8th Annual Progress Report

under the

JOINT PROGRAM TO IMPROVE ACCOUNTING IN THE FEDERAL GOVERNMENT

1956

SECRETARY OF THE TREASURY
DIRECTOR, BUREAU OF THE BUDGET
COMPTROLLER GENERAL OF THE UNITED STATES

January 30, 1957

TO THE HEADS OF DEPARTMENTS AND ESTABLISHMENTS:

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

This report illustrates improvements made throughout the Government under the Joint Accounting Improvement Program during the period January 1, 1956, to September 30, 1956, and related significant developments during that period. Part I represents work carried out principally by staff of the General Accounting Office, the Treasury Department, and the Bureau of the Budget. Part II illustrates improvements made by staff of the individual agencies, with consultation and assistance in some cases from staff of the three central agencies.

We are pleased, as we are sure you will be, with the splendid contributions to better management practices made by the kind of financial management improvements and related developments summarized in this report. Commendable as these contributions are, there remains much to be accomplished. The enactment of Public Law 863, which established in law the principles of budgeting in terms of costs and accounting on the accrual basis, has provided additional tools for accelerated efforts for the improvement of financial management in all agencies. With the continuing cooperation and wholehearted support of all who have responsibility for administering the various functions of our Government, we are certain that even greater contributions to improved administration can be made through the combined efforts represented in the Joint Program.

We wish to express our appreciation for the efforts of all persons in your agency who have contributed to the accomplishments under the Joint Accounting Improvement Program. We also invite your suggestions for increasing the effectiveness of the Joint Program and expediting the attainment of its goal to improve financial management of the Government's affairs, to provide the Congress with better financial information, and to make available more informative reports on the operations of the Government.

Secretary of the Treasury

Director, Bureau of the Budget

Comptroller General of the United States

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

TABLE OF CONTENTS

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

INTRODUCTION

The publication of annual progress reports illustrating accomplishments under the Joint Program to Improve Accounting in the Federal Government began in 1949. This is the eighth report in this annual series, and generally covers events through September 30, 1956. It is intended that future reports will be on a fiscal year basis, July 1 to June 30.

The report is arranged in two parts. The material in Part I was prepared by staff of the General Accounting Office, Treasury Department, and Bureau of the Budget. It covers improvements under the Joint Program, and related developments and progress, during 1956, in broad areas having government-wide application and significance. The material in Part II was prepared by staff of the individual operating agencies. It is an illustrative summary of progress made during 1956 in the agencies, as measured by them, as a result of their efforts to reach the objectives of the Joint Accounting Improvement Program. General guidance for the preparation of the report was furnished by the three central agencies.

During 1956, important financial management legislation stemming from budget and accounting recommendations of the second Hoover Commission was enacted by the Congress. Also during the year, the resources of the Bureau of the Budget were strengthened to provide more active central leadership within the executive branch in the Joint Accounting Improvement Program, as was recommended by the Hoover Commission. As a result, the Joint Program received increased impetus to develop needed improvements throughout the Government and several new projects were initiated by the three central agencies and the individual operating agencies on a joint and cooperative team basis. Of particular interest is the start made in 1956 to develop a planned program of necessary improvements in financial management methods in every executive agency. These developments are discussed in Part I of the report.

The report also contains many illustrations of the various types of continuing effort being made to develop economical, meaningful, and efficient systems and procedures. Some of the accomplishments reported

are necessary steps preceding broader areas of improvements. Others illustrate fundamental changes in various aspects of financial management. Still others are simplifications in the nature of refinements which followed broad improvements made in prior years. They illustrate the detailed areas and the broad areas of effort involved in developing effective and economical financial methods throughout the many segments of the Government.

PART I

FINANCIAL MANAGEMENT DEVELOPMENTS OF GOVERNMENT-WIDE SIGNIFICANCE

This part of the report relates to matters of broad applicability which are mostly Government-wide in effect. Included are the central or Government-wide activities of the Treasury Department, Bureau of the Budget, and the General Accounting Office and the improvements and simplifications accomplished in these activities during 1956 through the joint efforts of the three agencies under the Joint Accounting Improvement Program. These are necessary steps in the comprehensive program of developing adequate financial management methods and procedures in each of the individual agencies and for the Government as a whole. For this reason, some of the matters reported may overlap specific improvements reported by individual agencies in Part II due to the evolutionary nature of the central or Government-wide developments.

