Financial Managers
- Discount Rates and Procedures
- Basic Data Analysis
- Correlation and Regression Analysis
- Linear Programming

Regional offices of the Civil Service Commission conducted 94 sessions which were attended by 1,575 government and 625 state and local employees at various locations in the country.

Also new in fiscal year 1970 was the Intergovernmental Affairs Fellowship Program. To improve administration of grant-in-aid, 24 Federal officials spent nine weeks with State and municipal governments where they observed first-hand the problems and applications of grant programs at the operating level. This program was contracted through the Civil Service Commission with the Brookings Institutions. Participating agencies were Bureau of the Budget, Department of Health, Education, and Welfare, GAO, Department of Housing and Urban Development, Office of Economic Opportunity, Department of Labor, and Department of Transportation.

The Educational Program in Systems Analysis completed its fourth year. The program, conducted by five universities, was successfully completed by 55 participants from 19 agencies.

The recent increased emphasis on training in financial management holds much promise for long term benefits.

Last year we reported a shortage of qualified accountants in the Federal Government. We believe there has been

improvement in this situation. Staffing problems, however, still existed during 1969 (see pp. 70 and 98) and the use of consultants for accounting systems improvement work was rather common.

## CHAPTER 3

### GAO EFFORTS TO IMPROVE FINANCIAL MANAGEMENT

Under the Budget and Accounting Procedures Act of 1950, each executive agency is responsible for establishing and maintaining adequate systems of accounting and internal control for the programs and activities for which the agency is responsible. Such systems must be designed to accomplish the objectives set forth in the act and they must conform to the principles, standards, and related requirements prescribed by the Comptroller General of the United States.

Under the same act, GAO has four functions with respect to accounting in the Federal Government.

1. Prescribing principles and standards and related requirements for accounting to be observed by each executive agency.
2. Cooperating with executive agencies in the development of their accounting systems.
3. Approving executive agency accounting systems when deemed adequate and in conformity with prescribed principles, standards, and related requirements.
4. Reviewing and reporting on agency accounting systems from time to time.

### CHANGE TO A MORE EFFECTIVE METHOD FOR APPROVING ACCOUNTING SYSTEMS

During most of calendar year 1969, accounting systems could be submitted for approval in three stages.

1. Principles and standards of accounting to be followed.
2. Design of the accounting system.
3. The accounting system in operation

After considering changes which would enable more effective performance in this important area and on the basis of a comprehensive reconsideration of GAO policies and

practices with respect to the development, review, and approval of executive agency accounting systems, in October 1969 we announced the following changes to increase the effectiveness of these operations.

1. Formal approval operations were limited to the two stages: (a) agency statements of principles and standards established to govern their accounting systems and (b) the proposed general designs of those systems. Accounting systems in actual operation will no longer require formal approval.
2. In lieu of formally approving accounting systems in operation, more effort will be directed to conducting reviews of agency accounting operations from time to time, as required by law, and reporting our evaluations and recommendations to agency officials and to the Congress. Agency systems in operation are to be reviewed for their effectiveness and efficiency in producing reliable financial reports for internal and external use and in contributing to management control of agency resources and for conformity with the accounting objectives stated by the Congress in the Budget and Accounting Procedures Act of 1950, as amended, and Comptroller General's prescribed principles, standards, and other requirements.

This change in the manner in which we will be carrying out our accounting functions is intended to provide a more effective method of operation by GAO. In making this change, however, we continue to emphasize that the primary responsibility of each executive agency is to install and maintain accounting systems which are adequate and in accordance with the principles, standards, and related requirements and the proposed designs which we approve.

An important reason for this change is that accounting systems for Federal agency operations are seldom static. They must keep abreast of changes in information system concepts and technology and changes in Federal programs and activities. To attempt to keep the approved status of all systems in operation on a current basis could be an

impossible objective. We concluded that we can accomplish as much, if not more, in the way of promoting improvement

--by continuing to cooperate with the executive agencies in their accounting systems development work and

--by making more examinations into the operation of agency accounting systems and proposing constructive recommendations for strengthening or otherwise improving those systems.

The general purposes of these examinations in each agency are to evaluate:

1. The effectiveness and efficiency of the accounting system in producing reliable financial reports for internal and external use and in contributing to management control of agency resources.
2. Accounting improvement progress and conformity with the accounting objectives stated by the Congress in the Budget and Accounting Procedures Act of 1950, as amended, and with our prescribed principles and standards.

In making these examinations, careful consideration will be given to the nature and extent of agency internal audit or other internal review work that may be performed.

The foregoing changes in our review and approval policies do not signify any change in the degree of importance which we attach to this area of responsibility assigned to us by the Congress or any reduction in the amount of effort to be devoted to it. It does mean some shift in the nature of our efforts, particularly in providing for more evaluations of agency accounting operations.

NEED FOR FINANCIAL MANAGEMENT IMPROVEMENTS  
FOUND DURING AUDIT AND INVESTIGATIVE WORK

Our audits and investigations of Government agencies often reveal the need for improved financial management policies, procedures, and practices. In this important

area of effort, Section 111 of the Budget and Accounting Procedures Act of 1950 provides that it is the policy of the Congress that:

"(d) The auditing for the Government conducted by the Comptroller General of the United States as an agent of the Congress be directed at determining the extent to which accounting and related financial reporting fulfill the purposes specified, financial transactions have been consummated in accordance with laws, regulations or other legal requirements, and adequate internal financial control over operations is exercised, and afford an effective basis for the settlement of accounts of accountable officers." (31 U.S.C. 65)

In keeping with our statutory responsibility in regard to accounting and financial reporting, it is our policy to fully consider the financial management and accounting implications in all our auditing and investigative work.

Some of our work is concerned specifically with accounting and reporting matters. During 1969 the results of this type of review were included in such reports as that to the Director of the Peace Corps, "Progress Towards Development of an Adequate Accounting System" (B-165743, August 15, 1969), and the report to the Congress, "Improvements Suggested in Accounting Methods Used in Establishing Fees for Reimbursable Testing and Related Services," Food and Drug Administration, Department of Health, Education, and Welfare (B-164031(2), December 12, 1969).

Other work concerns evaluations of practices that could be improved in part by better accounting, such as contained in our reports to the Congress, "Management of Equipment by the Atomic Energy Commission" (B-160731, March 14, 1969), and Improvements Needed in the Management of Government Owned and Leased Real Property Overseas, Department of State (B-146782, September 30, 1969).

Recommendations for improvements in accounting are also included, when appropriate, in reports concerned primarily with mission activities, such as the reports to the Congress,

"Review of the Program for Screwworm Eradication," Agricultural Research Service, Department of Agriculture (B-133192, March 30, 1969) and "Unused Engineering and Design Effort in the Military Construction Program," Department of Defense (B-133316, October 22, 1969).

## SETTLEMENT OF ACCOUNTS OF ACCOUNTABLE OFFICERS

Under Section 113 of the Accounting and Auditing Act of 1950 (31 U.S.C. 66a), it is the responsibility of the head of each executive department and agency to maintain appropriate accounting and internal controls of the assets for which he is responsible. Relative to functions of accountable officers--disbursing, certifying, and collecting--this responsibility includes providing assurance of the legality, propriety, and correctness of disbursements and collections of public funds.

In a letter to the heads of Federal departments and agencies (B-161457, August 1, 1969,) the Comptroller General reemphasized their responsibilities for proper accounting and internal control, including internal audit, for functions of their accountable officers; announced that GAO reviews for settlement purposes would include evaluations of the ability of agencies' financial management systems to assure the appropriateness and correctness of transactions; and notified them of reduced requirements for reporting irregularities to GAO and of provisions made for administrative resolution of irregularities under specified amounts.

The changes announced by this letter provide for reducing the extent of detailed examinations and reporting incident to settling accounts of accountable officers, a function which is costly both to GAO and to the agencies. We now place increased reliability, where found to be present, on safeguards that can be achieved by good financial management systems and organizations.

## ACCOUNTING SYSTEM APPROVAL ACTIVITY AND STATUS

Since we now limit the approval processes to two stages, the statistical accomplishments shown in this year's report treat previously approved accounting systems as concurrent approvals of system designs and statements of principles and standards. On this basis, at December 31, 1969, there were 144 complete system designs for civil departments and agencies subject to approval. Of these, 65 had been

approved. In addition, 95 statements of principles and standards and 11 segments of systems had been approved.

We have been unable to ascertain the total number of accounting systems in the Department of Defense which should be subject to approval by the Comptroller General. The diversity of operations and the dispersal of its organizational structure have resulted in numerous segmented systems which have only recently come under our analysis and evaluation. At December 31, 1969, 19 statements of principles and standards, three designs, and one segment of Department of Defense systems had been approved.

A detailed status report of systems and subsystems submitted to GAO for approval as of December 31, 1969, is shown in appendix II. Accounting systems activity during 1969 and the status as of December 31, 1969, are summarized in the following schedule.

Civil Departments and Agencies  
Status of Approvals and Reviews  
as of December 31, 1969

Complete systems

Principles and standards:	
Approved during 1969	21
Approved as of January 1, 1969--adjusted total	<u>74</u>
Total approvals as of December 31, 1969	95
Reviews in process as of December 31, 1969	<u>16</u>
Total approved and in process on December 31, 1969	111
Scheduled for submission	<u>11</u>
Total principles and standards approved, in process, or scheduled (note a)	<u>122</u>
System designs:	
Approved during 1969	8
Approved as of January 1, 1969--adjusted total	<u>57</u>
Total approvals as of December 31, 1969	65
Reviews in process as of December 31, 1969--less resubmissions (2)	<u>20</u>
Total approved and in process on December 31, 1969	85
Scheduled for submission (45) less resubmissions (2)	43
Not scheduled for submission	<u>16</u>
Total system designs subject to approval at December 31, 1969 (note a)	<u>144</u>

Segments of systems

Approved during 1969	2
Approved as of January 1, 1969	<u>9</u>
Total approvals as of December 31, 1969	11
In process at December 31, 1969	<u>18</u>
Total approved or in process at December 31, 1969	29
Scheduled for submission or resubmission	11
Not scheduled for submission	<u>2</u>
Total segments of systems subject to approval	<u>42</u>

<sup>a</sup>The total number of principles and standards (122) does not equal the total number of systems design subject to approval (144) because, (1) some departments have departmentwide statements of principles and standards covering all or a portion of the agencies within the department and (2) some departments and agencies have not scheduled their principles and standards for submission.

Department of Defense  
Accounting Systems Approvals--Formal  
as of December 31, 1969

	<u>Approved</u>	<u>In pro- cess of approval</u>
Principles and standards:		
Approval status--January 1, 1969	11	18
Activity during the year:		
Submitted for approval	-	1
Approved	8	-8
Returned or withdrawn	<u>-</u>	<u>-3</u>
Approval status--December 31, 1969	<u>19</u>	<u>8</u>
System designs:		
Approval status--January 1, 1969	-	3
Activity during the year:		
Submitted for approval	-	2
Approved	3	-3
Returned or withdrawn	<u>-</u>	<u>-1</u>
Approval status--December 31, 1969 <sup>a</sup>	<u>3</u>	<u>1</u>
System segments:		
Approval status--January 1, 1969	-	3
Activity during the year:		
Approved	<u>1</u>	<u>-1</u>
Approval status--December 31, 1969	<u>1</u>	<u>2</u>

<sup>a</sup>Twenty-nine system designs are scheduled for submission.

## CHAPTER 4

### OVERALL PROGRESS AND STATUS OF AGENCY COMPLIANCE

### WITH THE OBJECTIVES OF THE BUDGET AND ACCOUNTING

### PROCEDURES ACT OF 1950, AS AMENDED (31 U.S.C. 66)

Objectives for Federal agency accounting are set forth in the Budget and Accounting Procedures Act of 1950 (see app. I, p. 2). The same act, in section 112(a), requires the Comptroller General of the United States to prescribe principles, standards, and related requirements for accounting to be observed by each executive agency. It is the primary responsibility of each executive agency to install and maintain accounting systems which meet the objectives established in law and the related principles and standards established by the Comptroller General.

The accounting principles, standards, and related requirements established by the Comptroller General have been designed to provide a framework sufficiently flexible to allow adaptation of accounting to the varying needs of the extremely great variety of operations carried out by the executive departments and agencies. Stimulation is also provided to develop the highest standards of accounting and financial reporting.

Essentially, the Budget and Accounting Procedures Act of 1950 simply requires those things deemed necessary for good financial management. We believe that Federal agencies should be expected to know and meet good financial management requirements whether or not an agency's accounting system has been developed in such a way as to enable submission to the Comptroller General for review and approval.

Accounting systems for Federal agency operations are seldom static. They must be modernized from time to time to keep abreast of changes in information system concepts and technology and to accommodate to changes in Federal programs, activities, and organization. To be currently well informed on the problems and progress in each executive agency would be a monumental task.

To obtain a current assessment of the status of accounting and the extent to which executive agency management believe that they are achieving good financial management, we addressed inquiries to the heads of Federal departments and agencies having accounting systems subject to approval by the Comptroller General. We asked that they reply as of December 31, 1969. Of the 144 systems of civil and international agencies subject to approval, we received replies from civil agencies covering 131 systems, as indicated in appendix III.

The questions concern performance necessary to meet the essential requirements of the Budget and Accounting Procedures Act of 1950 and related principles and standards prescribed by the Comptroller General. The main thrust of the replies received from civil<sup>1</sup> departments and agencies is summarized after each caption. We have commented on deviations from the major pattern of replies when considered meaningful. Although we are not in a position to give a current appraisal of the answers received, we feel that the agency replies which relate to compliance with congressionally established objectives are valuable in assessing progress and problems.

The questions were applicable to most of the accounting systems for which replies were received and partially applicable to others. For example, the objectives of the Fiscal Accounting System for Central Accounting for Government Operations and the system for Central Accounting for Foreign Currency Operations, Department of the Treasury, are to maintain accountability for cash balances. This objective is adequately met through timely recording of cash transactions, and questions concerning such matters as accrual accounting and operating and unit costs are not applicable. Likewise, a number of the questions are not applicable to the objectives of centralized payroll systems. When the questions were not applicable to the objectives of the systems, the replies were not included in the summary.

---

<sup>1</sup>Replies for Department of Defense accounting systems are not included in the summaries and evaluations because of the absence of an integrated pattern and the segmented nature of the Department's systems (p. 56).

NEED FOR FURTHER IMPROVEMENT IN  
PROPERTY ACCOUNTING AND IN DEVELOPING  
PERIODIC AND UNIT OPERATING COSTS

Responses to our inquiries indicate that accrual accounting has been agreed to conceptually but that progress has been inadequate in achieving the many benefits of good financial management because of lack of implementation on the part of some departments and agencies. We believe that, even where accrual accounting has been implemented, there is still a potential for significant further improvement in adequate property accounting and in useful internal reporting of periodic and unit operating costs.

Monetary property accounting

Responses by most of the civil agencies did not mention problems in establishing adequate systems of monetary accounting control over nonexpendable property. However, 17 agencies replied that monetary property control had not been completely implemented. One of these agencies stated that property had not been capitalized and gave no specific indication of any plans to comply with this requirement; seven indicated that procedures for establishing monetary control over property were under development; and nine stated that such procedures had been implemented but that further refinements were necessary, as follows:

Property not capitalized and no plans indicated:

Patent Office, Department of Commerce

Monetary property accounting under development:

Bureau of Sport Fisheries and Wildlife, Department of the Interior

Law Enforcement Assistance Administration, Department of Justice

Department of State

District of Columbia Government

Office of Economic Opportunity

Department of Transportation:

Office of the Secretary

U.S. Coast Guard

Monetary property accounting in need of refinement:

Bureau of Indian Affairs, Department of the Interior

Administrative Division for Legal Activities and  
General Administration, Department of Justice  
Administrative Operations Fund, Department of Housing and Urban Development  
Department of Labor  
Peace Corps, Department of State  
Internal Revenue Service, Department of Treasury  
National Aeronautics and Space Administration  
Smithsonian Institution  
U.S. Information Agency

### Cost accounting

A significant feature of accrual accounting is the capability of providing periodic costs in terms of units of output. Agency replies indicated room for more emphasis on developing unit cost information. For example, the following 12 agencies stated that they planned to develop unit costs and the 10 others indicated that unit costs were used for day-to-day management and/or budget formulation but that the costs were not controlled by or related to an accrual accounting system.

#### Agencies planning to develop unit costs:

Office of Management Services--Appropriated Funds,  
Department of Agriculture

#### Department of Commerce:

Environmental Science Services Administration  
Maritime Administration

#### Department of Housing and Urban Development:

Administrative Operations Fund  
Working Capital Fund  
Program Accounting

#### Department of the Interior:

Federal Water Pollution Control Administration  
Geological Survey  
Government of American Samoa  
Office of the Secretary

Legal Activities and General Administration, Department of Justice

#### Agencies using unit costs not controlled by or related to accounting system employing accrual concepts:

#### Department of Agriculture:

Consumer Marketing Service

Agricultural Stabilization and Conservation  
Service  
Food and Nutrition Service  
Forest Service  
Department of the Interior:  
Bureau of Indian Affairs  
Bureau of Sport Fisheries and Wildlife  
Department of State  
Securities and Exchange Commission  
U.S. Information Agency  
Patent Office, Department of Commerce

Although conceptual agreement on the need for accrual accounting appears to have been achieved and although there is widespread appreciation of the benefits to property and operating control that accrual accounting can provide to management, we believe that more effective implementation of established policy is necessary if potential benefits from accrual accounting are to be realized.

## PRINCIPLES AND STANDARDS

The procedures prescribed by the Comptroller General for submitting requests for approval of executive agency accounting systems provide that accounting systems be submitted in two stages; namely, (1) the accounting principles and standards underlying the system and (2) the proposed general design of the system. The requirement for a separate statement of principles and standards recognizes the desirability of having such a statement before proceeding with design work and also provides a basis for identifying and resolving problems which might adversely affect approval of the system. We asked if a statement of accounting principles and standards had been issued for the guidance of those responsible for maintaining accounting systems.

### Status and comment

Of the 131 organizations and accounting entities for which replies were received, only seven gave qualified or negative answers.

Only one of the seven, the National Foundation for Arts and Humanities, reported having no internal guidance material. It attributed its inability to provide such material, since assuming administrative functions in October 1967, to inadequate personnel ceilings but pointed out that it had been granted a meaningful increase in staffing for fiscal year 1971.

The other six stated that they were using guidance material of parent or predecessor agencies while developing their own principles and standards, were in the process of updating and revising their accounting principles and standards, or were using operating manuals pending the development of a statement of principles and standards for automating the accounting system planned for the near future. All six reported that statements of accounting principles and standards were being developed or revised for submission to the Comptroller General for formal review.

The quality of the accounting principles and standards obviously cannot be judged from the replies to this

question. It is clear, however, that all the respondents are aware of the need for such guidance and, by and large, consider that they have provided it.

Some departments and agencies which have more than one system subject to approval may have a single statement of principles and standards. Thus, 110 statements of principles and standards cover the 131 systems for which replies were received. The approval status of these 110 statements was as follows:

Approved	87
Submissions in process of review	12
Submissions scheduled	9
Submissions to be scheduled (note a)	<u>2</u>
Total	<u>110</u>

<sup>a</sup>National Foundation for Arts and Humanities and the District of Columbia Government.

#### ACCOUNTING MANUALS

The Comptroller General requires that each accounting system be documented in an organized manual of instructions which should be formally prescribed by the head of the agency for guidance of all concerned. An accounting manual provides a permanent record of the practices and procedures which have been designed to carry out previously stated principles and standards. It is needed to convey to operating personnel what the system is supposed to do and how it is to be done. The manual is also valuable for training new employees and as a working tool for auditors and others who have a need to understand the system. Documented practices and procedures enable an evaluation of how the accounting principles and standards are to be carried out and whether they are reasonably current in technique, are economical, and are effective. We asked if current practices and procedures had been reduced to writing in the form of accounting manuals.

## Status and comment

Most of the replies indicated that manuals had been prepared. As could be expected, a number of respondents indicated that their accounting manuals were being updated because of changes in the system. System changes are frequently related to such matters as reorganization and computerization. Of the nine respondents replying in the negative to this question, three stated that their documented practices and procedures were in various forms other than an accounting manual; three stated accounting manuals were planned; two stated that limited staff was a problem; and one, the Tax Court of the United States, did not provide an explanation.

## ACCRUAL ACCOUNTING

Achieving the primary objectives of Federal agency accounting set forth in the Budget and Accounting Procedures Act of 1950 requires the use of accrual accounting. In emphasizing this, Public Law 84-863 of August 1, 1956 (31 U.S.C. 66a(c)), provides that agencies' accounts be kept on the accrual basis to show resources, liabilities, and operating costs in accordance with principles and standards prescribed by the Comptroller General.

Further impetus was given to accrual accounting by the October 1967 recommendation of the President's Commission on Budget Concepts that budget expenditures and receipts be reported on an accrual basis.

The principles and standards prescribed by the Comptroller General provide that keeping accounts on the accrual basis is a basic requirement for Federal agencies. In applying this principle, it is the policy of GAO to allow discretion in the degree to which accrual accounting is applied, the degree depending on the usefulness and materiality of results. The circumstances which warrant discretion are those in which transactions reported on the accrued expenditure basis yield information closely approximating what would be reported on the full accrual basis; and regular reports of such information by organization units, budget activities, and program categories are prepared for use in the financial control system.

Because of inadequate understanding of the meaning of an accrual basis of accounting and the advantages of the accrual basis over the cash basis, GAO prepared a booklet entitled "Frequently Asked Questions About Accrual Accounting In The Federal Government" which was issued in August 1970. This booklet is available from GAO upon request to the Publications Branch, Office of Administrative Services.

We inquired whether accrual accounting had been adopted as a matter of policy and, if so, whether the policy had been implemented.

### Accrual accounting adopted as a policy

#### Status and comment

The replies received, exclusive of the Department of Defense reply, indicated that accrual accounting had generally been adopted as a matter of policy.

An exception to the rule was stated by the Trust Territory of the Pacific Islands, Department of the Interior. We were informed in this case that the need to service an operating area as large as the continental United States, characterized by poor communications between widely separated operating locations and by a lack of accounting personnel, had contributed to the situation reported. We believe that accrual accounting properly tailored to the operating circumstances of the Trust Territory of the Pacific Islands is applicable and understand that the Department of the Interior has taken steps to have an appropriate accounting system designed and implemented by contract.

### Accrual accounting implemented

#### Status and comment

The responses to our inquiry of whether accrual accounting had been implemented in accordance with established policy were as follows:

<u>Response</u>	<u>Number of responses</u>
Accrual accounting implemented in accordance with established agency policy	95
Accrual accounting not fully implemented	32
Accrual accounting not applicable	<u>4</u>
 Total (excludes Department of Defense)	 <u>131</u>

The systems for which accrual accounting was reported as not fully implemented were as follows:

Department of Agriculture

Office of Management Services:  
 Appropriated funds  
 Agricultural Stabilization and Conservation Service  
 Consumer and Marketing Service  
 Farmers Home Administration  
 Food and Nutrition Service  
 Soil Conservation Service

Department of Commerce

Economic Development Administration  
 Patent Office

Department of Health, Education, and Welfare

Office of the Secretary  
 Environmental Health Service  
 Health Services and Mental Health Administration  
 National Institutes of Health  
 Office of Education  
 Social and Rehabilitation Service  
 Social Security Administration:  
 Disability, Health, and Retirement and Survivors Insurance  
 Bureau of Federal Credit Unions

Department of Housing and Urban Development

Department of the Interior

Bureau of Outdoor Recreation  
Federal Water Quality Administration  
Government of American Samoa  
National Park Service  
Southwestern Power Administration

Department of Justice

Legal Activities and General Administration  
Federal Bureau of Investigation

Department of State

Foreign Service Retirement and Disability Fund  
Peace Corps

Department of Transportation

Federal Aviation Agency

Independent agencies

Farm Credit Administration  
National Science Foundation  
Small Business Administration  
Smithsonian Institution  
U.S. Information Agency

The large number of respondents indicating that accrual accounting has been adopted as a matter of policy indicates an appreciation of the objectives of the Budget and Accounting Act of 1950 and Public Law 84-863 of August 1, 1956. The replies received indicate that accrual accounting concepts should not be a significant problem in the process of approving accounting principles and standards or accounting system designs.

On the other hand, the implementation of accrual accounting is far from satisfactory in the civil departments and agencies, as well as in the Department of Defense.

Particularly, there are serious problems in the implementation of accounting for accrued expenditures and revenues in certain areas related to implementation of the recommendations of the President's Commission on Budget Concepts (see p. 8), even though these problems were not prominently mentioned by the respondents.

## OPERATING STATEMENTS

Reliable disclosure of financial results of agency activities adequate to serve management purposes, including use as the basis for budget formulation, execution, and control, is a statutory objective that requires periodic operating statements. Financial statements showing operating results should be prepared on the same basis as and compared with budgeted plans. To ascertain the extent of comparative financial reporting, we asked whether operating statements were being produced on a regular cycle, comparing operating results with plans for each major organization, and what basis (applied costs, obligations, and so forth) was used in preparing the reports.

### Status and comment

Most of the respondents indicated that operating statements by major organizations, comparing actual operating results with plans, were produced on a regular cycle. The bases of existing comparisons varied considerably. Many agencies indicated that they prepared comparative financial operating statements on more than one basis. Obligations, accrued expenditures, and applied costs were all frequently reported as the bases used in preparing these reports.

Without exception, agencies not now having periodic comparisons indicated that they planned to implement cyclical comparative reporting.

The responses indicated a tendency toward multiple comparisons of planned and actual results--e.g., planned vs. actual applied costs, planned vs. actual expenditures, and planned vs. actual obligations--but did not show any marked preference to any one basis of comparison.

It was not possible to judge from the responses the suitability of the number and type of comparisons being made under the particular circumstances. The general existence of various comparisons or their planned implementation indicates, in our opinion, an awareness of the managerial usefulness of comparative financial reports.

## Periodic reports of operating costs

An objective of the Budget and Accounting Procedures Act of 1950 is the production of adequate financial information needed for agency management purposes. Public Law 84-863 (31 U.S.C. 24) also provides for use of cost information in the management of operations as well as in budgeting.

The term "cost" refers to the financial measure of resources consumed in accomplishing a specified purpose, such as performing a service, carrying out an activity, or completing a unit of work or a specific project. Cost information is needed in making meaningful comparisons to promote efficiency and economy.

The production and reporting of significant cost information are thus essential ingredients of effective financial management, a basic agency responsibility. The ability to produce cost information for management purposes is one of the fundamental considerations in the accrual accounting objective. If not used to provide meaningful cost information, accounting records kept on the accrual basis fail to provide a significant benefit of which they are capable. Suitably designed operating cost reports that are effectively used by management thus maximize the benefits of the accrual accounting objective of the Budget and Accounting Procedures Act.

To assess whether cost information was being produced and reported for management use, we asked if statements of operating costs were being prepared for internal management on an accrual basis for each reporting entity and, if so, the frequency of preparation--monthly, quarterly, or annually.

### Status and comment

Most respondents indicated that statements of operating costs were prepared monthly for internal management use; 14 indicated that such statements were prepared quarterly; and four, annually. Also, 20 indicated that such statements were not now being prepared, 18 of which expressed plans for periodic cost reporting.

Although most respondents indicated the belief that periodic reports of operating costs were being prepared with satisfactory frequency, it was not possible to tell from the replies how well the reports were suited to the particular activity being reported on or how effectively the reports were being used.

#### USE OF UNIT COSTS IN MANAGING OPERATIONS AND FORMULATING BUDGETS

Accrual accounting techniques produce accurate cost information by units of work or end product in activities having measurable units or products. Reasonably accurate unit cost information is valuable for comparison with predetermined standards or unit costs of like operations, as a check on the efficiency with which the work is performed.

Unit cost accounting should be included in accounting systems only to the extent that the usefulness of the data produced outweighs the cost of producing it. It is sometimes just as satisfactory, as well as more economical, to use analytical or sampling cost-finding techniques to produce cost data needed for special purposes.

To determine the extent to which agencies were using accrual accounting to produce unit costs and how meaningful unit cost information was in the variety of activities involved, we asked for a description of the operations in which unit costs were used in budget formulation and in management of operations. We asked also whether unit costs were controlled by or related to an accrual accounting system.

#### Status and comment

About half of the accounting systems were reported to provide unit costs which were used in both day-to-day management and budget formulation. Most of the replies for these systems indicated that unit costs were controlled by or related to their accrual accounting systems. The following examples show the nature of operations in which unit costs were used.

1. Printing, duplicating, and mail and messenger services--Working Capital Fund, Department of Agriculture.
2. Number of warehouses inspected and pounds of meat inspected--Consumer and Marketing Service, Department of Agriculture.
3. Support services provided by the Office of Administrative Services--Office of the Secretary, Department of Commerce.
4. Selected operations related to collecting, processing, and publishing statistics--Bureau of Census, Department of Commerce.
5. Pupil days--Bureau of Indian Affairs, Department of the Interior.
6. Substation maintenance and line maintenance--Bonneville Power Administration, Department of the Interior.
7. Pieces of mail processed and unit costs of repairing mailbags and manufacturing mailbags and locks--Post Office Department.
8. Aircraft operations and maintenance of facilities--Federal Aviation Administration, Department of Transportation.
9. Operations of the Bureau of Accounts, Bureau of Engraving and Printing, and Bureau of the Mint, Department of the Treasury.
10. Operation and protection of Government-owned space and rental, operation, and protection of leased space--Federal Supply Operations, National Archives and Record Service, Administrative Operations Fund, and Interagency Motor Pools, General Services Administration.
11. Recruitment, placement, and investigation of personnel--Civil Service Commission.

12. Medical Care and Administration; Compensation, Pension and Education Service; and Direct Loan Program; Veterans Administration.
13. Acres cleared, miles of road maintained, and lineal feet of revetment placed or repaired--International Boundary and Water Commission, Department of State.

It appeared from the responses that accrual accounting systems were being used extensively to produce unit costs usable in both budget formulation and day-to-day management. We believe that more could be done along this line, particularly in devising and implementing more work measurement systems, that would increase the benefits derived from existing and planned accrual accounting systems. In this regard 10 respondents indicated that they used unit costs for operating management and/or budgeting purposes but that the unit costs were not controlled by or related to an accrual accounting system; it seems that there would be an opportunity to improve the reliability of the unit costs through accrual accounting systems in at least some of these cases. Another 12 respondents indicated that they expected to have unit cost information produced from accrual accounting systems that they planned to install or revise. (See p. 26.)

## OTHER FINANCIAL STATEMENTS

Full disclosure of the financial results of an agency's activities and effective control over and accountability for all funds, property, and other assets are objectives of the Budget and Accounting Procedures Act of 1950 that are served by financial information on

- sources and application of funds
- assets and liabilities, and
- changes in the investment of the United States

These statements should be prepared to clearly show significant financial facts about agency operations and activities. The information that they present should be meaningful, and the statements should be issued as often as necessary to be of maximum use to management officials and to meet external requirements.

It is obviously not practical to disclose all aspects of operations and financial status. To do so would usually require so much detail as to make significant and meaningful content difficult to perceive. Full disclosure is thus not an absolute term. The purpose of disclosure is to provide information that is meaningful to all users and can be depended on by them to convey the financial information that they need for their varied purposes.

### Statement of sources and application of funds

This statement shows the sources from which new funds for use in operations have come and the uses to which the funds have been put. Such statements are particularly meaningful when operations are financed from sources other than or in addition to appropriations, such as revenues from services provided, and when significant reimbursements receivable and inventories are available for operations.

Department of the Treasury Circular 966 generally requires such statements for Federal (1) revolving funds and (2) other business-type, or self-liquidating, activities or agencies or when substantial inventories, investments or other recoverable assets are accumulated.

We asked whether statements of sources and applications of funds were prepared at least annually for each organization and accounting entity.

### Status and comment

Most of the respondents indicated that statements of sources and application of funds were prepared at least annually, even though in many cases they were not required by Department of the Treasury Circular 966.

Program and financing schedules and related data contained in budgetary reports to the Bureau of the Budget have many attributes of a statement of sources and application of funds. On the basis of the number of affirmative answers to this question and the characteristics of the activities being reported on, it appears likely that some respondents may have responded affirmatively because of reports on budget status that they were preparing. We could not determine from the replies whether the respondent had differentiated, when differences existed, between sources and application of funds and reports on budget status. This distinction may be relatively unimportant in some instances.

### Statements of assets and liabilities

The Budget and Accounting Procedures Act of 1950, as amended, requires that the accounts of executive agencies be maintained on an accrual basis to show the resources, liabilities, and cost of operations. Another requirement is that the accounts provide a basis for full disclosure of the results of operations. A statement of assets and liabilities, or balance sheet, discloses as at a given moment in time the assets, liabilities, and equity of an agency.

The Treasury Department Circular 966 reporting requirements for statements of assets and liabilities cover all executive agencies and activities, including those required to submit statements of sources and application of funds.

We asked whether statements of assets and liabilities were

- prepared at least annually,
- prepared to show all funds, property, and other assets and liabilities for which the reporting entity was responsible, and
- published in a document made available to the public.

Status and comment

With two exceptions, all respondents indicated that statements of assets and liabilities were prepared at least annually, showing funds, property, and other assets and liabilities for which the reporting entities were responsible. The two exceptions indicated an ability to prepare balance sheets.

A few agencies reported that, although statements of assets and liabilities were prepared, they did not show all the assets and liabilities of the entity. Included in this category were the accounting systems for the Administrative Operations Fund, Department of Housing and Urban Development, and for the District of Columbia Government. The Department of Housing and Urban Development observed that detailed property records needed to be reconciled and brought into agreement with the general ledger after a physical count was completed. The District of Columbia Government stated that certain fixed assets were not included in the statement of assets and liabilities and that they were developing accounting principles, standards, and systems that would provide effective control over and accountability for all funds and property.

Only 51 of the respondents indicated that their statements of assets and liabilities had been published in a document made available to the public. Many of these statements were for industrial activities, and the respondents indicated that their statements were included in the appendix to the President's Budget. Thirty-six respondents who indicated that their statements were included in

documents that were available to the public other than the Treasury Bulletin and President's Budget were:

Department of Agriculture:

Federal Crop Insurance Corporation  
Rural Electrification Administration

Department of Commerce:

Maritime Administration

Department of the Interior:

Bonneville Power Administration  
Bureau of Mines  
Bureau of Reclamation  
Government of American Samoa

Department of Justice:

Immigration and Naturalization Service

Post Office Department

Department of State:

Agency for International Development

Department of Transportation:

Federal Aviation Agency  
Federal Highway Administration  
Office of the Secretary--Working Capital Fund  
Alaska Railroad

Department of the Treasury:

Bureau of Engraving and Printing

Fiscal Accounting Systems:

Central Accounting for Cash Operations (combined statement)

Bureau of Public Debt (daily Treasury statement)

Independent agencies:

Atomic Energy Commission

Civil Service Commission:

Bureau of Retirement:

Retirement and Disability Fund

Group Life Insurance Fund

Employee Health Benefits Fund

Retired Employees Health Benefits Fund

Federal Home Loan Bank Board

General Services Administration

National Aeronautics and Space Administration

Panama Canal Enterprise (Canal Zone Government and Panama Canal Company)

Small Business Administration

Independent agencies (continued):

Veterans Administration:

Agencywide Administrative Accounting

Department of Medicine and Surgery:

Construction of Facilities

Medical Care and Administration

Supply Fund

Department of Veterans Benefits:

Insurance Programs

Compensation and Pension Program

Direct Loan Program

Loan Guaranty Program

District of Columbia Government (does not cover  
all assets and liabilities)

Statements of changes in the  
investment of the United States

These statements show the components of changes in the Federal investment that occur during the period that they cover and thus reconcile the Federal investment carried on the statements of assets and liabilities at the beginning and end of the accounting period.

We asked whether statements of changes in the investment of the United States were prepared at least annually for each organization and accounting entity.

Status and comment

According to the responses, agencies are about evenly divided between those that do, or plan to, prepare statements of changes in the investment of the United States and those that do not.

In most cases no explanation for not preparing the statements was given. No pattern was apparent of the type of activity for which such statements were prepared compared with activities for which they were not prepared. For example, the Federal Power Commission stated that they prepared the statement and the Federal Communication Commission stated that they did not.

## CONSISTENCY OF BUDGET AND ACCOUNTING CLASSIFICATIONS

Reliable accounting results to serve as a basis for budget formulation, execution, and control is an objective of the Budget and Accounting Procedures Act of 1950. To serve this objective, the accounts must be kept so as to provide information in terms of the budget structure.

We asked specifically whether agencies' accounts provided direct support for the prior-year column of the program and financing schedules in the appendix to the Budget of the U.S. Government for fiscal year 1970 in those cases in which the budget activity structure had not changed. If the accounts did not provide direct support for the budget, we also asked whether written procedures existed for translating accounting information into budgetary figures.

### Status and comment

We received 110 replies in the affirmative and 15 in the negative to the first part of the question. Eight of the 15 indicated that they had written procedures for translating accounting information into budgetary figures. Of the remaining seven respondents, six indicated that planned changes in their account structure would provide direct support for the budget or that steps were being taken to reduce conversion policies and procedures to writing.

The District of Columbia Government was the only respondent that stated that its accounts would not support the prior-year column of the program and financing schedules in the appendix to the budget for fiscal year 1970 and that written procedures did not exist for translating accounting information into budgetary figures. It observed, however, that it was developing an accounting system that would provide adequate financial information for management.

## SUBSTANTIAL COMPLIANCE WITH THE BUDGET AND ACCOUNTING PROCEDURES ACT OF 1950

The foregoing topics of this chapter all relate directly to the objectives of the Budget and Accounting Procedures Act of 1950, to the means necessary to see that the

objectives are achieved, or to the underlying purposes of the objectives that maximize the benefits that can be derived from good financial management.

We asked the heads of Federal departments and agencies the following two-part question, to obtain their overall assessments of how well they were achieving the objectives of the act.

1. Whether they considered the entity that they were reporting on to be in substantial compliance with the act's specific objectives.
2. If the entity was not in substantial compliance with the act, what progress was being made and what plans for improvement existed.

Status and comment

The answers to the first part of the question were as follows:

<u>Objective</u>	<u>Affirmative answers from 127 respondents considering the question applicable to their systems</u>
Full disclosure of financial results of agency activities	110
Production of adequate financial information needed for agency management purposes	97
Effective control over and accountability for all funds, property, and other assets for which each agency is responsible	109
Reliable accounting results to serve as the basis for preparing and supporting agency budget requests, for controlling the execution of the budgets, and for providing financial information required by the Bureau of the Budget	113
Suitable integration of agency accounting with central accounting and reporting operations of the Treasury Department	113

Negative or qualified answers to the first part of the question were generally explained in answers to the second part of the question. Five respondents indicated that they had engaged outside contractors to assist with plans for improvement. The following reply from the Bureau of Prisons, Department of Justice, to the second part of the question is an example of the type of information provided when outside contractual assistance apparently was not involved.

"The Bureau has taken action to commence an accounting systems improvement program which is currently in process. The objective of this effort will be to meet the requisites of the Budget and Accounting Procedures Act of 1950 and the requirements set forth in Bob Circular 68-10. A presentation will be made on or about 4/1/70 or earlier as to the objectives the revised accounting system will produce. It is contemplated that the revised accounting system will be implemented on a PILOT basis in one or two of the institutions and the Central Office in FY 71 with Bureauwide implementation scheduled at the beginning of FY 72."

In a number of cases, the responses indicated that further improvement efforts were underway even though the five objectives of the Budget and Accounting Procedures Act were already considered to have been met.

## CHAPTER 5

### ACCOUNTING SYSTEM DEVELOPMENT

#### IN INDIVIDUAL DEPARTMENTS AND AGENCIES

##### DEPARTMENT OF AGRICULTURE

During 1969 the Department and its agencies continued their efforts to improve the accounting and financial management systems of the Department. The Department has 16 accounting systems subject to the approval of the Comptroller General; the principles and standards of 15 of the systems and the designs of four have been approved. Although progress was made during 1969 by the Department and by the responsible agencies in revising or developing the remaining systems, a large part of the necessary work is yet to be accomplished before most of the systems can be deemed adequate and in compliance with the requirements of the Comptroller General.