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

The Joint Accounting Improvement Program was initiated as a Government-wide cooperative effort under the joint leadership of the Comptroller General, the Secretary of the Treasury, and the Budget Director, to make accounting of maximum usefulness to all concerned. Its purpose is to give the executive branch better information for management purposes, the Congress better information for acting upon appropriations and other legislation, and the public a clearer picture of the financial condition and operations of the Federal Government and, at the same time, to reduce nonessential paperwork, and to realize economies in operations. The team basis of cooperative effort was determined to be the most effective means of attaining this purpose.

The underlying philosophies expressed in the concepts and objectives of the Joint Accounting Improvement Program were enacted into law by the Congress in the Budget and Accounting Procedures Act of 1950 and other related legislation of 1949 and 1950. These Acts contain specific legislation clearly defining the individual responsibilities of the central fiscal agencies and the individual operating agencies in matters of accounting, auditing, and financial reporting, and endorses the joint leadership of the Comptroller General, the Secretary of the Treasury, and the Director of the Bureau of the Budget in the development of improved accounting and financial reporting throughout the Government.

Substantial improvements have been made in accounting and related procedures under the Joint Accounting Improvement Program as illustrated in the prior seven Annual Progress Reports. However, substantial as these improvements have been, it was apparent to the participants in the Joint Program that a great deal needed to be done to make budget and accounting systems and procedures consistent and in harmony, so that a clear and understandable financial pattern could be traced from program planning, through budgeting, operations, accounting, and reporting. Best results were obtained by operating agencies under the Joint Accounting Improvement Program when the improvements made covered the entire range of financial management functions, with costs as the common financial term of reference.

The budget and accounting recommendations made by the second Hoover Commission in 1955 were completely in line with these experiences. The recommendations, in effect, represented a broad endorsement of the objectives and activities of the Joint Accounting Improvement Program and stressed the need for greater stimulation of agency improvements within the executive branch.

Early in 1956, the Director of the Bureau of the Budget proposed, and the President approved, a plan to strengthen the Bureau's resources for participation in the Joint Accounting Improvement Program. On May 10, 1956, the President transmitted to the Speaker of the House of Representatives a request for a supplemental appropriation to enable the Bureau of the Budget to carry out the recommendations for further improvement in executive branch budgeting, accounting, and management generally. The President stated:

> "Expansion of the staff resources of the Bureau of the Budget is needed in order that the Bureau may provide, on my behalf, more active central leadership in the advancement of administration in the executive agencies."

Supplemental funds for this purpose were appropriated by the Congress, in June 1956, resulting in increased participation by the Bureau with the General Accounting Office and the Treasury Department in joint and cooperative efforts to develop improvement of financial management throughout the Government. The working arrangements under the Joint Accounting Improvement Program were reviewed and the three central fiscal agencies have taken steps to tighten up working arrangements.

The working arrangements under the joint program recognize the coordinate responsibilities under law of the Budget Director, the Comptroller General, the Secretary of the Treasury, and the head of each executive agency in the various aspects of financial management. A Steering Committee, consisting of a representative from each of the three central agencies, has been set up to develop plans for improvements, initiate joint projects, and review progress of the work underway in the civilian agencies. This Steering Committee meets weekly, on a rotation basis, at the Bureau of the Budget, the General Accounting Office, and the Treasury Department. Another joint committee of the three central agencies and the Office of the Secretary of Defense has been established for the purpose of expediting financial management improvements in the Department of Defense.

In view of the individual statutory responsibilities of each of the central agencies, it has been agreed that a coordinated team effort, with a project-by-project approach to the problems is the most practical way to carry out the program. Although no chairman is considered to be needed for the entire program, the Steering Committee designates a representative of one of the agencies involved as the project leader for the joint working group assigned to each project.

Several new projects have been started during 1956 under these working arrangements and others, which had been started previously, have been reinvigorated under the Joint Accounting Improvement Program by these developments and by new legislation enacted by the Congress during 1956.

2. Legislation. Prior to 1956, the basic budget and accounting laws applicable generally throughout the Government were the Budget and Accounting Act of 1921, and the Budget and Accounting Procedures Act of 1950. Related legislation was contained in acts applicable to a single department or agency such as Title IV of the National Security Act Amendments of 1949 (Department of Defense); the Post Office Financial Control Act of 1950 (Post Office Department); the Federal Property and

Administrative Services Act of 1949 (General Services Administration); and others, but the 1921 and 1950 Acts first cited are considered the basic budget and accounting legislation.