More specific comments regarding (1) inadequacies in the accounting systems of the Department which have been noted during our reviews and (2) efforts being applied by the Agriculture agencies to develop adequate systems are presented in the following sections.

##### Inadequacies in accounting systems

In general, the existing systems are concerned primarily with appropriation and fund accounting with, as yet, less emphasis on accounting for costs by programs, activities, and organizational units. These accounting systems serve budget needs for obligation and cash information, with limited emphasis on cost information for management planning and control purposes.

Inadequacies in particular systems which were reported during calendar year 1969 follow.

During calendar year 1969, we reported on our review of the activities of the Farmers Home Administration pertaining to the administration and effectiveness of the

Economic Opportunity Loan Program for low-income rural families. This review disclosed that the Administration was unable to reliably determine the administrative costs of carrying out this loan program, the costs of which are fully reimbursable from the Office of Economic Opportunity. Therefore, the total costs of administering the loan program had not been fully disclosed to the Congress, and the Administration paid for much of such costs from its own funds without reimbursement.

Our review of the Agricultural Research Service's screwworm eradication program activities showed that inventory records of meat, which was used in raising flies, were not current, complete, or accurate and thereby precluded the effective use by program personnel of inventory data (B-133192, March 20, 1969). We proposed that the Service establish and implement an adequate system of inventory records and internal controls. Officials of the Service informed us that they had changed the Service's inventory procedures to a method which was in accordance with our proposal.

#### Improvement efforts being applied

The Department's Office of Budget and Finance is responsible for the overall coordination and direction of the accounting systems development effort of the Department. The Office had assumed a more active leadership role in 1968 in spurring responsible agency officials to action. The Office's assistance to agencies in the development of their systems lessened near the end of 1969 because of attrition of personnel. The Department, however, has taken action in early 1970 to strengthen the overall improvement effort at the departmental level and to increase the Office's staff.

In February 1969 the Department urged its constituent agencies to develop and submit their accounting systems in three stages. As a result, target dates for submission of systems design were reported as of June 30, 1969. The Department also initiated a system of quarterly status reports to enable current evaluation of the progress being made by the individual agencies in the development of accounting systems.

Prior to 1968 the Department had made relatively little substantive progress toward the development of approvable accounting systems and the use of internal cost-based budgeting. Historically, many agencies of the Department had opposed accrual accounting concepts for appropriated funds and had made little progress in revising their accounting systems along these lines. All agencies have now adopted accrual accounting as a matter of policy and have implemented or are in the process of designing and implementing accrual accounting systems.

During 1969 the Department obtained the Comptroller General's approval of statements of principles and standards for three of its systems and for the statement of principles and standards and the design for another one of its systems. The statements generally provided for accounts on the accrual basis and the preparation of monthly cost reports designed to assist management in performing its planning and control responsibilities. Although substantial progress has been made by the Department's agencies in developing statements of principles and standards, there remains the substantive work necessary to design, develop, and modify the accounting systems in accordance with such principles and standards. This work will require substantial resources and time.

Most of the Agriculture agencies have also subscribed to the concepts of cost-based budgeting as the basis for internal planning and administration of programs. Our inquiries indicated, however, that the agencies had made relatively little progress in 1969 toward actually instituting internal cost-based budgeting practices as required by law.

During 1969 the Department was in the process of determining the changes that would be necessary in the nature and content of reports to be furnished to the major constituent agencies by the Department's centralized payroll system. The major effort which will be required to accomplish this task, however, has not been made. These changes will assist the agencies in accounting for personal services and related personnel benefit cost on an applied-cost basis and should constitute a major step toward providing more effective cost information for use by managers in controlling Department activities.

The constituent agencies of the Department continued their efforts to design, develop, and revise their accounting systems to meet the objectives of the Budget and Accounting Procedures Act of 1950, as amended. The Agricultural Stabilization and Conservation Service, the Consumer and Marketing Service, the Food and Nutrition Service, the Forest Service, and the Office of Management Services are making a substantial effort to redevelop and revise their systems on a timely basis. The Consumer and Marketing Service and the Food and Nutrition Service contracted with a management consultant firm for the complete development, documentation, and installation of their accounting system.

Status of accounting systems  
on December 31, 1969

Reviews and approvals

The status on December 31, 1969, of the Department's 16 accounting systems subject to approval was as follows:

	<u>Principles and standards</u>	<u>Design</u>
Approved	15	4
Submissions in process of review	-	1
Scheduled for submission or resubmission	-	12
Not scheduled for submission	1	-
Approvals scheduled for resubmission	<u>-</u>	<u>1</u>
Total	<u>16</u>	<u>16</u>

Replies to questionnaire

The Department reported that accounting practices and procedures had been written for six of its systems and were in various stages of development for the other systems. Accrual accounting had been adopted as a matter of policy and, except for the Consumer and Marketing Service and the Food and Nutrition Service where systems were being developed, had been substantially or fully implemented. The Department reported a number of examples where unit cost information

was developed and used for management and budgeting purposes; however, in four cases the information was reportedly developed outside of the accounting system. This raised the question of how such information could be developed without duplicating certain information which should be provided through the accounting system. Except for the two systems which were under development, the Department reported that it considered the accounting and reporting of its agencies to be in substantial compliance with all of the objectives of the Budget and Accounting Procedures Act of 1950.

## DEPARTMENT OF COMMERCE

The Department of Commerce concluded work on its statement of accounting principles and standards and the statement was approved by the Comptroller General in June 1969. The statement of accounting principles and standards contains the requirements for the design and operation of the seven accounting systems within the Department. Three of the seven systems had been approved prior to approval of the Department-wide principles and standards.

More specific comments regarding (1) efforts being applied by Commerce agencies to develop adequate systems and (2) the current status of systems approval are presented in the following sections.

### Improvement efforts being applied

The Department has formulated a model for the administrative control of funds which sets forth the elements of an operation that can be controlled on the basis of costs and which explains the relationship of cost-based internal operating budgets to the overall administrative control of funds. Constituent organizations are now developing their procedures for the administrative control of funds. The Department's plans provide that all systems will be on an accrual basis and that internal cost-based budgeting systems will be instituted prior to the scheduled submission of the accounting systems for approval.

With regard to PPBS, the Department is concentrating on bringing its program subcategories and elements and budget activity and subactivity classification structure into agreement insofar as possible.

The Maritime Administration initiated in its financial management program major innovations designed to facilitate a new cost accounting system as well as integrated PPBS, management control, budgetary, and fund control systems. Significant progress has been made toward designing an accounting system for accumulating costs by PPBS elements and coordination of PPBS elements and budget activities. The accounting system was submitted informally for review by GAO in April 1970.

There has been considerable activity toward all aspects of mechanizing financial management systems within the Department. This effort has resulted from recent demands for more detailed and more refined classification of accounting information.

The Office of the Secretary designed one complete system, representing a consolidation and modernization of the previous two systems for the Working Capital Fund and the appropriated funds and submitted it to the Comptroller General for approval in November 1969. The system was approved on February 16, 1970.

The Environmental Science Services Administration and the Economic Development Administration submitted the design of their accounting systems for approval in May 1970.

Officials of the Department plan to resubmit the system design for the Patent Office for approval of the Comptroller General.

Status of accounting systems  
on December 31, 1969

Reviews and Approvals

The status on December 31, 1969, of the seven accounting systems subject to approval was as follows:

	<u>Principles and standards</u>	<u>Design</u>
Approved	4	3
Submissions in process of review	1	1
Scheduled for submission or resubmission	-	2
Not scheduled for submission	-	2
Approvals scheduled for resubmission	<u>-</u>	<u>-1</u>
Total	<u>5</u>	<u>7</u>

## Replies to Questionnaire

The Department reported that accounting manuals existed for all of its accounting systems and that modernization of the manuals had been completed for three of the systems and was in process for the remaining four.

Accrual accounting had been adopted as a policy throughout the Department and was fully implemented in five of its accounting systems. Implementation of accrual accounting was in process for the Economic Development Administration and was under revision for the Patent Office.

Unit cost systems were reportedly being used in budget formulation and day-to-day management on a selective basis for three of its entities and were being developed for two more of its entities. Such a system was being studied for another entity but was not used for the Economic Development Administration.

The Department considered all of its components to be in substantial compliance with the objectives of the Budget and Accounting Procedures Act of 1950. It did point out that production of adequate financial information needed for management purposes was under further development for four of the systems and that new cost accounting systems were being developed for two agencies--the Maritime Administration and the Patent Office.

## DEPARTMENT OF DEFENSE

The development of approvable accounting systems has been difficult in the Department primarily because of the complexity, diversity, and dispersal of military operations and because of the varied and numerous management processes in its individual components.

In recognition of the problem, the Secretary of Defense issued Directive 7000.1 in August 1966, prescribing the basic policies governing the Resource Management Systems of the Department and establishing the requirement that all systems be properly correlated and consistent with the Five-Year Defense Program as the nucleus of planning, programming, budgeting, accounting, and reporting. The directive also requires that the system provide information required by the Congress, Bureau of the Budget, Treasury, and other Government agencies. The Comptroller General has approved the basic accounting principles and standards contained in this directive.

An overall coordinated pattern of underlying principles and standards, however, has not been established to serve as a basis for the development of the designs of accounting systems for its varied entities. Accounting principles and standards are prescribed in numerous DOD directives and instructions. In many instances they do not provide a consistent basis for the accounting and reporting of similar transactions. Further, the principles and standards in the directives and instructions are in themselves difficult to identify since they are interspersed with other policy statements. We believe that the Department of Defense should develop and publish in a single document a comprehensive statement of its accounting principles and standards. Such a statement would facilitate the submission of the designs of accounting systems to the Comptroller General for approval and the integrated development of accounting systems throughout the Department.

More specific comments regarding (1) the accounting inadequacies and (2) the status of Department of Defense accounting systems on December 31, 1969, are presented in the following sections.

## Accounting inadequacies

### Property accounting

Although there are property accounting systems established for real property and other long-lived assets, such systems are not operated as an integral and coordinated part of financial accounting systems. Overall financial reports of property are prepared on the basis of multiplying number of units by established prices which may or may not be the same as actual costs or actual value.

Certain inventories of expendable property, such as stocks of consumable supplies aboard ships, are not carried as assets in property or financial records. Although inventories of expendables in stock funds and industrial funds are reflected on property records which are integrated with financial accounting records, we have noted in many GAO reviews that inaccurate property records resulted in unnecessary procurement actions and shortages of material. We believe that improvements in the financial inventory control records, so that detail property records and stocks on hand are really controlled by the financial records, would furnish managers with the necessary reliable and accurate information to avoid unneeded supply actions and shortages.

### Costing practices for operations

With the exception of certain reimbursable items, costs are generally recorded and reported only for those items incurred in the appropriation which basically finances the program or mission. Costs incurred in other appropriations which are applicable to these programs or missions are not included in the accounting processes. The problem of costing practices in the Department of Defense is further complicated by criteria being established for distinguishing costs which are to be treated as expenses from those which are to be treated as investments.

A major objective of the criteria being established is to provide for "expenses" to be those costs which are financed by the operation and maintenance appropriations. Another aspect involves inconsistencies in the manner in which the individual military departments manage and procure

certain items of equipment which determines whether items are treated as expenses or investments. These criteria take precedence over the inherent qualities of items. As a result, the costing practices preclude effective comparisons of like functions or do not provide financial data that can be effectively related to output measures. Examples of such costing practices are as follows:

1. Since all ammunition is funded by procurement appropriations and therefore considered investment costs, the cost of ammunition expended in training operations is not charged to such programs. We believe that the cost of ammunition used in training should be included in operating budgets as an unfunded cost similarly to the treatment accorded to military personnel costs.
2. The cost of equipment, in many instances, is not charged directly or by depreciation to the programs receiving the benefit of these costs. Whenever the use of depreciation data is needed for management purposes, such as for performance measurement or for reimbursable transactions, it should be reflected in the accounting system. It should be based on reliable property accounting records.
3. The cost of certain vehicles serving the same general purposes are charged to the operating appropriation as expense in one service while being treated as an investment by another service.
4. Maintenance and repair costs can vary depending on the method by which assemblies and components are replaced.
5. Application of military personnel costs. (See section on military personnel.)

#### Procurement accounting

There is a real need to improve the accounting system to provide adequate cost data and property control over acquisitions financed through the procurement appropriations, with specific attention to reports of costs of major weapon

systems. The improvements should emphasize both data content and timing of the receipt of data and should provide for making the data an integral part of the accounting records.

At present, inadequate attention is given to the accounting problems incident to life-cycle costing of major weapon systems. For example, significant facets of cost are not related to weapon system acquisition because such costs are funded by other appropriations, such as military personnel, military construction, research and development, and operation and maintenance. If the accounting system is to provide cost integrity related to budget projections on a full disclosure basis, more attention must be given in the systems designs to the means of identifying, recording, and reporting the interrelationship of these data, irrespective of appropriation source.

#### Accounting for accrued expenditures

The Department has been unable to establish any procedures, statistical or otherwise, by which unbilled contractor performance data can be obtained and acceptably recorded as accrued expenditures in the accounts. These problems are under further study.

In accounting for documented transactions, the Department has experienced significant difficulties in producing reliable accounting results due to delays in the processing of documents. It is concentrating on the improvement of accounting for documented transactions both in terms of time and of acceptable accuracy.

#### Military personnel

The causes of continuing deficiencies in the accounting and management of the military personnel appropriations and the cost of military personnel are:

1. Obligation data must be estimated due to the lack of timely and accurate expenditure reporting. This practice has resulted in overobligations in the past.

2. Although the accounting system provides for applying most military personnel costs to the using organizations and functions, not all such costs are so applied.

Regarding the first point above, the implementation of the Joint Uniform Military Pay System should improve the quality and timeliness of obligation reporting since this system is designed to strengthen input controls over pay and personnel data, utilize computer edits, provide timely centralized computer computation of accrued pay, and facilitate internal audit. The implementation appears to be progressing slowly, but this is to be expected in a program of such size and complexity.

Regarding the second point above, for purposes of the operating budget, military personnel costs are computed on the basis of the organization of assignment at the beginning of each month and at standard pay rates. Thus costs are identified to the using organizations and functions only to the extent that these are the organizations and functions of assignment. Accounting instructions of the Office of the Secretary of Defense were revised in July 1970 to provide for the identification of the cost of borrowed or detailed personnel to the using organization on an optional basis where local managers required more accurate information, however, such costs are not charged to using organizations for reporting purposes or in the operating budgets.

#### Status of accounting systems on December 31, 1969

At December 31, 1969, the elements of the Department's accounting systems that had been identified as separable units by the Department are categorized as to principles and standards or design and as to approval status as follows:

	<u>Principles and standards</u>	<u>Design</u>
Approved	19	4
Submissions in process of review	8	3
Scheduled for submission	-	29
Not scheduled for submission	unknown	unknown
Approvals scheduled for resubmission	<u>-</u>	<u>-</u>
Total	<u>27</u>	<u>36</u>

In addition, three system segments had been submitted for review, and one of these had been approved.

#### Replies to questionnaire

As previously mentioned, there is an absence within the Department of a coordinated pattern of underlying principles and standards, and there are a multiplicity of documents in which the statements of principles, and standards that do exist are interspered. Also, the Department is confronted with difficult financial management and accounting problems and evidently holds views that are fundamentally different from those of GAO as to the degree of application and interrelationships of accounting and reporting processes that are necessary for adequate control and reliable reporting. For these reasons we are not commenting on the 43 replies to the questionnaire received from the Department as a whole.

The replies received were classified as follows:

<u>Title of system</u>	Number of replies ( <u>note a</u> )
Accounting System for Capital Acquisition--Construction	6
Accounting System for Civil Works, Army	1
Accounting System for Indus- trial Funds	6
Accounting System for Operations	9
Accounting System for Capital Acquisitions	7
Accounting System for Research and Development	6
Accounting System for Stock Funds	5
Accounting System for Military Personnel	<u>3</u>
Total	<u>43</u>

<sup>a</sup>Includes the Departments of the Army, Navy, and Air Force; the Defense Supply Agency; the Defense Intelligence Agency; the National Security Agency; the Defense Contract Audit Agency; the Defense Communications Agency; and the Defense Atomic Support Agency, as considered by the Department of Defense to be applicable.

An example of the difficulty in evaluating the responses is illustrated by the Accounting System for Capital Acquisitions--Construction. The title infers that each of the six components has a single accounting system that accounts for all construction considered a capital acquisition regardless of the appropriation from which the construction is financed. This, however, is not the case. For example, construction may be financed by operation and maintenance appropriations, procurement appropriations, or research, development, test, and evaluation appropriations, as well as by military construction appropriations. The component accounting systems for the military construction appropriations include only costs financed by those appropriations.

On the other hand, responses for complete operating entities such as the Accounting System for Civil Works, Corps of Engineers, Department of the Army, and the Accounting System for Industrial Funds of the Departments of Army, Navy, and Air Force, the Defense Supply Agency, and the Defense Communications Agency did not involve such questions. In the case of these cited entities, the responses indicated that each of them were considered to be substantially in compliance with the objectives set forth in the Budget and Accounting Procedures Act of 1950. Characteristics of the systems were reported to include such things as manualized accrual accounting systems capable of producing unit costs useful in budgeting and day-to-day management and adequately effective monetary control over funds, property, and other assets.

## DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

Since 1967 the Department's Office of the Assistant Secretary, Comptroller, has directed a substantial portion of its available accounting system manpower to the development of a Department-wide accounting system designated as the Umbrella System. The Umbrella System provides policies, principles, certain procedures, and the basic framework of an accounting system to be used by each of the Department's constituent agencies in the development of individual subsystems. The Umbrella System was formally submitted to GAO for approval of the principles and standards and the general system design in June 1969; these were approved in April 1970.

The GAO approval of the Umbrella System does not extend to those aspects of the accounting subsystems singular to the various constituent agencies of the Department. We expect to review for approval the design of each subsystem. The effort necessary to complete the subsystem designs will be substantial, but we believe that the approval of the Umbrella System will induce further progress.

Those subsystems that have been previously submitted for approval will be resubmitted under the approved Umbrella concept. At December 31, 1969, no subsystem had yet been submitted or resubmitted. As shown by the target dates in appendix II, the designs of several subsystems are scheduled for early completion; all are scheduled to become operational during the next 18 months.

### Problem areas

The problems normally encountered in the design of an accounting system are greatly increased by the need to accommodate in the one system the needs of several complex and diversified activities. Each system must be tailored to specific and unique requirements; each has had staffing difficulties; and all are in different stages of development. These problems have particularly affected the design effort applicable to two centralized functions--payroll accounting and grants management. Until these two central functions are operating successfully under the Umbrella System and can supply essential information as input to the other subsystems, the latter cannot be fully operational. The

Department is in the process of modifying the two central functions to comply with the Umbrella System, and these functions are expected to be operational by January 1971.

Grants management is currently the responsibility of the National Institutes of Health, one of the independent subsystem operators. The problems associated with this most important function are extensive and difficult. Significant problems associated with grants management include the lack of uniform Department-wide operating instructions and the split of responsibility for accounting and reporting between the subsystem manager and the "fund" manager. The Department recognizes these problems and is currently making an effort to correct them. The Department is also giving consideration to transferring the responsibility for grants management from the National Institutes of Health to the Office of the Secretary, and to making the function a separate subsystem. In our opinion, the grants management function could be carried out more effectively under centralized departmental direction and management.

The centralized automated payroll system also has been going through a period of transition, and, although progress has been relatively slow, much has been accomplished in the past year. Since release of our report to the Congress on the "Need for Improvement in the Automated Central Payroll System of the Department of Health, Education, and Welfare" (B-164031, January 17, 1969), Department officials have assigned a high priority to the redesign of the system, strengthened the staff responsible for administering the system, and corrected certain weaknesses in the system.

Implementation of the revised payroll system did not occur in April 1970 as scheduled, and, therefore, the target date was advanced to January 1971. The development of an adequate payroll system design is a necessary precedent to further progress because the design serves as the framework for the preparation of computer programs and other operating and development procedures prior to the actual implementation of the system. On the basis of our most recent evaluations of the redesigned payroll system, it appears that considerable work remains before necessary integration with the accounting of the various subsystems can be achieved.

Continual changes to the Umbrella System have contributed to the problems related to the formulation and implementation of the subsystems. These changes have resulted, for the most part, from the activity that has continued in connection with the Umbrella System in the development, adjustment, and improvement of existing and new accounting procedures and related requirements, including reorganizations, the addition of new programs, and the decentralization of programs. Interim measures have been used by the agencies in the development of accrued expenditure data and in the implementation of cost-based budgeting. Program management, however, continues to be primarily concerned with obligation and fund control. Because cost data has not yet been made available to the managers, they have not accounted for or managed their program responsibilities by costs. With implementation of the subsystems under the Umbrella System, this situation should be corrected.

### Progress

During 1969 the accounting systems staffs of the Department and its constituent agencies expended considerable effort in the formulation of the Umbrella System and the subsystems. In addition, management consulting firms provided considerable assistance to the Department and all but two of the agencies in this same effort. A large in-house effort was directed toward establishing an effective accrual system for grants, an especially difficult task because accrual information must be obtained from a wide variety of grantees who cannot readily produce the required information. Also in the grant area, a test was being made in one State of a single-letter-of-credit system for grantees who receive multiple grants. Under this procedure the Government establishes a line of credit through the Federal Reserve System against which the grantee can draw cash for deposit in its commercial bank account.

### Status of accounting systems on December 31, 1969

#### Reviews and approvals

The Comptroller General approved the Department's Umbrella System in April 1970. This approval covered the

principles and standards of accounting applicable to all subsystems and the general design of the Department's accounting system--called the Umbrella System. As of December 31, 1969, none of the Department's nine accounting subsystems had been submitted to our Office for review.

#### Replies to questionnaire

The Department reported that the operating agencies would supplement the accounting manual with manuals of operating instructions which would be consonant with the requirements of the Umbrella System.

The Department also stated that, although accrual accounting had been adopted as a policy, the implementation of accrual accounting was in a period of transition. As of December 31, 1969, the accounting subsystems were on either a partial accrual basis or a cash and obligation basis.

In response to our request for a description of the nature of operations where unit costs were used in budget formulation processes and in daily management of operations, the Department stated that the accounting system did not identify units of performance in the cost centers and did not describe the operations where unit costs developed at other levels were used.

The Umbrella System is designed to fully comply with the objectives set forth in the Budget and Accounting Procedures Act of 1950.

## DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

The Department has one accounting system subject to approval by the Comptroller General. The Department has two accounting systems for organizations which are subject to the Government Corporation Control Act (31 U.S.C. 850) and, therefore, are not subject to GAO approval--those of the Federal Housing Administration and the Government National Mortgage Association. The information presented herein relates to the system that is subject to the Comptroller General's approval.

The principles and standards of the Department's accounting system were approved in April 1968, and the Department requested review and approval of the design in a letter to the Comptroller General dated July 14, 1969. At our request the Department subsequently made several changes in the design, and at December 31, 1969, nearly all issues had been resolved.<sup>1</sup>

### Improvement efforts being applied

In addition to completing the design of the accounting system, during 1969 the Department began to develop and document accounting procedures needed either to implement certain aspects of the design or to automate accounting processes which already conformed with the design. Most of this work was performed by a contractor. During the year the contractor developed and documented accounting procedures for (1) the low-rent public housing program, (2) departmental staff expenses, and (3) an integrated personnel-payroll subsystem.

During 1969 also Department personnel developed, documented, and implemented accounting procedures for the Working Capital Fund, imprest funds, and the handling of cash and negotiable instruments. In addition, procedures were developed and documented for the examination of vouchers and for obligation accounting.

---

<sup>1</sup>The design of the accounting system was approved by the Comptroller General on April 2, 1970.

## Future plans

In 1970 the Department plans to implement the accounting procedures developed in 1969 for the low-rent public housing program, departmental staff expenses, integrated personnel-payroll subsystem, obligations, and examination of vouchers. The Department plans, in addition, to contract for the development, documentation, and automation of accounting procedures for additional programs.

## Status of accounting system on December 31, 1969

### Reviews and approvals

The review and approval status on December 31, 1969, of the Department's accounting system was as follows:

	<u>Principles and standards</u>	<u>Design</u>
Approved	1	-
Submissions in process of review	-	1
Scheduled for submission	-	-
Not scheduled for submission	-	-
Approval scheduled for resubmission	-	-
Total	<u>1</u>	<u>1</u>

### Replies to questionnaire

The Department related its replies to the questions to its (1) Administrative Operations Fund, (2) Working Capital Fund, and (3) program accounting.

It reported that the system for the Working Capital Fund had been documented and that documentation for the Administrative Operations Fund and program accounting was in varying degrees of completeness.

The Department pointed out that, although accrual accounting had been adopted as a policy at December 31, 1969,

accrual accounting had been fully implemented only for the revolving fund.

Although it reported that unit costs were not being used in budget formulation or for day-to-day management, the Department stated that, with contract assistance, it was developing automated accounting subsystems that would produce unit cost information regularly where appropriate.

The Department reported that, with the following exceptions, it considered that its accounting and reporting met the objectives of the Budget and Accounting Procedures Act of 1950.

1. Full disclosure of the financial results of activities of the Administrative Operations Fund was being achieved except for the recognition of certain unfunded costs, and effective control over and accountability for property awaited completion of a physical count of the property and reconciliation with the records.
2. Full disclosure of the financial results of agency activities of the Working Capital Fund was being achieved except for the recognition of certain unfunded costs.
3. Full disclosure for program accounting of appropriated funds and production of financial information needed for agency management purposes was not being achieved because of problems in determining and booking accrued costs incurred by grantees of Federal grants.

The Department stated that improvement efforts in progress would provide for correction of the deficiencies mentioned.

## DEPARTMENT OF THE INTERIOR

During 1969 the Department and its constituent agencies increased their efforts to improve their accounting and financial management systems. The Department has 19 accounting systems subject to the approval of the Comptroller General. Six complete systems had been approved prior to the beginning of the year and another had been approved subject to qualifications. During the year, the Department submitted one system for approval of accounting principles and standards and nine for approval of system design.

The Comptroller General, during 1969, approved statements of accounting principles and standards for the following four systems: Bureau of Land Management, Bureau of Outdoor Recreation, Bureau of Sport Fisheries and Wildlife, and National Park Service.

Substantial progress has resulted from the emphasis on accounting systems improvement started by the Department during 1966. There are problems remaining however, that are difficult to solve, and some of the systems are producing less than adequate results because of the difficulty of obtaining qualified accounting personnel. More specific comments regarding (1) inadequacies in the accounting systems of the Department and (2) efforts being applied by Interior agencies to develop adequate systems are presented in the following sections.

### Inadequacies in the accounting systems

A recent GAO report on the financial management system of the Trust Territory of the Pacific Islands (B-114888, June 26, 1970) indicated that reports and studies on the Trust Territory, issued by GAO and the Department of the Interior during the period 1955 through 1969, revealed weaknesses in financial management and recommended corrective actions. We found that, although some improvements had been made, the basic defects continued and that the financial management system was not adequate for providing essential and reliable information to the Congress and to top management officials of the Trust Territory and the Department. The system included the following deficiencies.

1. Accounting controls over cash were not effective.
2. A large part of the accounts receivable were old and were not supported by adequate documentation.
3. Adequate controls did not exist for providing assurance that billings and collections were made for property which the Trust Territory leased to others or that the rental charges were reasonable.
4. As of May 1969, the status of travel advances outstanding had not been reviewed since September 1968.
5. The amounts shown in the control accounts for supplies at June 30, 1968, differed from the amounts recorded in the inventory records, but no attempt had been made to reconcile the differences.
6. Construction funds were used for other than the specific purposes originally cited by Trust Territory officials in justifying to the Congress the need for such funds.

We proposed that the Secretary of the Interior instruct the High Commissioner of the Trust Territory to establish reliable records and appropriate procedures for obtaining adequate control over assets and financial obligations.

The Department advised GAO that the Trust Territory had taken several corrective actions, primarily involving the reconciliation of cash accounts and ascertaining the validity of unpaid obligations. In addition, action is being taken (1) to obtain adequate control over assets and financial obligations and (2) to make monthly reviews to ensure correction of all inadequacies pointed out in the report.

In a report to the Congress (B-130515, June 30, 1969), we noted weaknesses in control over property at the Eight Canyon Job Corps Civilian Conservation Center, Mescalero, New Mexico, which is operated by the Bureau of Indian Affairs under an agreement with the Office of Economic Opportunity. We found that a number of assets had not been recorded on the accountable records, certain assets had not been accounted for, physical inventories of materials and

supplies had not been taken, and perpetual inventory records had not been accurately maintained. We concluded that there was a need to improve the Center's management and controls over property to promote greater efficiency and economy in the overall administration of the program. Certain actions have been taken or proposed by responsible Bureau and Center officials. These actions include periodic review of inventories of materials and supplies, disposal of all property excess to the Center's needs, and correction of real and personal property records.

We also observed that two internal audit reports of the Department's Office of Survey and Review pointed out deficiencies in property management and control. These reports covered audits at (1) the Bureau of Sport Fisheries and Wildlife, Southwest Region, and (2) the Bureau of Indian Affairs, Fort Simcoe Job Corps Civilian Conservation Center, White Swan, Washington.

#### Improvement efforts being applied

The Department's Office of Survey and Review is responsible for the overall coordination and direction of the accounting system development effort of the Department. During calendar year 1969, the Office and the accounting personnel of various Interior agencies continued to make progress. The Department forwarded to the GAO one statement of accounting principles and standards and submitted system designs for nine Interior agencies.

The Department and its agencies were active in their efforts to increase benefits to management and operations through modernizing internal organization and system changes, improving processing techniques, and increasing availability of information. Such activity included:

1. Integration of personnel, pay, and related information systems into a system for agencies payrolled from Washington, D.C., and a system for agencies payrolled from Denver, Colorado.
2. Improvement efforts on the financial management systems of the National Park Service, the Bureau of Land Management, and the Bureau of Sports Fisheries and Wildlife.

3. The merging of most of the Bureau of Mines accounting functions in Denver, Colorado.

System design submissions

On November 14, 1969, in a letter to the Comptroller General, the Department resubmitted nine of its accounting systems for approval of the design phase. The Department stated that information on accounting principles and standards and general design concepts was included in the material previously submitted for approval and that the GAO site staff had collateral information available in bureau manuals and documents. Our reply to the Department recognized that the previously submitted material contained information relating to system design but that the material did not include sufficient information in all cases for a design review although collateral information might provide the additional information needed.

Status of accounting systems on December 31, 1969

Reviews and approvals

The review and approval status on December 31, 1969, of the Department's 19 accounting systems was as follows.

	<u>Principles and standards</u>	<u>Design</u>
Approved	10	6
Submissions in process of review	5	9
Scheduled for submission	4	4
Not scheduled for submission	-	-
Approvals scheduled for resubmission	-	-
Total	<u>19</u>	<u>19</u>

Replies to questionnaire

Replies received from Interior agencies, except for the Southwestern Power Administration and the Trust Territory of the Pacific Islands, stated that current practices and

procedures had been reduced to writing and were to be put in a manual or were to be revised. The reply for Southwestern Power Administration stated that written manuals existed for cost accounting but not for budgetary accounting; it cited plans for improvement. The reply for the Trust Territory of the Pacific Islands pointed out plans to contract for the development of a financial management and management information system.

Replies from Interior agencies indicated that accrual accounting had generally been adopted as a policy but that there were five systems where accrual accounting had not been implemented. The National Park Service stated that two significant items were not being accrued because of operational problems. These were incomes from concessionaires' franchise fees and contract expenditures financed by transfers of funds. A similar exception was cited for the Bureau of Outdoor Recreation.

"\*\*\* An exception is the Bureau's grant program under the Land and Water Conservation Fund Act of 1965. Matching grants are made to the 50 States, District of Columbia, Puerto Rico, Virgin Islands, Guam and American Samoa. A majority of the grants are transferred to a political subdivision or other appropriate public agency of the State. Information was secured from the States on unbilled work performance as of June 30, 1968, and June 30, 1969. Since this information, in most cases, had to be secured from individual political subdivision or other public agencies it is strictly considered an "estimate." The Bureau had approximately 2300 projects on June 30, 1968, and June 30, 1969. Monthly accruals on the grants program are estimated on the basis of the relationship between unliquidated obligations and amounts accrued on June 30."

Although there appears to be room for more widespread use of unit costs by Interior agencies, the examples cited by the respondents of where and how they were used indicate an appreciation of the value of this accrual accounting capability.

Thirteen of the 19 accounting entities in the Department reported that they considered themselves to be in substantial compliance with all objectives of the Budget and Accounting Procedures Act of 1950.

Four agencies--the Bureau of Indian Affairs, the Bureau of Sports Fisheries and Wildlife, the Government of American Samoa, and the Trust Territory of the Pacific Islands--indicated that improvements were needed to achieve effective control over and accountability for all funds, property, and other assets for which they were responsible.

Four agencies--the National Park Service, the Bureau of Reclamation, the Bureau of Sports Fisheries and Wildlife, and the Trust Territory of the Pacific Islands--indicated that improvements were being considered or were needed in the production of adequate financial information for agency management purposes. The Trust Territory of the Pacific Islands did not provide an unqualified affirmative answer in regard to substantial compliance with any of the act's objectives.

## DEPARTMENT OF JUSTICE

During 1969 the Department continued to develop accounting systems for departmental headquarters and constituent organizations. The Department has six accounting systems subject to the approval of the Comptroller General; one has been approved. We believe that the development work which has been accomplished is of a limited nature and that a large part of the necessary work has yet to be accomplished. Department-wide accounting principles and standards were approved by the Comptroller General in May 1969. The approval of one of the six systems had been made prior to approval of the Department-wide statement of principles and standards.

More specific comments regarding (1) inadequacies in the accounting systems of the Department which have been noted during our reviews and (2) efforts being made by the Department's bureaus to develop adequate systems are presented in the following sections.

### Inadequacies in accounting systems

The Bureau of Prisons and the Immigration and Naturalization Service maintain their accounts on an accrual basis. The accounts of the other departmental organizations are oriented principally to obligation and cash accounting, because the financial planning and budget systems for these organizations are on an obligation basis.

In our work at the Department we have noted the following inadequacies. We found that the accounting system of the Department's Legal Activities and General Administration did not provide adequate accounting control over money due the United States resulting from court judgments, fines, penalties, and forfeitures. Thus, effective accounting control has not been exercised over outstanding amounts due, collections, and uncollectible debts written off. Management officials of the litigating divisions are not furnished with meaningful and timely reports to enable them to measure the effectiveness of collection efforts. As a result, little control is exercised by the litigating divisions over the collection activities of the U.S. attorneys. During 1969 we

reviewed payroll and leave records administered by the same segment of the Department and found numerous errors, due principally to inadequate internal control including internal audit.

#### Improvement efforts being applied

The Assistant Attorney General for Administration is responsible for the overall coordination and direction of the accounting systems development effort of the Department. Our work with the Department indicates that limited progress has been made during the year to develop accrual accounting systems and use internal cost-based budgeting. We reported last year that the Department had previously believed that the obligation accounting was adequate for its needs, but that it had since recognized that adequate accounting controls and costs were needed for efficient management and that accounting systems must be developed to conform with the principles, standards, and related requirements prescribed by the Comptroller General.

In order to accomplish this objective, the Department has added three systems accountants to develop accounting systems. We understand that the Department's systems accountants plan, with the assistance of systems accountants in each of the constituent organizations, to develop accounting system designs and accounting systems for each organization. With the exception of the development of specifications for the Department's payroll system, the principal efforts of the system accountants have been directed to day-to-day accounting problems and difficulties. These problems and difficulties have largely been brought about by the addition of two organizational entities to the Department, i.e., the Law Enforcement Assistance Administration and the Bureau of Narcotics and Dangerous Drugs. As a result, limited progress was made by the Department toward the development of the accounting system designs in calendar year 1969.

Status of accounting systems  
on December 31, 1969

Reviews and approvals

The status on December 31, 1969, of the Department's six accounting systems subject to approval was as follows:

	<u>Principles</u> and <u>standards</u>	<u>Design</u>
Approved	2	1
Submissions in process of review	-	-
Scheduled for submission	-	5
Not scheduled for submission	-	-
Approvals scheduled for resubmissions	<u>-</u>	<u>-</u>
Total	<u>2</u>	<u>6</u>

Replies to questionnaire

The Department reported that accounting manuals existed for three of its systems. New accounting systems were planned for two accounting entities, (a) the Legal Activities and General Administration and (b) the Law Enforcement Assistance Administration. A manual was being prepared for the remaining entity, the Bureau of Narcotics and Dangerous Drugs.

Accrual accounting had been adopted as a matter of policy throughout the Department and had been implemented by the Immigration and Naturalization Service, the Bureau of Narcotics and Dangerous Drugs, and the Bureau of Prisons, although the Bureau of Prisons indicated that refinements were needed. The other three entities indicated that appropriate accrual accounting would be achieved after refinements and development work under current consideration was accomplished.

Unit costs were reported to be in use in budget formulation and day-to-day management processes by the Immigration

and Naturalization Service and by the Federal Bureau of Investigation and in the budget formulation process by the Bureau of Prisons.

The Department reported substantial compliance with the objectives of the Budget and Accounting Procedures Act of 1950 with the following exceptions:

1. The response for the (a) Legal Activities and General Administration and (b) Law Enforcement Assistance Administration systems stated that the objectives of full disclosure of financial results of agency activities and effective control over accountability for all funds, property, and other assets were not being met because of exclusion of receivables and certain expenditures from the accounts and the need for more effective control over new equipment acquisitions. The response stated that these deficiencies would be corrected by the new accounting systems.
2. The reply for the Bureau of Prisons cited a number of improvements considered necessary to adequately meet the objectives of the act. It cited an accounting system improvement program that was being started to achieve the improvements considered necessary.
3. The reply for the Federal Bureau of Investigation cited the need and the plan to achieve full accrual accounting in order to better meet the act's objectives.

DEPARTMENT OF LABOR

The Department continued to develop its accounting and financial management systems during 1969. Slippage in target dates has occurred principally because of technical problems in the Department's automatic data processing unit, the need to accustom fiscal personnel to new systems techniques, and the inability of consultants obtained to assist in the accounting systems development effort to retain personnel initially assigned on the job until completion of the contract.

The Department has developed two statements of accounting policies, principles, and standards for its accounting systems. One statement is applicable throughout the Department; the other is applicable to the Federal portion of the Federal-State Employment Security Program segment of the Department's accounting system. In March 1968 the Comptroller General approved the statement which is applicable throughout the Department. In October 1968 the Department submitted the statement applicable to the Federal-State Employment Security Program segment to the Comptroller General for approval. It was under review by GAO at December 31, 1969.

Status of accounting systems  
on December 31, 1969

Reviews and approvals

The review and approval status on December 31, 1969, of the Department's accounting system was as follows:

	<u>Principles and standards</u>	<u>Design</u>
Approved	1	-
Submissions in process of review	-	-
Being submitted in 10 segments (see app. II, p. 3), not scheduled as a unit	-	1
Not scheduled for submission	-	-
Approval scheduled for resubmission	-	-
Total	<u>1</u>	<u>1</u>

For design purposes the Department has divided its accounting system into the 10 segments shown in appendix II. On December 31, 1969, one segment had been approved, seven segments were being reviewed, and two were scheduled for submission.

### Replies to questionnaire

The Department stated that its current practices and procedures had been reduced to writing, that accrual accounting had been adopted as a policy and implemented, and that data for developing unit costs for the budget formulation process and for use in day-to-day management of operations was provided for in the computerized cost accounting segment of its system. This segment was operating on a test basis at the end of the calendar year.

The Department considered its accounting and reporting systems to be in substantial compliance with all the objectives of the Budget and Accounting Procedures Act. It mentioned, however, that adjustments in property values were expected when physical inventories were reconciled with the contractor-held property accounting system segment.

## DEPARTMENT OF STATE

The Department's statement of accounting principles and standards, to be followed as guidelines for the development of an integrated accounting system, was approved by the Comptroller General in September 1968. Separate accounting systems for the International Boundary and Water Commission and the Department's Working Capital Fund were approved by the Comptroller General in January 1953 and May 1965, respectively.