During 1956, the Congress gave evidence of its interest in the budget and accounting recommendations of the second Hoover Commission by the many bills that were introduced and the full hearings that were held on the subject of these recommendations. As a result of these legislative considerations, two public laws related to the recommendations were enacted. The first of these--Public Law 798--was signed by the President on July 25, 1956. The second--Public Law 863--was signed by the President on August 1, 1956.

Public Law 798, as originally introduced, would have implemented two of the Hoover Commission proposals--those providing for merger of the unliquidated obligations of appropriations made for the same general purpose, and agency payment of claims. As enacted, it continues the requirement of separate appropriation accounts for two fiscal years after the fiscal year for which the appropriation was made, but provides for improvement of the claim procedures. The importance of this legislation is that (1) agencies which incurred obligations will be responsible for liquidating such obligations without preliminary review by the General Accounting Office unless doubtful questions of law or fact are involved, and (2) unpaid obligations of the Government will be under agency accounting control as long as they are legally due and payable. Reassignments of some General Accounting Office personnel previously assigned to the review, adjudication, and settlement of claims have been made because of the decrease in work resulting from this legislation. Agencies are now paying creditors more promptly which should improve the day to day business relationships with the public. General Accounting Office, which strongly endorsed the proposed legislation and has issued regulations to implement the enacted legislation, estimates that it will eventually be able to release or reassign to more important work personnel costing $600,000 per year as a result of this legislation, with improvement in essential financial safeguards.

Public Law 863 constitutes an important keystone for the improvement of financial management in the Government. This was the major legislative enactment of the budget and accounting recommendations of the second Hoover Commission. It establishes in law a basic principle for Government budgeting and accounting--the development and use of cost information. It provides an expression of intent on the part of the legislative branch, which together with the President's statement on policies of the executive branch, provides a firm basis for moving forward in the improvement of financial management as rapidly as available resources permit. The various sections of the law cover the following:

1. Accounting on an accrual and cost basis.
2. Budgeting on a cost basis.
3. Use of consistent classifications.
4. Budget justification data by organization.
5. Simplification of allotment structure.

In October 1956, the Bureau of the Budget, in collaboration with the General Accounting Office and the Treasury Department, developed and promulgated a document entitled "Improvement of Financial Management in the Federal Government" in which, among other matters, the several provisions of Public Law 863 and their applicability were explained.

3. Program for Improvement of Financial Management. The document "Improvement of Financial Management in the Federal Government" was formally transmitted to the executive agencies on October 10, 1956, by the Director of the Bureau of the Budget attached to Bureau Bulletin No. 57-5. This Bulletin, developed on a joint and cooperative basis by the Bureau of the Budget, the General Accounting Office, and the Treasury Department, is a call to each executive agency to review its system of financial management in the light of (a) the pertinent laws (Public Law 863 of 1956, the Budget and Accounting Procedures Act of 1950, and other legislation); other budget and accounting recommendations of the second Hoover Commission which did not require legislation and the President's action on these proposals; and the objectives of the joint program for financial management improvement. The head of each executive agency is requested in this Bulletin to submit a planned program for improvement of financial management in his agency by December 31, 1956, if possible, but in any event not later than March 31, 1957.

Agency responses will be reviewed by the Bureau of the Budget, the General Accounting Office, and the Treasury Department, individually and collectively under the Joint Accounting Improvement Program. As soon as practicable after receipt of an agency's program, arrangement will be made by the Bureau for a joint discussion of the program by representatives of the three central agencies and the staff of the operating agency, looking toward cooperative arrangements to expedite the prompt implementation of changes required.

4. Central Accounting and Related Procedures. As explained in detail in the 7th Annual Progress Report, plans for certain basic revisions in the central accounting system for the cash operations of the Government were substantially rounded out in 1955. Installation of the revised system by the Treasury Department was completed during 1956.

The receipt and expenditure data in the revised system of central accounts is based on cash received and payments made, regardless of whether the cash transactions have been completely cleared through banking channels. Through the use of accounts for deposits in transit and outstanding checks, and related reconciling procedures, the central receipt and expenditure accounts are tied in with the changes in cash as reflected in the accounts of the Treasurer of the United States and the several accountable disbursing and collecting officers. The Treasury's central accounts form the accounting basis for the receipt and expenditure data published in official financial statements of the Government, such as the monthly and annual Treasury reports and the annual Budget Document.

Government-wide instructions were issued by the Treasury Department for the purpose of enhancing the integration of the cash accounts of the administrative agencies with the central accounts of Treasury. Among these were procedures designed to bring into the central accounts as of June 30 of each year various types of cash transactions regularly processed in July which are applicable to the operations of the prior fiscal year.