The Department's existing general accounting system was designed primarily to account for its appropriations and funds, through a complex system of allotments, in terms of obligations and cash transactions. The system does not readily permit the systematic development of reliable data on the Department's assets and liabilities.

A number of accounting systems development efforts have been undertaken in the department of State over the past two decades. Progress has been slow, however, and results have been minor in relation to the total task that needs to be performed. The Department has a current target date of December 1970 for submitting its request to the Comptroller General for approval of the general design of its accounting system.

The Department submitted a request for approval of the Foreign Service Retirement and Disability Fund accounting system in June 1969. The system was approved by the Comptroller General on July 22, 1970.

In our report on progress and problems relating to improvement of Federal agency accounting systems as of December 31, 1968, we described a number of problem areas and inadequacies in the Department of State's general accounting system relating to (1) the accrual basis of accounting (2) accounting for costs of programs and activities, and (3) property accounting. Although some minor changes were made during calendar year 1969, the major inadequacies described in that report still exist. Brief descriptions of the problem areas are presented in the following sections of this report.

## Problem areas and inadequacies in existing accounting system

### Accrual basis of accounting

The application of accrual accounting in the Department remains relatively unchanged from the status reported as of December 31, 1968. Instead of accounting for accrued revenues and expenditures, the Department has installed a system for merely reporting such data to the Treasury Department. Moreover, contrary to established requirements that periodic conversions, if used, be made not less frequently than monthly, the analytical processes prescribed by the Department are being applied only at the end of each quarter.

### Accounting for costs of programs and activities

The general accounting system of the Department of State is not designed to provide accrual data with respect to the programs and activities carried out by the Department.

Obligations, as well as expenditures and the value of resources consumed as determined quarterly through analytic processes, generally are classified by allottee organizations. American salaries and certain international travel obligations, however, are recorded in central allotments and are not classified in the accounting system by benefiting organizations.

The Department's position is that, as a general rule, the allottee level is the level at which financial data will be compiled. In addition to the allotment structure, however, we believe that certain financial information should be available for operating entities. For example, the allotment accounts do not provide a basis for the preparation of financial statements capable of comparing revenues earned from passport and visa operations with the costs of these significant operations.

In our reviews we have identified a need to provide management officials with data on the cost of (1) the consular program activities, such as processing and issuing

visas, (2) Foreign Service Institute operations, (3) motor pool operations, and (4) the maintenance and operation of real property. In lieu of cost accounts, the Department is developing "cost-finding" systems for the Institute, motor pool, and real property operations.

### Property accounting

The system the Department is now using to account for property resources does not provide appropriate accounting control as required by law, since information is recorded in the general ledger property accounts only at the end of the fiscal year and is obtained from (1) summaries of data recorded on detailed nonexpendable property record cards and (2) estimates, made by the Office of Foreign Buildings, of increases in the cost of real property based on obligations incurred during the year.

The Department's systems efforts undertaken with respect to real and nonexpendable personal property have not been directed toward developing monetary property accounting as an integral part of its accounting system, as required by the prescribed accounting principles and standards. The procedures developed by the Department, which have not been implemented, provide for summarizing property transactions in a memorandum register as they occur. This register is to provide the basis for making quarterly adjustments of the amounts recorded in the formal accounting records of property.

### Status of accounting systems on December 31, 1969

#### Reviews and approvals

The status on December 31, 1969, of the three Departmental accounting systems subject to approval and that of the International Boundary and Water Commission are shown in the following tabulation. Accounting progress and problems of the Agency for International Development and the Peace Corps are covered separately starting on pages 95 and 108, respectively.

	<u>Principles and standards</u>	<u>Design</u>
Approved	3	2
Submissions in process of review	1	1
Scheduled for submissions	<u>-</u>	<u>1</u>
Total	<u>4</u>	<u>4</u>

### Replies to questionnaire

The Department reported that current practices and procedures had been reduced to writing in the form of accounting manuals and that accrual accounting had been adopted as a policy and, except for the Foreign Service Retirement and Disability Fund, had been implemented. Accrual accounting was scheduled for development in Foreign Service Retirement and Disability Fund in March 1970.

Unit costs were reported in use in the budgeting and accounting processes for the Working Capital Fund of the Department and the International Boundary and Water Commission. Analysis and cost finding techniques were reported for certain areas of operations where it was claimed that such methods produce reasonably accurate data more economically than that which would result from more formal and precise accounting processes.

Each accounting entity was reported to be in general or substantial compliance with the objectives set forth in the Budget and Accounting Procedures Act of 1950.

In regard to effective control over and accountability for all funds, property, and other assets, the Department did observe for its overall general accounting system that further effort was being applied to strengthen monetary property accounting for real and nonexpendable personal property.

We believe that basic revisions are needed in the Department's accounting system in lieu of the piecemeal approach which has been taken.

## DEPARTMENT OF TRANSPORTATION

The Department of Transportation was established in April 1967. It has six accounting systems subject to the approval of the Comptroller General, two of which have been approved in the past--the Coast Guard system in December 1951 and the Alaska Railroad system in September 1957. Our review work has indicated that both of the approved accounting systems require updating to meet current requirements.

Specific comments on (1) inadequacies in the accounting systems of the Department, (2) efforts being applied to develop adequate systems, and (3) the status of the accounting systems on December 31, 1969, are presented in the following sections.

### Inadequacies in the accounting systems

The Comptroller General approved the Coast Guard accounting system in December 1951. At that time, special mention was made of the fact that the Coast Guard lacked accounting control over nonexpendable personal property. At December 31, 1969, the Coast Guard still had not integrated accounting for property, such as vessels, aircraft, small boats, vehicles, and other equipment, into its accounting system. The Coast Guard informed us that it intended to establish financial accounting control over personal property in fiscal year 1971 and to submit the revised property accounting segment of its accounting system to the Comptroller General for review and approval in fiscal year 1972.

On the basis of a 1969 review of aspects of the Coast Guard's financial management system and related reporting requirements, we concluded that there was need for the Coast Guard to improve its system by (1) establishing effective internal cost-based operating budgets complemented by a system which develops cost data and (2) simplifying the accounting for obligations. We concluded also that a need existed for the Coast Guard to use certain techniques and standards in the preparation and distribution of its operating reports to improve their usefulness to management.

We were informed that in 1971 the Coast Guard plans to implement an Operating Cost Budget Target System, which will

permit the reporting of comparisons of budgeted costs and applied costs for its operating units and programs.

Except for the property accounting segment, the Coast Guard has not established a target date for submission of modifications to its accounting system to the Comptroller General for review and approval.

In his September 1957 letter of approval of the accounting system of the Alaska Railroad, the Comptroller General stated that some changes and modifications in handling certain accounts and related procedures should be made. At that time, detailed accounting procedures were being written for publication as a part of the accounting manual.

In reviewing the Railroad's operations since 1966, we noted that there were opportunities still remaining for more efficiency and effectiveness by improving the accounting and management information systems. Railroad accounting officials agreed with us that many aspects of the accounting operations did not completely meet the current criteria for approval of the system but pointed out that many changes had been made during fiscal years 1969 and 1970 to improve the accounting system. We have not reviewed these changes.

#### Improvement efforts being applied

The Financial Systems Division was organized in the Office of the Secretary of Transportation during fiscal year 1968. This Division, with a professional staff of four, was established to provide Department-wide staff and consultation services for the design and improvement of financial management and accounting systems. On April 18, 1969, the Division submitted a statement of Department-wide accounting principles and standards to the Comptroller General for review and approval. At our request the Department subsequently made several changes in the statement, and the statement was approved by the Comptroller General on June 26, 1970.

The Department also formed a Financial Systems Committee to coordinate internal working relationships and provide

cooperative consultation on matters concerning its accounting and fiscal needs. The committee is chaired by the Chief of the Financial Systems Division, Office of the Secretary, and includes the top financial systems staff official of each operating administration, the National Transportation Board, and the Secretary's Office of Administrative Operations.

Status of accounting systems  
on December 31, 1969

Reviews and approvals

The review and approval status on December 31, 1969, of the Department's six accounting systems was as follows:

	<u>Principles and standards</u>	<u>Design</u>
Approved	3	2
Submissions in process of review	1	-
Scheduled for submission	2	3
Not scheduled for submission	-	1
Approvals scheduled for resubmission	<u>-</u>	<u>-</u>
Total	<u>6</u>	<u>6</u>

Replies to questionnaire

All the agencies of the Department reported that their current practices and procedures had been reduced to writing in the form of accounting manuals and that accrual accounting had been adopted as a matter of policy.

The Federal Aviation Agency and the report for the Office of the Secretary's system for appropriated funds stated that full implementation of accrual accounting would be achieved in the future. Current exceptions to full accrual mentioned by the Federal Aviation Agency included some depreciation and interest on the Federal investment. Also, the value of space and equipment furnished by others for no charge was not being estimated and recorded as a cost by the Agency.

Only the replies for the Federal Aviation Administration, the Federal Highway Administration, and the Alaska Railroad stated that operating statements were prepared on a regular cycle comparing actual operating results with plans for each major organization. The Alaska Railroad did not indicate the basis used to prepare the statements; the Federal Aviation Administration and the Federal Highway Administration mentioned the obligation and applied cost bases.

Unit costs were reported to be in use in budget formulation processes and in day-to-day management of operations by the Federal Aviation Administration and the Office of the Secretary's Working Capital Fund, but not by the other agencies of the Department.

In regard to substantial compliance with the objectives set forth in the Budget and Accounting Procedures Act of 1950:

1. The Federal Aviation Administration reported that improvements were needed in order to achieve full disclosure of the financial results of its activities.
2. The Coast Guard and the Office of the Secretary reported that improvements were needed in financial accounting control over property.

The Department, in transmitting the responses from the agencies to the Comptroller General, stated that:

"\*\*\* it is recognized that further improvements can be made in the accounting services and information provided to management, particularly in the cost area. An important part of our systems development plan is to effect improvements in the providing of cost data for decision making, performance evaluation and resource control, and to maintain systems capabilities that are consistent with current management needs."

## DEPARTMENT OF THE TREASURY

During 1969 the Department and its constituent agencies continued efforts to improve their accounting and financial management systems. The Department has 16 accounting systems subject to the approval of the Comptroller General. Department-wide principles and standards which are applicable to all administrative accounting systems of the Department were approved in May 1969. Designs of 11 of the 16 systems have been approved. Eight of the 11 approved designs were approved prior to calendar year 1969. Three approved designs, those for (1) Office of the Secretary, (2) the Bureau of Accounts central accounting for foreign currency operations, and (3) investments branch accounting systems, were approved in calendar year 1969.

The accounting systems, both administrative and fiscal, for the Treasury are initially developed by staffs of each of the individual bureaus and offices. Top-level staff responsibilities for Treasury accounting systems development are divided between (1) the Assistant Secretary for Administration who is responsible for developing and appraising administrative accounting and financial reporting policies, systems, and procedures and (2) the Fiscal Assistant Secretary who has comparable responsibilities for fiscal accounting systems. The accounting systems for which the Fiscal Assistant Secretary is responsible include Government-wide functions of the Treasury Department acting in its capacity as the central fiscal agency. This requires separate accounting systems for revenue-producing programs, public debt operations, Treasurer's general accounts, central accounting for cash operations, and operations in foreign currencies.

More specific comments regarding efforts being applied by the Treasury agencies to develop adequate systems and the current status of systems approval are presented in the following sections.

### Improvement efforts being applied

The Treasury's Office of Budget and Finance, under the Assistant Secretary for Administration, is responsible for the overall coordination and direction of the administrative

accounting systems development effort of the Treasury. The Office prepared a statement of principles and standards for all administrative accounting systems in the Treasury. This statement, which was submitted for the Comptroller General's approval in November 1968, was formally approved by the Comptroller General on May 29, 1969. It provides, in general, for the maintenance of accounts on the accrual basis and for the preparation of cost reports designed to assist management in performing its planning and control functions.

The Treasury agencies have also subscribed to the concepts of cost-based budgeting as the basis for internal planning and administration of programs. According to Treasury officials, internal cost-based budgets were being used in eight of the 10 Treasury bureaus and offices as of December 19, 1969. One of the remaining bureaus, the Secret Service, started to use such a budget in January 1970, and the other, the Bureau of Customs, established a target date of July 1, 1970, for implementation of internal cost-based budgeting.

The Internal Revenue Service has two accounting systems which are subject to the approval of the Comptroller General. These systems are (1) the administrative accounting system and (2) the revenue accounting system. The design of the administrative system was submitted for approval in 1969 and is under review by GAO. The principles and standards for the revenue system were also submitted but were subsequently withdrawn for revisions by the Department.

The Office of the Treasurer system of accounting for the public moneys, for which the Fiscal Assistant Secretary has staff responsibility, has been in operation for a number of years but is not yet documented in manual form. In December 1968 a statement of accounting principles and standards for the system was formally submitted to the Comptroller General for review and approval. The statement was withdrawn by the Treasury on September 5, 1969, and a revised statement was formally submitted on February 27, 1970. We discussed the revised statement with agency officials at a meeting in April 1970, and the agency made

certain changes in the statement on the basis of our suggestions. The statement is under review by GAO.

Status of accounting systems  
on December 31, 1969

Reviews and approvals

The review and approval status on December 31, 1969, of the Department's 16 accounting systems subject to approval was as follows:

	<u>Principles and standards</u>	<u>Design</u>
Approved	12	11
Submissions in process of review	4	3
Scheduled for submission	1	-
Not scheduled for submission	-	2
Approvals scheduled for resubmission	-	-
Total	<u>17</u>	<u>16</u>

Replies to questionnaire

The Department reported that current practices and procedures had been reduced to writing in the form of accounting manuals for its agencies and accounting entities, except the system of accounting for the public moneys. Written procedures reported to be available for most practices and procedures of that system had not yet been converted to manual form.

Accrual accounting was reported as having been adopted as a policy and implemented for the administrative accounting systems of the Department's agencies. With the following exceptions, accrual accounting was also reported to have been adopted as a policy and implemented for the fiscal accounting systems maintained by the Department for the Government.

--Central accounting for cash operations of the Federal Government.

- Central accounting for foreign currency operations.
- Accounting for the public moneys.

For public debt accounting, accrual accounting had been adopted when feasible, such as for public debt interest.

The Department cited a variety of examples of the use of unit costs for budgeting and management of operations in the administrative accounting systems of its agencies. The only exceptions were the Bureau of Customs, where unit costs were reported as not used at present for either budgeting or operations, and the Secret Service, where unit costs were reported as not applicable. For the Government's fiscal accounting systems maintained by the Department of the Treasury, interest on the public debt was reported as being controlled through units of outstanding public debt securities employing accrual concepts. Otherwise the use of unit costs was not considered applicable to these systems.

The Department considered that the administrative accounting and reporting systems of its agencies and, where applicable, the fiscal accounting systems that it maintains for the Government were in substantial compliance with the objectives of the Budget and Accounting Procedures Act of 1950.

## AGENCY FOR INTERNATIONAL DEVELOPMENT

The Comptroller General approved the accounting policies and procedures of the Agency for International Development's predecessor, the International Cooperation Administration, in 1955. Subsequently, the Agency's programs and activities have undergone substantial changes and GAO requirements have been refined. Therefore the accounting system previously approved by the Comptroller General required appropriate revision and updating. The Agency's overall accounting system now consists of a Department-wide statement of principles and standards and 10 segments, one of which is divided into five subparts.

Specific comments regarding inadequacies in the accounting system segments of the Agency and improvement efforts noted during our reviews in 1969 are presented in the following sections.

### Inadequacies in accounting system segments

Our review of the five subparts of the Agency's overall appropriation and allotment accounting, which were submitted to the Comptroller General for approval in 1968, revealed that the Agency had not consistently applied the accrual accounting concept in recording and reporting U.S. dollar transactions affecting the three major economic assistance programs: Technical, Capital, and Program Assistance. This lack of uniformity related to the Agency's practice of sometimes recording economic assistance rendered on the basis of checks issued rather than on the basis of performance as determined by the receipt of goods and services.

GAO believes that accrued expenditures applicable to economic assistance rendered should be recognized and accounted for on the basis of performance, regardless of when payments are made or whether such assistance is financed under loan or grant arrangements, except when assistance is rendered in the form of cash disbursements to the borrower or grantee and no performance is required.

## Improvement efforts

During 1969 the Agency's Foreign Currency Programs Accounting Manual was revised to give effect to the following provisions, as agreed to by Agency officials in connection with the Comptroller General's qualified approval of the system design in January 1969.

- Consistent recognition of accrued expenditures in both proprietary and budgetary accounts.
- Incorporation of necessary technical refinements and language clarification applicable to accounting controls and procedures and to account titles contained in the manual.
- The provision of information concerning all foreign currency funds to which the system is applicable.

Also, the Agency is in the process of implementing revised payroll procedures for its foreign national direct-hire employees as a part of the Agency's continuing efforts to improve its systems and procedures.

## Status of accounting systems on December 31, 1969

### Reviews and approvals

As of December 31, 1969, the agency had submitted its principles and standards and all segments and subparts of its accounting system to the Comptroller General for approval. Five segments had been approved; two segments had been returned for additional development; and eight segments and subparts, including one segment previously returned and resubmitted, were under consideration by the GAO staff.

### Reply to questionnaire

Accounting manuals--The Agency reported variations between Washington, D.C., and overseas accounting and among individual overseas stations that were governed by local commercial, government, international, and other practices. For this reason, the agency prefers to provide uniform

guidelines which overseas offices adapt to their internal use.

Although accounting practices and procedures have been reduced to writing in such various forms as accounting manuals, manual orders, and operating instructions, we have found that many of the manual orders and certain of the operating instructions should be updated. For example, the description of the Agency's Washington allotment accounting procedures, as set forth in Manual Order 738.1 (dated September 29, 1960), should be completely revised to (1) document the current allotment accounting system, and (2) provide users with complete and current instructions which are adequate for day-to-day use by accounting personnel in the actual maintenance of the accounting system.

Accrual accounting--The Agency reported that accrual accounting as a policy had been inherent in its system since inception and that accrued expenditures were used as a basis for financial management whenever they could be fully applied.

GAO and the Agency do not agree on the implementation of accrual practices. In our report to the Administrator (B-158381, January 14, 1970), on the results of our review of the accounting manuals for Technical, Capital, and Program Assistance, we pointed out the need for the Agency to improve its accrual accounting practices.

Full disclosure and control over funds and property--With regard to full disclosure and effective control over funds and property, it is to be noted that the Agency's balance sheet and related notes excluded reference to (1) advances to agent cashiers as imprest funds by the Treasury Department disbursing officers in the amount of \$2,234,064 at June 30, 1969, and (2) \$21,790,774 in excess property acquired at no cost under a program for the advance acquisition of excess property.

The Agency reported, however, that they considered each reporting entity to be in substantial compliance with the objectives set forth in the Budget and Accounting Procedures Act of 1950.

## DISTRICT OF COLUMBIA GOVERNMENT

In our report to the Congress last year, we stated our belief that, in the District of Columbia Government, the central problem that should receive consideration was the manner in which financial management improvement and accounting systems development work was to be organized and responsibility established. The District Government took a significant step toward resolving that problem through issuing Commissioner's Order 69-96, dated March 7, 1969. This order established an Office of Budget and Executive Management in the Executive Office. The new Office's objectives include developing the budget process and improving financial management and reporting practices and systems. The Accounting Systems Staff within that office has the responsibility for establishing accounting standards for the District Government; developing an overall system of accounting to reflect the assets and liabilities and the financial operations of the District of Columbia; and advising and assisting departments and agencies in developing and installing internal accounting systems, including systems for the measurement of costs, in conformance with, and auxiliary to the overall system of accounting.

As a result we believe that the District Government is now in a position to move forward in developing and implementing financial management improvement, and we expect to work closely with agency personnel in their endeavors.

As mentioned in our report last year, the statement of accounting concepts, principles, and standards which had been submitted prior to the reorganization of the District Government was returned unapproved on July 17, 1968, because efforts to obtain clarification and agreement to needed revisions had not been successful. We met on three occasions in April and May 1970 with the Director, Office of Budget and Executive Management, to discuss the statement and District efforts to improve financial management. Agency officials have assured us that priority will be given to revising the statement and resubmitting it for approval in the near future.

The fiscal year 1970 budget for the District Government authorized three additional positions for accounting systems

work and provided 4 months' funding for each position. The budget, making the positions available, was approved in December 1969, but personnel ceilings and difficulties in recruiting have delayed filling these positions. We were informed by District officials that the first of the three positions was filled on April 20, 1970.

The development of a program budget has received substantial emphasis during the past year. The program budget provides financial information on requirements in terms of resources provided for use of the District Government; however, additional effort is required to provide accounting support for the program budget figures presented. An accounting system which can provide support for the budget is a basic requirement of law and the principles and standards prescribed by the Comptroller General.

#### Status of accounting systems on December 31, 1969

##### Reviews and approvals

On December 31, 1969, target dates for submission of principles and standards and two system designs were pending top-level policy discussions regarding a plan of action for financial management improvement.

##### Replies to questionnaire

The District Government reported that the practices and procedures of its accrual accounting system had been reduced to writing in the form of accounting manuals; however, its accounting and reporting was not yet considered adequate to meet most of the objectives of the Budget and Accounting Procedures Act of 1950. The District Government stated that it was developing accounting principles and standards and an accounting system that would provide (1) full disclosure of financial results and adequate financial information for management, (2) an effective control over and accountability for all funds and property, and (3) a basis for controlling the execution of budgets.

The existing accounting system was reported as not producing unit costs that were used in budget formulation

processes, although unit costs were reported to be used in day-to-day management of manufacturing-type operations and when a product or service was charged for. Certain fixed assets were reported as not being shown on the District Government's statement of assets and liabilities.

## NATIONAL AERONAUTICS AND SPACE ADMINISTRATION

The National Aeronautics and Space Administration's accounting principles and standards and system design were approved by GAO on June 20, 1969. As was indicated in last year's progress report, we plan to review the effectiveness of the accounting system in operation when deficiencies noted in previous reviews are considered by the agency to be corrected. Progress toward correcting these deficiencies is apparently being made. A considerable amount of progress can be attributed to the findings of a joint National Aeronautics and Space Administration group that was formed following an August 1968 GAO report of inventory management deficiencies at the Goddard Space Flight Center and to subsequent follow-up action on these findings.

Deficiencies noted in the prior progress report primarily concerned the accounting for Government-owned property in the hands of private contractors, inadequacies in prescribed property accounting procedures, and inadequate implementation of existing property accounting and management procedures. The factors causing these problems can be identified, in large part, with the more than 700 private contractors holding accountable Government property, the worldwide locations of space facilities that are often managed by foreign nationals, and the very high priority of mission requirements. The first two of these deficiencies have been lessened by appropriate changes to existing instructions and manuals; however, deficiencies remain in the implementation of these changes and the management of the property accounting system. The Administration has recognized this as a difficult problem and, accordingly, is making a determined effort to correct the problem. A selected team of experts has been established to review the property management system in operation at major facilities and, when necessary, to require corrective action.

### Status of the accounting system on December 31, 1969

#### Replies to questionnaire

Except for the problems cited in the previous paragraph concerning accounting for Government-owned property in the hands of private contractors, the Administration considered

its accounting and reporting system to be in substantial compliance with the objectives set forth in the Budget and Accounting Procedures Act of 1950.

## NATIONAL SCIENCE FOUNDATION

The National Science Foundation's revised statement of accounting principles and standards was approved by the Comptroller General in April 1969. The Foundation's accounting system, which was originally approved on November 5, 1954, is being modified to conform with the approved statement of principles and standards.

As a result of a reorganization of the Foundation, particularly its financial management organization, and a reevaluation of the level of effort required to develop the revised system, the Foundation currently estimates that the design documentation will be submitted for approval by January 1, 1973, rather than by December 31, 1970, as it had previously estimated.

### Current improvement efforts

The administrative structure of the Foundation was reorganized in October 1969. An internal systems task force, organized in October 1968, was discontinued. Consistent with most of the recommendations of the task force, however, improvements are being made in the current financial management system to improve accounting in both concept and method of operation.

The Foundation's approved principles and standards provide for a modified accrued accounting concept to be used in recognizing expenditures under grants which account for about 80 percent of the Foundation's appropriated funds. Under this concept, the Foundation will use the quarterly expenditure reports submitted by grantee institutions as the basis for determining accrued expenditures related to grants. The Foundation will prepare monthly accrued expenditure reports by extrapolating data from grantees' quarterly reports, supplemented by analyses of program disbursement trends.

Since approval of the revised principles and standards, the Foundation has made efforts to improve the quality and reliability of the quarterly expenditure reports. As of January 1970, the data base of the report has been integrated with the allotment accounting system and general

ledger. Previously, the data base for the reporting system was created outside the accounting system which, over a period of time, created many differences between the accounting and reporting systems. Also, instructions covering the preparation of the quarterly expenditure reports have been restated and issued to Foundation grantees.

The Foundation adopted a single allotment system in January 1970. The system includes a series of operating plans as well as a two-stage commitment and obligation method of fund control.

In its efforts to provide more useful financial data to program managers, the Foundation has developed a semi-monthly report showing the status of obligations and commitments incurred against annual operating plans. This report is also supported by a series of trend charts. Because the Foundation's program activities are directed toward the support of basic science, research, and education and do not easily lend themselves to quantification, the Foundation has not yet found it practicable to develop unit costs to measure program progress and results.

Further improvements to the reporting system are being developed which will provide for distribution of personnel compensation and related costs to the benefiting programs. This distribution will be possible after the payroll system has been computerized in fiscal year 1971.

Status of accounting system  
on December 31, 1969

Replies to questionnaire

The Foundation reported that current practices and procedures generally had been reduced to writing in the form of accounting manuals and that additional procedural material would be developed as required.

The Foundation has provided, as a policy matter, for a modified accrued accounting concept to be used in recognizing expenditures under grants which account for 80 percent of its appropriated funds. Procedures giving effect to this policy were being developed. Until they are

developed and implemented, the Foundation's balance sheet will not include outstanding advances to grantees as an asset. With the exception of the need to implement the modified accrued expenditure concept, the Foundation considered its accounting and reporting to be in substantial compliance with the objectives of the Budget and Accounting Procedures Act of 1950.

OFFICE OF ECONOMIC OPPORTUNITY

The Office of Economic Opportunity submitted its statement of financial policies and standards to the General Accounting Office, and this statement was approved by the Comptroller General on October 31, 1969.

Problems and improvement efforts

The agency completed an accounting procedures manual in October 1969 for submission to the Comptroller General. Because of reorganization of the agency, however, it is undergoing revision. The accounting code structure is being revised to more accurately identify costs of program activities by purpose and type of service and to reflect the agency's new organizational structure. Progress is being made toward establishing a uniform code structure for budgets, allotments, obligations, accrued expenditures, and disbursements. The agency is thus working toward a financial coding and reporting system that can utilize PPBS and cost-benefit analysis techniques along with current and meaningful financial management reports.

Status of accounting system  
on December 31, 1969

Reviews and approvals

The review and approval status on December 31, 1969, of the Office's accounting system was as follows:

	<u>Principles and standards</u>	<u>Design</u>
Approved	1	-
Submissions in process of review	-	-
Scheduled for submission	-	1
Not scheduled for submission	-	-
Total	<u>1</u>	<u>1</u>

## Replies to questionnaire

The Office reported that its current practices and procedures had been reduced to writing in the form of accounting manuals, except property accounting which was being reviewed. A procedure for developing general ledger control over, and value of, property had not been implemented. Estimates of property values held by the Office and its grantees and contractors were being used.

Although the Office stated that accrual accounting had been adopted as a matter of policy, it had not been fully implemented and operating statements were being prepared comparing actual results with plans on an obligation basis only. The only use of unit costs mentioned by the Office was by certain of its contractors, such as those operating Job Corps centers and health centers.

## PEACE CORPS

The principal operations of the Peace Corps consist of (1) recruiting and selecting volunteers, (2) training them to maximize their potential for effective service in programs abroad, and (3) providing technical, medical, and administrative support for volunteers during their training and approximate 2 years of service abroad. Appropriations have amounted to about \$100 million in each of the past several years. At June 30, 1969, about 9,750 volunteers were at work in 60 developing countries and areas and 2,400 were in training.

The Director, Office of Administration and Finance, is responsible for developing and installing improved financial management systems. Accounting functions for domestic operations and for operations at seven foreign posts are performed at the Washington headquarters office. Accounting functions for all but two of the other 53 posts are performed by budget and fiscal offices of U.S. embassies.

### Progress in development of accounting system general design for submission and approval by Comptroller General

A statement of accounting principles and standards, formally submitted to the Comptroller General for approval in October 1969, was undergoing revision prior to approval.

The Peace Corps is in the process of developing and installing an accounting system which it expects to (1) provide its management and operating officials, the Congress, and other Federal agencies with reliable information concerning the agency's resources, liabilities, and cost of operations and (2) conform, in all material respects, to the principles, standards, and related requirements of the comptroller General.

In furtherance of this effort, the Peace Corps entered into a contract in June 1968 with an international public accounting firm to design, develop, and install an improved accounting system that would conform to the accounting principles, standards, and related requirements of the Comptroller General. The contractor completed the development.

of an accounting manual. Because the Peace Corps is not entirely satisfied with certain aspects of the design, however, revisions to sections of the manual are being made in-house, utilizing the limited personnel available. The Peace Corps plans to complete the manual revisions and have a system fully in operation by fiscal year 1972.

Status of accounting system  
on December 31, 1969

Reviews and approvals

The review and approval status on December 31, 1969, of the Corps accounting system was as follows:

	<u>Principles and standards</u>	<u>Design</u>
Approved	-	-
Submission in process of review	1	-
Scheduled for submission	-	1
Not scheduled for submission	<u>-</u>	<u>-</u>
Total	<u>1</u>	<u>1</u>

Replies to questionnaire

The Corps reported that seven chapters of a planned 16-chapter accounting manual had been printed and that the rest of the manual was planned for completion by December 31, 1970.

Accrual accounting, adopted as a policy, has been completely implemented.

The response to the questionnaire stated that use of unit costs in budget formulation and in day-to-day management of operations did not seem to lend itself to the characteristics of the Peace Corps. We note, however, that an "average cost per volunteer" is contained in the Corps budget justification material.

The Peace Corps reply stated that by fiscal year 1972 it expected to have completed development of an accounting and reporting system that would meet the objectives of the Budget and Accounting Procedures Act of 1950.

## SMALL BUSINESS ADMINISTRATION

During 1969 the Small Business Administration continued its efforts to develop an approvable accounting system.

More specific comments regarding the Administration's accounting system are presented in the following sections.

### Inadequacies in accounting systems

In June 1967 the revised system was submitted to the Comptroller General for approval. Subsequent to the start of our review, the Administration advised us that the implementation of the loan accounting subsystem and other segments was being deferred until fiscal year 1969 and that certain implemented segments were being revised. In addition, our review of the underlying principles and standards for the accounting system showed several material omissions. Therefore in April 1968 we returned the system and advised the agency that the system could not be approved. It was then agreed that with our assistance the agency would prepare a revised statement of accounting principles and standards for submission to the Comptroller General for approval. The statement was approved in December 1968.

During our review of the principles and standards, we noted that the proposed accounting system was to be based on the concept of accrued expenditures rather than on the application of costs on a current basis. In our letter approving the principles and standards, we suggested to the Administrator that, in connection with the system implementation, the Administration consider the advantages to be derived by its management officials from accumulating financial data on the basis of applied costs.

### Improvement efforts being applied

During 1969 the agency submitted its accounting system design for our informal review. With the exception of the payroll segment, the informal review has been substantially completed. On the basis of the results of our review, the agency has made a number of revisions to the system to

expedite the approval of the system design by the Comptroller General. The revisions to the system, including the payroll segment, were submitted to GAO in May 1970.

Status of accounting system  
on December 31, 1969

Reviews and approvals

The review and approval status on December 31, 1969, of the Administration's accounting system was as follows:

	<u>Principles and standards</u>	<u>Design</u>
Approved	1	-
Submissions in process of review	-	-
Scheduled for submission	-	1
Not scheduled for submission	-	-
Approval scheduled for resubmission	-	-
Total	<u>1</u>	<u>1</u>

Replies to questionnaire

The Administration reported that current practices and procedures had been reduced to writing in the form of accounting manuals.

It reported that it considered its accounting and reporting system to be in substantial compliance with the objectives set forth in the Budget and Accounting Procedures Act of 1950.

In regard to management use of unit costs, the agency reply stated that unit costs would be developed once necessary refinements in both the accounting and the work measurement systems were accomplished.

## U.S. INFORMATION AGENCY

Comments regarding the present accounting system and progress being made to develop an adequate accounting system for the U.S. Information Agency are presented in the following sections.

### Inadequacies in the existing accounting system

The Agency's present accounting system is basically oriented toward fund control through processes of recording and reporting allotments, obligations, and disbursements. Accrued expenditures are determined partly through the application of analytical techniques applied on a quarterly basis to the obligation-and cash-based data. Accrued expenditures in such instances are estimated for intervening months.

The Agency has recognized that the present accounting system is not adequate since it (1) does not have the capability of producing accrued expenditures and costs by organization, function, and end product; (2) does not provide adequate support for PPBS (costs for PPBS purposes are derived mainly from the manual manipulation of data available outside the accounting system and are difficult to relate to data in the system); and (3) does not provide adequate monetary control over property located throughout the world as an integral part of the accounting system.

### Progress in development of accounting systems

The domestic payroll segment of the U.S. Information Agency's accounting system was approved in October 1966, and the Agency's statement of financial management policy and accounting principles and standards was approved in December 1968. During 1969 progress was made in developing an overall accounting system design.

In June 1969 the Agency awarded a contract to a management consultant firm for accounting systems development work. The contract provides for the design of an accounting system which should provide the means of improving the Agency's

overall financial management, support the program budgeting system, and conform to the approved statement of accounting principles and standards. The contractor plans to complete the accounting system design in June 1970.

In consonance with a GAO report recommendation, during the year the Agency elevated the position of the internal audit function so that it reported to a high level in the Agency. The reorganization also had the effect of separating the internal audit function from the division responsible for planning, developing, prescribing, installing, and operating the accounting and financial system and thus enhanced its capability for making independent reviews of that system.

Status of accounting systems  
on December 31, 1969

Reviews and approvals

The review and approval status on December 31, 1969, of the Agency's accounting system was as follows:

	<u>Principles and standards</u>	<u>Design</u>
Approved	1	-
Submissions in process of review	-	-
Scheduled for submission	-	1
Not scheduled for submission	-	-
Approval scheduled for resubmission	-	-
Total	<u>1</u>	<u>1</u>

Replies to questionnaire

The Agency stated that its current practices and procedures were in the form of accounting manuals except one interim directive to overseas posts requiring that accrual data needed for reports to the Treasury Department be accumulated and reported.

Accrual accounting, adopted as a matter of policy, had been only partially implemented.

Although unit costs were reported to be in use both in budget formulation and in day-to-day management of operations, they were not controlled by or related to an accrual accounting system but were obtained through use of various analytical processes applied to obligation data.

In commenting on the degree of compliance of its accounting and reporting system with the objectives set forth in the Budget and Accounting Procedures Act of 1950, the Agency reported that:

1. The financial results of its activities were disclosed fully only in regard to obligations and cash.
2. The ability, not yet achieved, to ascertain exact costs would be a valuable tool for decisionmaking and measuring efficiency in certain of its operations, such as overseas printing centers. The new financial management system being designed under contract would be capable of producing such cost data.
3. Monetary records and controls over property needed improvement.

## VETERANS ADMINISTRATION

The Veterans Administration has nine accounting systems subject to approval. Six of the nine systems were approved by the Comptroller General during or prior to 1956, and one was approved in 1969.

Our comments regarding (1) improvements needed, (2) efforts being applied to make these improvements, and (3) the current status of systems approval are presented in the following sections.

### Improvements needed

As a result of our reviews, we suggested several improvements to the Administration. The improvements needed were as follows:

1. Accounting manuals--Accounting principles, standards, and procedures are contained in various supplements to the basic accounting manual, in the agency's data processing manual, and in other publications besides the basic manual. We believe that, in order for the accounting manual to be of maximum usefulness and benefit to officials and employees responsible for designing and operating the accounting system, the material that relates to accounting contained in the departmental supplements and other publications should be consolidated into the basic accounting manual.

2. Miscellaneous accounting matters--During our review we noted also that there is a need to (a) record more timely supply fund inventories and payables and property acquired under the loan programs and (b) improve controls over non-expendable property at certain field stations.

### Improvement efforts being applied

In response to our suggestions, the Administration has taken or is taking the following actions.

1. Accounting manuals--Administration officials advised us that they had recently completed a study of controllership activities which included an evaluation of GAO's

suggestion to consolidate various accounting supplements into one accounting manual. They advised us that their evaluation of the GAO suggestion was not complete and that a final decision on it had not yet been made.

2. Miscellaneous accounting matters--Administration officials advised us also that during 1969 they notified field stations to review their procedures to ensure that all property acquisitions are recorded in the month that the property is actually acquired. In addition, they requested all field stations to take appropriate action to verify and reconcile inventories of nonexpendable property and to establish procedures for the allocation of asset acquisition costs to the appropriate jurisdictional cost centers.

The Administration and GAO have been concerned with improvements needed in the medical care cost accounting subsystem, and a number of significant changes have been made to more adequately disclose the cost of each major medical program at each hospital and medical facility. Further discussion of these matters is contained in our report to the Congress on "Improvements Made In The Medical Care Cost Accounting System Of The Veterans Administration" (B-61930, August 5, 1969).

Status of accounting systems  
on December 31, 1969

Reviews and approvals

The review and approval status on December 31, 1969, of the Administration's nine subsystems was as follows:

	<u>Principles and standards</u>	<u>Design</u>
Approved	7	7
Submissions in process of review	1	1
Scheduled for submission	1	1
Not scheduled for submission	-	-
Approvals scheduled for resubmission	-	-
Total	<u>9</u>	<u>9</u>

## Replies to questionnaire

The Administration reported that current practices and procedures had been reduced to writing in the form of accounting manuals and that accrual accounting, adopted as a matter of policy, had been implemented for all of its subsystems.

The Administration reported that regular cyclical operating statements, comparing actual operating results with plans on bases including applied costs, had been prepared by four of its subsystems. We note that in these instances the actual and planned applied cost comparisons did not include certain unfunded costs, such as accrued leave and depreciation.

Unit costs controlled by or related to the accrual accounting system were reported as being produced, where appropriate, for use in budget formulation and day-to-day management by the subsystems for (1) Medical Care and Administration, (2) Construction of facilities, (3) Compensation, Pension and Education, (4) Direct Loan Program, and (5) Loan Guaranty Program.

The accounting and reporting subsystems were considered by the Administration to be substantially in compliance with the objectives set forth in the Budget and Accounting Procedures Act of 1950.

### OTHER INDEPENDENT AGENCIES

Major systems of this group of other independent agencies include such agencies as the Atomic Energy Commission, Civil Service Commission, General Services Administration, Railroad Retirement Board, and Panama Canal Zone Government.

The other independent agencies have 38 accounting systems subject to approval by the Comptroller General. The principles and standards of 30 of these systems and the design of 27 have been approved.

Of these approvals, five statements of principles and standards and four systems designs were approved during calendar year 1969. One unapproved system design--that for

the Civil Service Commission's Administrative Accounting-- was under review at the end of the year. This system is a consolidation of the previously approved systems for Administrative Expenses and Revolving Fund--Investigations. The principles and standards for the consolidated system were approved in November 1968, and the design was formally submitted for review in December 1969.

During 1969 three of the eight unapproved principles and standards and three of the 11 unapproved system designs were actively being worked on.

The five accounting systems of the Civil Service Commission which are subject to approval have all received attention in recent years. Principles and standards of all five of the systems have been approved since 1967, and the design of all but the consolidated system for Administrative Accounting had been approved at December 31, 1969. The principles and standards of the accounting system for the Railroad Retirement Board were approved in June 1968. The design, previously planned to be submitted during the first part of 1969, is now scheduled to be formally submitted in June 1970.