Procedures were installed in 1956 whereby certain intra-Government expenditure transfers are accounted for through reciprocal account techniques, without the issuance of checks.

The mechanization of check procedures was further advanced during 1956 by the completion of the project to convert paper checks to fully punched card checks. Beginning in August 1956, incident to the installation of the electronic system for the payment and reconciliation of Government checks, all remaining checking accounts using paper checks were converted to the issue of serially numbered prepunched card checks as the account was taken into the electronic system. Where the disbursing office does not have punch card equipment the amount is punched in the card check at Federal Reserve Banks when processed for payment. This procedure is in operation with respect to many small disbursing offices.

Proposed legislation has been prepared by the Treasury Department, in collaboration with the General Accounting Office and the Bureau of the Budget, to revise existing requirements relating to the payment of checks drawn on the Treasurer of the United States and the issuance of substitute checks by the Secretary of the Treasury. The proposed legislation contemplates (a) that all checks drawn on the Treasurer of the United States will be payable without limitation of time, thereby eliminating the special operations and accounting procedures now required for handling the so-called uncurrent checks, and (b) that most substitute checks will be issued

by the Secretary of the Treasury over the same disbursing symbols as the original checks, thereby eliminating the special operations and accounting procedures now required for the issuance of substitute checks from a special account of the Secretary of the Treasury.

The Treasury Department, in collaboration with the Bureau of the Budget, the General Accounting Office, the Department of Health, Education and Welfare, the Post Office Department, and Federal Reserve Banks, is conducting a study to determine the feasibility of staggering the issue date of checks for monthly periodic payments, in order to alleviate operating problems caused by peak-load conditions in the handling of Government checks.

Other developments in central accounting include (1) revised statements of accountability to be rendered by District Directors of Internal Revenue and Collectors of Customs for the purpose of bringing the transactions of these officers within the framework of the new system of central accounts; and (2) revised procedures for United States Disbursing Officers, Department of State, to permit use of statements of accountability rendered by these officers as direct posting media to the central accounts. These revised procedures are expected to be installed in fiscal year 1957.

5. Central Reporting. The development of comprehensive central financial reports for the Government was continued. The 1956 Combined Statement of Receipts, Expenditures and Balances of the United States Government will contain, on the basis of the Treasury's central accounts, a statement of certain cash assets and liabilities to which receipts and expenditures and cash operations are related, together with supporting tables. Other revisions will be contained in this Statement to make it more informative regarding the annual cash transactions of Government and their effect on the public debt. In the preparation of the 1956 Combined Statement, the Treasury Department expanded its use of data contained in administrative agency reports which had been prepared for other purposes and thereby eliminated special reporting requirements.

On January 30, 1956, the Treasury Department, with the cooperation of the Bureau of the Budget and the General Accounting Office, issued revised reporting instructions to the administrative agencies superseding the instructions in Budget - Treasury Regulation No. 3. The new regulation requires business type financial reports from a selected group of Government activities consistent with the Budget submissions of these activities, for use in connection with the central accounting, reporting, budgetary, and other fiscal functions of Government. This regulation was expanded on June 1, 1956, to require all agencies to submit, insofar

as practicable, an annual statement of financial condition in accordance with the regulation, for use in compiling a Real and Personal Property Inventory Report of the United States Government for the Committee on Government Operations of the House of Representatives.

Other developments in central reporting include a new summary statement of the status of operations under the Agricultural Development and Assistance Act of 1954, including detailed information of foreign currency uses by countries and programs.

6. Integration of Programming, Budgeting, Accounting and Reporting. Efforts during the past year toward the development of common classifications for programming, budgeting, accounting, and reporting have resulted in the revision of the appropriation and activity structure for 36 independent agencies and constituent units of departments in the 1958 budget. These changes were made either to reflect adjustments in the programs or in the financing structure, or to provide a better tie-in to the agency's organization and accounting classifications.

Progress has also continued in the introduction of additional cost presentations in the Budget Document. The increasing use of accrual accounting in the Government enabled 15 agencies to submit cost-based budget statements for 59 appropriations to the Bureau of the Budget this year. This permitted the use of a cost-based presentation for 42 more appropriation items, making a total of 46 in the 1958 Budget Document. The remaining 13 were limited to use as justification material, pending further clarification and refinement. In addition, developments during the year produced 10 new business-type presentations. Since 6 were discontinued, the 1958 budget contained a total of 120 such presentations.