The remainder of the other independent agencies consists of regulatory agencies, boards, commissions, and other relatively small agencies. With four exceptions--two activities in the Executive Office of the President, the National Foundation on the Arts and Humanities, and the Washington Aqueduct--either principles and standards or design of these systems have been approved or are scheduled to be submitted to the Comptroller General for approval in 1970.



**APPENDIXES**



## ACCOUNTING REQUIREMENTS STATED BY THE CONGRESS

BUDGET AND ACCOUNTING PROCEDURES

The Congress acted in 1950 and again in 1956 to establish budget and accounting requirements to be observed by the executive agencies. The Budget and Accounting Procedures Act of 1950 also placed certain responsibilities on the Comptroller General for prescribing, cooperating in development of, reviewing, and approving accounting systems. These enactments have provided the broad framework for financial management improvement throughout the Government.

Quoted below are certain portions of these enactments which relate to the content of this report.

Section 216 of the Budget and Accounting Act of 1950 (31 U.S.C. 24) states that:

"(a) Requests for regular, supplemental, or deficiency appropriations which are submitted to the Bureau by the head of any department or establishment shall be prepared and submitted as the President may determine in accordance with the provisions of section 201.

"(b) The requests of the departments and establishments for appropriations shall, in such manner and at such times as may be determined by the President, be developed from cost-based budgets.

"(c) For purposes of administration and operation, such cost-based budgets shall be used by all departments and establishments and their subordinate units. Administrative subdivisions of appropriations or funds shall be made on the basis of such cost-based budgets."

Section 106 of the Budget and Accounting Procedures Act of 1950 (31 U.S.C. 18c) states that:

"\*\*\* The head of each executive agency shall, in consultation with the Director of the

Bureau of the Budget, take whatever action may be necessary to achieve, insofar as is possible, (1) consistency in accounting and budget classifications, (2) synchronization between accounting and budget classifications and organizational structure, and (3) support of the budget justifications by information on performance and program costs by organizational units."

Section 113(a) of the Act (31 U.S.C. 66a), as amended in 1956 states that:

"\*\*\* The head of each executive agency shall establish and maintain systems of accounting and internal control designed to provide--

"(1) full disclosure of the financial results of the agency's activities;

"(2) adequate financial information needed for the agency's management purpose;

"(3) effective control over and accountability for all funds, property, and other assets for which the agency is responsible, including appropriate internal audit;

"(4) reliable accounting results to serve as the basis for preparation and support of the agency's budget requests, for controlling the execution of its budget, and for providing financial information required by the Bureau of the Budget under section 213 of the Budget and Accounting Act, 1921;

"(5) suitable integration of the accounting of the agency with the accounting of the Treasury Department in connection with the central accounting and reporting responsibilities imposed on the Secretary of the Treasury by section 114 of this part."

Section 113(c) of the Act, as amended in 1956 states that:

"\*\*\* As soon as practicable after the date of enactment of this subsection, the head of each executive agency shall, in accordance with principles and standards prescribed by the Comptroller General, cause the accounts of such agency to be maintained on an accrual basis to show the resources, liabilities, and costs of operations of such agency with a view to facilitating the preparation of cost-based budgets as required by section 216 of the Budget and Accounting Act, 1921, as amended. The accounting system required by this subsection shall include adequate monetary property accounting records as an integral part of the system."

#### PROPERTY ACCOUNTING

The need for adequate property accounting has been recognized by the Congress through enactment of several laws, including:

National Security Act of 1947 (10 U.S.C. 2701), which requires the Secretary of Defense to have property records maintained on both a quantitative and monetary basis, as far as practicable.

Federal Property and Administrative Services Act of 1949 (40 U.S.C. 483b), which requires each executive agency to maintain adequate inventory controls and accountability systems for the property under its control.

Public Law 84-863 (31 U.S.C. 66a(c)), approved August 1, 1956, which requires that the accounting system of each agency include adequate monetary property accounting records.

APPENDIX II  
Page 1

STATUS OF APPROVAL OF ACCOUNTING SYSTEMS  
CIVIL DEPARTMENTS AND AGENCIES  
DECEMBER 31, 1969

Department or agency	Principles and standards		Systems subject to approval (note 2)	Design		Note
	Approved (note 1)	Submission		Approved (note 1)	Submission	
<b>DEPARTMENT OF AGRICULTURE:</b>						
Office of Management Improvement, Management Data Service Center: Centralized automated payroll- ing system	9-28-67	-	1	9-28-67	-	
Office of Management Services: Appropriated funds	8- 6-68	-	1	-	6-71*	
Working Capital Fund	10-24-68	-	1	-	9-70*	
Agriculture Research Service: Appropriated funds	6-17-68	-	1	-	4-70*	
Working Capital Fund Resubmission	6-17-68	-	1	-	-	
	-	-	-	-	10-69*	3a
Agriculture Stabilization and Con- servation Service	10-24-68	-	1	-	12-69*	3b
Consumer and Marketing Service	7-29-68	-	1	-	3-70*	
Farmers Home Administration	5-16-69	-	1	-	3-70*	
Federal Crop Insurance Corporation, appropriated funds (administra- tive expense)	6- 5-67	-	1	6- 5-67	-	
Federal Extension Service	10-21-69	-	1	10-21-69	-	
Foreign Agricultural Service	5-14-68	-	1	-	7-69	3c
Forest Service: Appropriated funds	10-24-68	-	1	-	3-70*	
Working Capital Fund	3-21-69	-	1	-	3-70*	
Rural Electrification Administra- tion	5-28-68	-	1	8-12-57	-	
Resubmission	-	-	-	-	3-70*	
Soil Conservation Service	6- 9-69	-	1	-	7-70*	
Food and Nutrition Service	-	-	1	-	3-70*	3d
<b>Total</b>	<b>15</b>	<b>-</b>	<b>16</b>	<b>4</b>	<b>1</b>	
<b>DEPARTMENT OF COMMERCE:</b>						
Department-wide principles and standards	6-27-69	-	-	-	-	
Office of the Secretary	-	11-21-69	1	-	11-21-69#	4a
Bureau of Census	5- 4-66	-	1	5- 4-66	-	
Economic Development Administration	-	-	1	-	-#	4b
Environmental Science Services Ad- ministration	-	-	1	-	-#	4c
Maritime Administration	-	-	1	-	6-70*#	4d
National Bureau of Standards	2- 5-53	-	1	2- 5-53	-	
Patent Office	6- 9-58	-	1	6- 9-58	-	
Resubmission	-	-	-	-	7-70*#	
<b>Total</b>	<b>4</b>	<b>1</b>	<b>7</b>	<b>3</b>	<b>1</b>	
<b>DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE:</b>						
Department-wide (Umbrella System)	-	6- 9-69	1	-	6- 9-69	5a
Centralized ADP Payroll System	-	-	1	-	1- 1-71*#	
Office of the Secretary	-	-	1	-	7- 1-70*#	
Environmental Health Service	-	-	1	-	7- 1-71*#	
Health Services and Mental Health Administration	-	-	1	-	1- 1-71*#	
National Institutes of Health	-	-	1	-	1- 1-71*#	
Office of Education	-	-	1	-	8- 1-70*#	

STATUS OF APPROVAL OF ACCOUNTING SYSTEMS

CIVIL DEPARTMENTS AND AGENCIES

DECEMBER 31, 1969

Department or agency	Principles and standards		Design		Note
	Approved (note 1)	Submission	Systems subject to approval (note 2)	Approved (note 1)	
<b>DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE (continued):</b>					
Social and Rehabilitation Service	-	-	1	-	10-31-71*#
Social Security Administration:					
Disability, Health, and Retirement and Survivors Insurance	-	-	1	-	7- 1-70*#
Bureau of Federal Credit Unions	-	6-28-67	1	-	6-28-67 5b
Food and Drug Administration	-	-	1	-	7- 1-71*# 5c
Total	-	2	11	-	2
<b>DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:</b>					
Department-wide	4- 5-68	-	1	-	7-14-69 6a
Total	1	-	1	-	1
<b>DEPARTMENT OF THE INTERIOR:</b>					
Office of the Secretary	-	8-19-68	1	-	11-14-69 7a,b
Bureau of Indian Affairs	-	8- 7-68	1	1-27-53	- 7a,c
Bureau of Land Management	2- 7-69	-	1	-	11-14-69 7a
Bureau of Outdoor Recreation	5-27-69	-	1	-	11-14-69 7a
Bureau of Reclamation	-	12- 4-67	1	-	11-14-69 7a,d
U.S. Fish and Wildlife Service:					
Bureau of Sport Fisheries and Wildlife	5-27-69	-	1	-	11-14-69 7a
Bureau of Commercial Fisheries	-	7- 3-68	1	-	11-14-69 7a,e
Geological Survey	-	7-24-69	1	-	11-14-69 7a
National Park Service	6-20-69	-	1	-	11-14-69 7a
Bonneville Power Administration	7- 8-68	-	1	-	11-14-69 7a
Federal Water Quality Administration	-	3-12-70*	1	-	3-12-70*
Office of Saline Water	-	9-30-70*	1	-	9-30-70*
Alaska Power Administration	-	6-30-70*	1	-	6-30-70*
Bureau of Mines	5- 6-54	-	1	5- 6-54	- 7f
Office of Territories:					
Director's office	-	6-30-70*	1	-	6-30-70*
Government of American Samoa	7-17-52	-	1	7-17-52	- 7f
Trust Territory of the Pacific Islands	3- 1-54	-	1	3- 1-54	- 7g
Southeastern Power Administration	11-17-52	-	1	11-17-52	- 7f
Southwestern Power Administration	7- 3-52	-	1	7- 3-52	- 7f
Total	10	5	19	6	9
<b>DEPARTMENT OF JUSTICE:</b>					
Department-wide principles and standards	5-29-69	-	-	-	-
Legal Activities and General Administration	-	-	1	-	7-71*#
Law Enforcement Assistance Administration	-	-	1	-	7-71*# 8a
Bureau of Narcotics and Dangerous Drugs	-	-	1	-	7-71*#
Bureau of Prisons	-	-	1	-	7-71*#
Federal Bureau of Investigation	-	-	1	-	12-70*#
Immigration and Naturalization Service	4-18-67	-	1	4-18-67	-
Total	2	-	6	1	-

STATUS OF APPROVAL OF ACCOUNTING SYSTEMS

CIVIL DEPARTMENTS AND AGENCIES

DECEMBER 31, 1969

Department or agency	Principles and standards		Design		Note
	Approved (note 1)	Submission	Systems subject to approval (note 2)	Approved (note 1)	
<b>DEPARTMENT OF JUSTICE (continued):</b>					
Segments of systems:					
Legal activities and general administration:					
U.S. Marshals--collections and earnings	-	-	-	9- 9-49	-
General payroll operations	-	-	-	-	-
Federal Bureau of Investigation:					
Payroll operations	-	-	-	10- 7-54	-
Total	-	-	-	2	-
<b>DEPARTMENT OF LABOR:</b>					
Department-wide	3- 1-68	-	1	-	-
Total	1	-	1	-	-
Segments of systems:					
Cost	-	-	-	-	5- 8-69 #
General	-	-	-	-	5- 8-69 #
Working Capital Fund	-	-	-	-	6-28-68 #
Department-held property	-	-	-	-	2-24-69 #
Contractor-held property	-	-	-	-	6-30-70*#
Payroll	-	-	-	-	6-30-70*#
Bureau of Employees Compensation:					
Benefit Claims	-	-	-	-	10-30-68 #
Wage and Hour and Public Contracts Division:					
Wage Restitution Fund	-	-	-	10-24-68	- #
Manpower Administration:					
Employment Security Funds	-	-	-	-	5- 9-69
Other program funds	-	-	-	-	12-10-69 #
Total	-	-	-	1	7
<b>POST OFFICE DEPARTMENT:</b>					
Department-wide policies and standards	6-30-66	-	-	-	-
Departmental system and ancillary systems	-	-	1	-	-
Total	1	-	1	-	-
Segments of systems:					
International accounts	-	-	-	3- 1-68	-
Accountability of disbursing officers	-	-	-	4-15-68	-
Money order accounting	-	-	-	10-31-69	-
Accounts receivable	-	-	-	-	1- 9-69
General accounting	-	-	-	-	1-14-69
Post Office accounting	-	-	-	-	1-16-69
Payroll accounting	-	-	-	-	4-30-71*
Accounts payable procedures	-	-	-	-	8-31-70*
Cost accounting and reporting:					
Motor vehicle cost accounting	-	-	-	-	6-30-70*
Mailbag repair units	-	-	-	-	12-31-70*
Mail equipment shops	-	-	-	-	12-31-70*

## STATUS OF APPROVAL OF ACCOUNTING SYSTEMS

## CIVIL DEPARTMENTS AND AGENCIES

DECEMBER 31, 1969

Department or agency	Principles and standards		Design		Note	
	Approved (note 1)	Submission	Systems subject to approval (note 2)	Approved (note 1)		Submission
POST OFFICE DEPARTMENT (continued):						
Segments of systems (continued):						
Property accounting	-	-	-	-	2-28-71*	
Headquarters accounting and reporting	-	-	-	-	4-30-71*	
Cost accounting at Post Office level	-	-	-	-	12-31-69*	10d
Total	-	-	-	3	3	
DEPARTMENT OF STATE:						
Agency for International Development:						
Agency-wide	12-29-67	-	1	-	12-70*	
Total	1	-	1	-	-	
Segments of systems:						
Accounting for central office and 60 missions except property accounting	-	-	-	(7-25-55)	-	11a
Resubmissions in separate segments:						
Accounting for the Investment Guaranty Program	-	-	-	6-28-67	-	
Loan Program Accounting System	-	-	-	2-19-68	-	
Accounting for the Advance Acquisition of excess property	-	-	-	12-31-68	-	
Accounting for Foreign Currencies	-	-	-	1-16-69	-	
Centralized payroll procedures for U.S. direct-hire and foreign-national employees	-	-	-	-	12- 9-68	
Agency financial reporting manual	-	-	-	-	6-30-70*	11b
Appropriation and allotment accounting manuals:						
Accounting for Technical Assistance	-	-	-	-	7-17-68	11c
Accounting for capital assistance	-	-	-	-	8- 1-68	11c
Accounting for program assistance	-	-	-	-	11-26-68	11c
Appropriation Accounting--General	-	-	-	-	11-27-68	
Allotment Accounting	-	-	-	-	11-27-68	
Accounting for Supplemental Activities	-	-	-	-	8-13-68	
Accounting for AID-owned property	-	-	-	-	11-26-68	
Total	-	-	-	4	8	
International Boundary and Water Commission	1- 2-53	-	1	1- 2-53	-	11d
Total	1	-	1	1	-	

STATUS OF APPROVAL OF ACCOUNTING SYSTEMS

CIVIL DEPARTMENTS AND AGENCIES

DECEMBER 31, 1969

Department or agency	Principles and standards		Systems subject to approval (note 2)	Design		Note
	Approved (note 1)	Submission		Approved (note 1)	Submission	
DEPARTMENT OF STATE (continued):						
Peace Corps	-	10-16-69	1	-	12-31-70*	11e
Total	-	1	1	-	-	
Departmental and all other activities:						
General	9-20-68	-	1	-	12-70 *	
Foreign Service Retirement and Disability Fund	-	6-16-69	1	-	6-16-69	11f
Working Capital Fund	5- 5-65	-	1	5- 5-65	-	
Total	2	1	3	1	1	
DEPARTMENT OF TRANSPORTATION:						
Department-wide principles and standards	-	4-18-69	-	-	-	12a
Departmental accounting for:						
Appropriated funds:						
Office of Secretary, including accounting for Federal Railroad Administration, National Transportation Safety Board, and Urban Mass Transportation Administration	-	1-71*	1	-	3-71 *	
Working Capital Fund	-	1-71*	1	-	6-71 *	
Coast Guard	12-29-51	-	1	12-29-51	-	12b
Federal Aviation Administration	1-27-67	-	1	-	-	12c
Federal Highway Administration	-	-	1	-	9-70 *	12d
Alaska Railroad Revolving Fund	9-25-57	-	1	9-25-57	-	
Total	3	1	6	2	-	
DEPARTMENT OF THE TREASURY:						
Department-wide administrative accounting principles and standards	5-29-69	-	-	-	-	
Office of the Secretary	6-30-69	-	1	6-30-69	-	
Bureau of Accounts:						
Administrative Accounting System, except payroll	3- 1-66	-	1	3- 1-66	-	
Payroll portion of the system	(5- 3-67)	-	-	(5- 3-67)	-	
Central Accounts and Reports:						
Central accounting for cash operations of the Federal Government	10-31-68	-	1	10-31-68	-	
Central accounting for foreign currency operations	6-30-69	-	1	6-30-69	-	
Investment Branch Accounting	3-13-69	-	1	3-13-69	-	
Bureau of Customs: Revenue portion	-	5- 6-69	1	-	5- 6-69	13a
Bureau of Engraving and Printing	7- 9-52	-	1	7- 9-52	-	
Bureau of the Mint:						
Administrative and cost accounting system	1-16-53	-	1	1-16-53	-	

## STATUS OF APPROVAL OF ACCOUNTING SYSTEMS

## CIVIL DEPARTMENTS AND AGENCIES

DECEMBER 31, 1969

Department or agency	Principles and standards		Design			Note
	Approved	Submission	Systems subject to approval	Approved	Submission	
	(note 1)			(note 2)		
DEPARTMENT OF THE TREASURY (continued):						
Bureau of the Public Debt:						
Administrative accounting system	6-25-68	-	1	6-25-68	-	
Public Debt Accounting	12-13-68	-	1	12-13-68	-	
Internal Revenue Service:						
Administrative accounting system	-	6-25-69	1	-	6-25-69	
Revenue accounting system	-	2-14-69	1	-	-	13b
Office of the Treasurer of the U.S.:						
Administrative accounting system	6-28-68	-	1	6-28-68	-	
Fiscal Service ADP Payroll System	5- 3-67	-	1	5- 3-67	-	
Accounting for the public moneys	-	3-70*	1	-	-	13c
U.S. Secret Service	-	6-25-69	1	-	6-25-69	
Total	12	4	16	11	3	
INDEPENDENT AGENCIES:						
American Battle Monuments Commission	8- 5-58	-	1	8- 5-58	-	14a
Atomic Energy Commission	3- 8-63	-	1	3- 8-63	-	
Civil Aeronautics Board	1-18-68	-	1	1-18-68	-	
Civil Service Commission:						
Administrative accounting	11-18-68	-	1	-	12-15-69	
Retirement and Disability Fund	11-25-68	-	1	11-25-68	-	
Group Life Insurance Fund	11-25-68	-	1	11-25-68	-	
Employees Health Benefits Fund	11-25-68	-	1	11-25-68	-	
Retired Employees Health Benefits Fund	11-25-68	-	1	11-25-68	-	
Farm Credit Administration	-	1-70*	1	-	-	14b
Federal Communications Commission	9-17-58	-	1	9-17-58	-	
Federal Home Loan Bank Board	-	3-70*	1	-	-	14c
Federal Mediation and Conciliation Service	12- 9-69	-	1	-	-	
Federal Power Commission	6-30-65	-	1	6-30-65	-	
Federal Trade Commission	8-26-58	-	1	8-26-58	-	
General Services Administration	6-30-65	-	1	6-30-65	-	
Indian Claims Commission	1- 4-61	-	1	1- 4-61	-	
Interstate Commerce Commission	6-14-68	-	1	6-14-68	-	
National Aeronautics and Space Administration	6-20-69	-	1	6-20-69	-	
National Capital Planning Commission	3-28-58	-	1	3-28-58	-	
National Foundation on the Arts and the Humanities	-	-	1	-	-	14d
National Labor Relations Board	-	-	1	-	-	14e
National Mediation Board	7- 1-58	-	1	7- 1-58	-	
National Science Foundation	4-18-69	-	1	11- 5-54	-	
Panama Canal Zone Government	6-26-64	-	1	6-26-64	-	
Railroad Retirement Board	6-26-68	-	1	-	6-70*	
Renegotiation Board	9-18-58	-	1	9-18-58	-	
Roosevelt Campobello International Park Commission	1-20-66	-	1	1-20-66	-	
Securities and Exchange Commission	6-30-69	-	1	6-30-69	-	
Selective Service System	4-30-54	-	1	4-30-54	-	14f
Small Business Administration	12-23-68	-	1	-	5-70*	14g
Smithsonian Institution	8-31-59	-	1	8-31-59	-	
National Gallery of Art	11-20-58	-	1	11-20-58	-	

APPENDIX II

Page 7

STATUS OF APPROVAL OF ACCOUNTING SYSTEMS

CIVIL DEPARTMENTS AND AGENCIES

DECEMBER 31, 1969

Department or agency	Principles and standards		Systems subject to Approval (note 2)	Design		Note
	Approved (note 1)	Submission		Approved (note 1)	Submission	
<b>INDEPENDENT AGENCIES (continued):</b>						
Subversive Activities Control Board	6-16-59	-	1	6-16-59	-	
Tax Court of the United States	7-25-58	-	1	7-25-58	-	
United States Information Agency	12-31-68	-	1	-	6-70*	
Segment of System:						
Payroll	-	-	-	10-10-66	-	
United States Tariff Commission	-	3-70*	1	-	-	14h
Veterans Administration						
Agency-wide:						
Administrative accounting	9- 6-56	-	1	9- 6-56	-	
Personnel and accounting integrated pay system	7-28-69	-	1	7-28-69	-	
Department of Medicine and Surgery:						
Medical care and administration	9- 6-56	-	1	9- 6-56	-	
Construction of facilities	9- 6-56	-	1	9- 6-56	-	
Supply fund	9- 6-56	-	1	9- 6-56	-	
Department of Veterans Benefits:						
Compensation, pension, and education	-	7- 1-70*	1	-	7- 1-70*	
Insurance programs	-	12-31-69	1	-	12-31-69	
Direct Loan Program	8- 2-50	-	1	8- 2-50	-	14i
Loan Guaranty Program	1-27-48	-	1	1-27-48	-	14j
Executive Office of the President:						
Bureau of the Budget	6- 5-67	-	1	6- 5-67	-	
Office of Economic Opportunity	10-31-69	-	1	-	7-70*	
Office of Emergency Preparedness	-	-	1	-	-	
National Security Council	2-24-59	-	1	2-24-59	-	
The White House Office	10-13-69	-	1	10-13-69	-	
All other activities	-	-	1	-	-	
D.C. Government:						
Principles and standards	-	-	-	-	-	14k
Centralized Payroll System	-	-	1	-	-	14k
Central accounting system and ancillary accounting systems of constituent departments and agencies	-	-	1	-	-	14k
Segment of System:						
Department of Corrections:						
Revolving Fund Activities	-	-	-	-	-	
Washington Aqueduct	-	-	1	-	-	14m
<b>Total</b>	<b>42</b>	<b>1</b>	<b>54</b>	<b>36</b>	<b>2</b>	

STATUS OF APPROVAL OF ACCOUNTING SYSTEMS  
CIVIL DEPARTMENTS AND AGENCIES  
DECEMBER 31, 1969

Department or agency	Principles and standards		Design		
	Approved (note 1)	Submission	Systems subject to approval (note e)	Approved (note 1)	Submission
<b>TOTALS AS OF DECEMBER 31, 1969</b>					
Approvals	95	-	-	65	-
Submission in process of review	-	16	-	-	20
Less resubmissions	-	-	-	-	-
<b>Total</b>	<b>-</b>	<b>16</b>	<b>-</b>	<b>-</b>	<b>20</b>
Scheduled for submissions	-	11	-	-	45
Less resubmissions	-	-	-	-	(2)
<b>Total</b>	<b>-</b>	<b>11</b>	<b>-</b>	<b>-</b>	<b>43</b>
Not scheduled for submissions	-	-	-	-	16
Less resubmissions	-	-	-	-	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>16</b>
<b>Grand Total</b>	<b>95</b>	<b>27</b>	<b>144</b>	<b>65</b>	<b>79</b>

Key: \*Target date.

#Approved departmental principles and standards deemed applicable.

## STATUS OF APPROVAL OF ACCOUNTING SYSTEMS

## CIVIL DEPARTMENTS AND AGENCIES

DECEMBER 31, 1969

NOTES

1. Because of substantive legislation enacted and changes otherwise made in prescribed requirements subsequent to approval, many of the accounting systems that have been approved, particularly those approved in the earlier years, have been or are being updated to meet current concepts and requirements. These revised accounting systems that have been submitted to the Comptroller General for approval are designated herein as resubmissions. Resubmissions that have been approved are not separately identified as resubmissions. Other accounting systems approved in the past, where no such plans for updating and resubmission are shown, may also now need reexamination and appropriate revision to meet current requirements.
2. The number of system designs subject to approval, as shown in this report, includes only complete accounting systems for the reason that the number of authorized optional requests for tentative approval at intermediate development stages, such as segments of systems, is not predictable. The number of complete systems subject to approval may be affected by future changes in plans of individual departments and agencies as development work progresses and by creation of new agencies or the consolidation or termination of existing agencies.
3. a. The Department submitted the Agriculture Research Service Working Capital Fund system design material for informal review on November 18, 1969. The Service plans to submit the system design to the Comptroller General for approval following the receipt and resolution of informal GAO review comments.

- b. The Agriculture Stabilization and Conservation Service did not meet its target date of December 1969, and a new date had not been established.
  - c. The Foreign Agriculture Service system design was submitted for approval in July 1969. This design was subsequently revised to give effect to organizational changes and was resubmitted in April 1970.
  - d. A statement of principles and standards has not been submitted by the Food and Nutrition Service for approval by the Comptroller General. The Service's accounting system is the same as that used by the Consumer and Marketing Service which administers food and nutrition programs prior to the establishment of the Food and Nutrition Service on August 8, 1969. The Food and Nutrition Service operated a separate accounting system for only 1 month in calendar year 1969.
4. a. The Office of the Secretary's accounting system design was approved by the Comptroller General on February 16, 1970.
  - b. The Economic Development Administration formally submitted its accounting system design for the Comptroller General's approval in May 1970.
  - c. The Environmental Science Services Administration formally submitted its accounting system design for the Comptroller General's approval in May 1970.
  - d. The Maritime Administration submitted its accounting system design for informal review in April 1970.
5. a. The principles and standards and the general design of the Umbrella System were approved by the Comptroller General on April 13, 1970.
  - b. The Bureau of Federal Credit Unions became an independent agency on July 1, 1970.
  - c. The Food and Drug Administration became a separate agency during the past year as a result of reorganization within the Department.

6. a. The system design for the Department of Housing and Urban Development complete accounting system was approved by the Comptroller General on April 2, 1970.
7. a. On November 14, 1969, following the Comptroller General's announcement of October 16, 1969, establishing two-stage formal approval of (1) principles and standards and (2) design, the Department of the Interior requested that prior submissions of accounting principles and standards for nine of its bureaus be reviewed for design sufficiency. The Department noted also that collateral details relating to system design in the form of bureau accounting manuals and documents were available for our review. We agreed to review the material available to us and to advise the Department as to whether sufficient information was available to afford a basis for design approval.
  - b. The principles and standards for the Office of the Secretary were approved by the Comptroller General on January 2, 1970.
  - c. The Bureau of Indian Affairs was not included in the nine bureaus cited in the Department's letter of November 14, 1969 (see note a), requesting consideration of the systems for design sufficiency. However, Department officials advised us that they considered the design for the Bureau of Indian Affairs to have been similarly submitted.
  - d. The system approved in 1950 for the Bureau of Reclamation is subject to qualifications concerning accounting for annual leave, depreciation, and repayment contracts. Principles and standards were resubmitted on December 4, 1967.
  - e. The principles and standards for the Bureau of Commercial Fisheries were approved by the Comptroller General on March 10, 1970.
  - f. No firm plans for resubmission.
  - g. The Trust Territory of the Pacific Islands has no target date for resubmission.

8. a. The Law Enforcement Assistance Administration is scheduled to assume responsibility for accounting for its programs and activities July 1, 1970.
9. a. The Department's six accounting systems have been reclassified as a single system consisting of 10 segments. The last segment is scheduled for submission in June 1970.
  - b. The Working Capital Fund segment and the Department-held property segment of the accounting system design were approved in January 1970.
  - c. The principles and standards and the design for the Employment Security Funds accounting segment relate only to Federal accounting for the funds. The principles and standards for this segment were approved in May 1970.
10. a. The Post Office Department has one complete accounting system which is being submitted by the Department in 14 segments for the Comptroller General's approval.
  - b. The accounts receivable segment of the accounting system design was approved by the Comptroller General on January 23, 1970.
  - c. These segments have been submitted informally for GAO review.
  - d. The target date for submission of the cost accounting at Post Office-level segment was not met. A new target date has not been established.
11. a. This segment was approved July 25, 1955. Because of subsequent legislation and changes in prescribed requirements, however, the Agency for International Development is resubmitting its total accounting system for approval in 10 principle parts, one of which is divided into 5 subparts. As of December 31, 1969, all parts and subparts had been submitted for approval.

- b. This segment was previously submitted but was returned by GAO on June 22, 1970 for further development.
  - c. This segment was returned by GAO on January 14, 1970, for further development.
  - d. This system was approved on January 2, 1953. Because of subsequent legislation and changes in prescribed requirements, however, accounting systems that were approved in the past now need reexamination and appropriate revision to meet current requirements.
  - e. GAO is withholding approval of the principles and standards, pending needed changes in the statement which have been brought to the attention of the agency.
  - f. This system was approved by the Comptroller General on July 22, 1970.
12. a. The Department-wide statement of accounting principles and standards was approved by the Comptroller General on June 26, 1970.
- b. The Coast Guard system, approved in 1951, was being redesigned for improved computerized application, with a March 1970 target date for the operational phase at Coast Guard headquarters. Accounting control of the monetary value of personal property, which was not included in the Coast Guard system, was being provided for in the redesigned system. Other updatings and improvements, particularly in the cost area, were being developed in accordance with GAO suggestions.
  - c. Under a working arrangement between officials of GAO and the Federal Aviation Administration, individual segments of the Administration's system are submitted to the GAO site staff for informal review and evaluation, including field testing, before formal approval

is requested. Under this arrangement, the Administration has informally submitted for review many segments of its system and several have been given informal approval. The Administration submitted these informally approved segments as an entire system to the Comptroller General for formal approval on July 1, 1970.

- d. The Federal Highway Administration plans to incorporate the accounting for all its offices and bureaus into a single system through modification of the Bureau of Public Roads system which was approved June 30, 1967. These modifications were expected to be submitted for review and approval by the Comptroller General by September 30, 1970.
13. a. Principles and standards for the revenue portion of the Bureau of Customs accounting system were submitted for the Comptroller General's approval on January 19, 1970. Department-wide principles and standards previously approved did not cover this portion of the system.
    - b. The principles and standards for the Internal Revenue Service's Revenue Accounting System were withdrawn for further development on February 13, 1970.
    - c. The principles and standards for the Accounting for the Public Moneys system were submitted to the Comptroller General for approval on February 27, 1970.
  14. a. Although the American Battle Monuments Commission has no plans for revising and resubmitting its accounting system, GAO in May 1967 initiated a review of the system primarily to determine whether the system adequately served the needs of management and otherwise met prescribed requirements. This review disclosed the need for making certain operating changes to comply with the Commission's accounting manual. Agency officials stated that they did not plan to make these changes because legislation pending in the Congress proposes to transfer all Commission responsibilities to the Veterans Administration.

- b. The Farm Credit Administration Statement of Accounting Principles and Standards was approved on February 10, 1970. No target date for submission of the system design had been established.
- c. The Federal Home Loan Bank Board did not meet the target date for submission of its principles and standards.
- d. The National Foundation on the Arts and the Humanities deferred the establishing of a target date for submitting its accounting system for approval pending a determination of its employment ceiling.
- e. The National Labor Relations Board planned to informally submit its principles and standards for GAO review by June 30, 1970.
- f. The Selective Service System's accounting system was reaffirmed by the Comptroller General on July 23, 1968.
- g. The accounting system design for the Small Business Administration was submitted for approval on May 28, 1970.
- h. The target date of March 1970 for submission of principles and standards was not met.
- i. Revisions of the Direct Loan Program accounting system were approved in October 1950 and November 1953.
- j. A revision of the Loan Guaranty Program accounting system was approved in March 1954.
- k. The establishment of target dates is being deferred by the District pending top-level policy decisions regarding a plan of action for financial management improvement.

- m. The water supply system of Washington, D.C., known as the Washington Aqueduct, is under the joint control of the Department of the Army, Corps of Engineers, and the District of Columbia Government. The Corps is responsible for the Washington Aqueduct accounting system.

GAO, in a letter dated February 27, 1964, advised the Corps of Engineers of the need for the system to provide for recognition in the accounts of depreciation on assets and interest on investment as elements of cost of supplying water to the Washington district; but, in its reply of March 24, 1964, the Corps of Engineers disagreed on the grounds that depreciation and interest costs are not to be considered in establishing water rates. By letter dated April 1, 1969, to the Chief of Engineers, our previous position was repeated. We were subsequently informed by the Corps that, during calendar year 1969, the Corps and the D.C. Government had several consultations relating to depreciation and interest costs but that final determinations had not been made. GAO plans to have consultation with Corps of Engineers officials with a view to resolving these differences.

Status of Department of Defense  
Systems or Subsystems Submitted to  
GAO for Approval as of December 31, 1969

	<u>In</u> <u>process</u>	<u>Approved</u>
Statements of accounting principles and standards:		
Concepts of Resources Management Systems		1
Accounting System for Operations		9
Uniform Military Pay System	2	
Stock Fund Accounting		1
Industrial Fund Accounting	1	
Accounting for Military Construction and Real Property	1	1
Accounting for Research & Development		2
Accounting for Accrued Expenditures		1
Accounting and Pricing Major Material Acquisitions	1	
Budgetary and Fund Accounting Processes		2
Pricing and Billing Foreign Sales	1	1
Accounting for Property Disposals		1
Accounting Requirements for Project Orders	1	
Accounting for Depot Maintenance Activities	<u>1</u>	—
	<u>8</u>	<u>19</u>
Accounting system designs:		
Accounting for Military Construction		3
Industrial Fund Accounting Systems	2	1
Contract Administration Processes	<u>1</u>	—
	<u>3</u>	<u>4</u>

The general description of the accounting system for operation has been evaluated and approved in accordance with the provisions of Section 640(b) of the Department of Defense Appropriation Act, 1968.

CIVIL DEPARTMENT AND AGENCY  
 RESPONDENTS TO QUESTIONNAIRE ON  
 COMPLIANCE WITH THE BUDGET AND ACCOUNTING  
 PROCEDURES ACT OF 1950--AS OF DECEMBER 31, 1969

<u>Respondent</u>	<u>Number of systems included in responses</u>
Department of Agriculture	16
Department of Commerce	7
Department of Health, Education, and Welfare	10
Department of Housing and Urban Development	1
Department of the Interior	18
Department of Justice	6
Department of Labor	1
Post Office Department	1
Department of State	6
Department of Transportation	6
Department of the Treasury	16
Independent Agencies:	
American Battle Monuments Commission	1
Atomic Energy Commission	1
Civil Aeronautics Board	1
Civil Service Commission	5
District of Columbia	2
Executive Office of the President	2
Farm Credit Administration	1
Federal Communication Commission	1
Federal Home Loan Bank Board	1
Federal Mediation and Conciliation Service	1
Federal Power Commission	1
Federal Trade Commission	1
General Services Administration	1
Interstate Commerce Commission	1
National Aeronautics and Space Administration	1
National Capital Planning Commission	1

CIVIL DEPARTMENT AND AGENCY  
RESPONDENTS TO QUESTIONNAIRE ON  
COMPLIANCE WITH THE BUDGET AND ACCOUNTING  
PROCEDURES ACT OF 1950--AS OF DECEMBER 31, 1969  
(continued)

<u>Respondent</u>	<u>Number of systems included in responses</u>
National Foundation on the Arts and Human- ities	1
National Mediation Board	1
National Science Foundation	1
Panama Canal Zone Government	1
Railroad Retirement Board	1
Renegotiation Board	1
Securities and Exchange Commission	1
Selective Service System	1
Small Business Administration	1
Smithsonian Institution	1
Tax Court of the United States	1
United States Information Agency	1
United States Tariff Commission	1
Veterans Administration	<u>8</u>
Total	<u>131</u>

EXECUTIVE OFFICE OF THE PRESIDENT  
OFFICE OF MANAGEMENT AND BUDGET  
WASHINGTON, D.C. 20503

September 15, 1970

(Letter sent to heads of executive departments  
and agencies)

For some time, budget planning and financial management efforts have been directed toward the proposed use of accrual figures in lieu of cash receipts and outlays in the measurement of budget results. On April 13, 1970, you were advised that a modified accrual basis would be necessary for the 1972 Budget, instead of the accrual basis outlined in our Bulletin No. 68-10 which had been the earlier goal. The specific requirements of our Circular No. A-11 were revised in June to implement that objective.

Some serious problems have arisen in connection with this conversion to a modified accrual basis, necessitating a reexamination of the matter. The reexamination has led to the conclusion that the conversion be postponed and that definite steps be taken to reassess the basis on which accrual data will be recorded and reported for future budget use.

Therefore, with the concurrence of the Secretary of the Treasury, the Chairman of the Council of Economic Advisers, and the Comptroller General, I am writing to inform you that:

1. Cash receipts and outlays will be restored as the measure of results for the 1972 Budget. Our Circular No. A-11 will be revised shortly to give your staff the detailed instructions for the form of the submissions.

2. Although more progress still needs to be made, Government-wide, to permit adoption of the accrual basis for the Budget, and although the Treasury's reporting of receipts and outlays will have to continue to be on a cash basis for the time being, the central financial operations in the Treasury's Bureau of Accounts, which have already been broadened to encompass accrual data in agency reports, will continue

unabated. Further, the Treasury will expect the earliest possible compliance with the accrual principles outlined in Bulletin No. 68-10, with such amendments as may later be made.

3. Hence, each agency must continue its efforts to improve its accounting, consistent with the principles, standards, and related requirements prescribed by the Comptroller General.

4. We plan to convert the budget to an accrual basis as soon as reasonably reliable data can be obtained and their validity tested. The current objective is the 1973 Budget. Instructions will be issued subsequently as additional experience is gained.

5. The General Accounting Office, as its resources permit, will continue assisting the agencies in the development of their accounting systems and in central and internal reporting on an accrual basis.

The staffs of the other central financial agencies will continue to cooperate in these endeavors.

Pending further study, it is now anticipated that, for the 1973 Budget, exceptions can be made to the principles in Bulletin No. 68-10 in the following cases:

a. Performance under grants-in-aid programs may be measured on a cash instead of an accrual basis.

b. Constructive delivery accruals may be excluded from the accounts except as covered by requests for payments from contractors (including holdbacks).

To accomplish the above objectives, the Office of Management and Budget, the Treasury Department, and the General Accounting Office jointly will undertake an intensified program to resolve identified problems. More specifically, this program will include:

1. Accelerated efforts under the joint project undertaken by the Treasury and Commerce Departments to develop complete and appropriate information on corporate tax accruals for use in both measuring budget results and economic analysis.

2. Intensive efforts to improve the timeliness and completeness of information on performance under grant-in-aid programs and to take steps to achieve prompt billings of performance from subcontractors and grantees under grant-in-aid programs. This will involve information on cash disbursements by grantees, as well as information on costs incurred.

3. Immediate steps to improve the existing documentation of financial transactions of the accounting systems to serve both agency management requirements and central financial reporting in the measurement of budget results.

4. A prompt determination of the best method for the complete and timely recording of both inter- and intra-departmental receivables and payables in both measurement of budget results and in economic analysis.

5. A comprehensive study of the problem of providing constructive delivery information. This study will be conducted on a cooperative basis by the agencies significantly affected -- with leadership from the central financial agencies -- to develop and test ways in which the desired data can be produced in an economical manner.

It is the responsibility of the head of each agency to devise systems which will achieve the objectives of our Bulletin No. 68-10 to accomplish the roles for the use of accrued data as outlined herein. The central financial agencies will, of course, continue their active cooperative assistance with the agencies.

Your cooperation is solicited in achieving the ultimate goals in an orderly, useful, and credible manner.

Sincerely,



Director