7. Electronic Data Processing Systems. The increased activity in the field of data processing methods during 1956, and the indications of the potentials for greater economy and efficiency through the expanded use of electronic systems, has created a need for a complete survey of the present and planned use of such systems in relation to the most advanced developments in this new field of office automation. This survey was initiated by the General Accounting Office in 1956 and will be completed in 1957. The inventory compiled from this survey, the development of criteria to be used in the future application of electronic methods, and analysis of the effect of this new medium on existing accounting, budgeting, reporting, and auditing requirements, will be coordinated by the General Accounting Office, the Bureau of the Budget, and the Treasury Department under the Joint Accounting Improvement Program.

As explained in the 1955 Progress Report, electronic data processing methods have been applied to the payment and reconciliation of an annual volume of 350 million checks in the Treasury Department, with large annual savings and faster and highly accurate processing of check data. The first phase of the new electronic system started in August 1956. Complete application is scheduled for 1957.

The Bureau of Old-Age and Survivors Insurance installed an electronic data processing machine and related equipment in 1956 for the maintenance of 100 million accounts on magnetic tape and the electronic production of account data. The Federal Bureau of Investigation payroll processing operations have been converted to an electronic data processing system. Post Office Department is developing plans to convert its mechanized Postal Money Order System to an electronic data processing system; Department of Agriculture is studying the applicability of electronic processes to price support program operations; Department of Interior is considering applying electronics to the Geological Survey accounting processes; and Tennessee Valley Authority is studying this method in relation to its inventory accounting. Treasury Department is continuing its studies of areas of applicability of electronic processes in the Bureau of Public Debt and the Division of Disbursement.

The Aviation Supply Office of the Navy Department has pioneered in the development of data processing techniques for its supply activities. The Air Materiel Command of the Air Force has also undertaken an electronic program in the inventory and logistics area. The Signal Corps of the Army has installed an electronic data processing system in its inventory management program. Army Ordnance also has a program underway in the inventory management field. In some Defense Department activities, programs are being studied for the application of electronic equipment to entire accounting processes, including payrolls, inventories, costs, billing and general accounting.

These are by no means a complete list of the electronic data processing systems installed or contemplated in financial management functions of the Government. They are, however, indicative of the wide range of uses to which this new field of office automation is being applied or planned for application.

8. Property Accounting Improvements. During the year the development of financial management and accounting controls over property was continued. Additional joint surveys of property accounting and related procedures and activities were made by several agencies working with

the General Services Administration and the General Accounting Office. Recommendations developed were implemented or target dates set for their accomplishment as stated in the reports. Specific improvements in individual agencies are covered in Part II of this report.

Surveys of property accounting were completed during the calendar year 1956 in the Bureau of the Census and the Maritime Administration of the Department of Commerce, and in the constituent agencies of the Department of Agriculture. Thirty (30) surveys have now been completed covering sixty-four (64) different accounting entities in various civilian agencies since this program was initiated. Follow-up reviews of property accounting in areas where previous surveys were made were started during the year. These reviews have been completed in fourteen (14) agencies.

During the year data on Federal real property as of June 30, 1955, prepared by the General Services Administration for the Senate Committee on Appropriations, were issued by the Committee in Senate document No. 100, dated February 14, 1956, and Senate document No. 109, dated March 27, 1956. These inventories covered real property located in continental United States at 11,777 installations of 22 agencies, cost $32.5 billion, and real property of $1.3 billion at 1,049 installations of 18 civilian agencies and $4.2 billion at Department of Defense installations outside the country. The foregoing figures do not include costs for public domain; lands withdrawn from public domain for National parks, forests, and other conservation uses; historical sites procured other than by purchase; and trust properties.

The inventory of real and personal property referred to as in process in the last report was completed. The House Committee on Government Operations released their report covering "Real and Personal Property Inventory Report (Civilian and Military) of the United States Government located in the Continental United States, in the Territories, and Overseas as of June 30, 1955," as House Report No. 1930, dated March 21, 1956. In compiling this report the Committee utilized Government-wide real property inventory data furnished by the General Services Administration, and personal property data obtained from the civilian agencies and the Department of Defense. This report lists personal property of $168.4 billion and real property of $39.5 billion. The report also contains supporting schedules which show classifications of the property holdings and gives considerable additional information by agency and location.

9. The Joint Accounting Improvement Program in Overseas Operations. The cooperative program to develop improvements in the accounting and related systems and procedures of overseas organizations, begun in 1955,

was further implemented during 1956. The Field Assistance Team which was organized jointly by the United States Army in Europe (USAREUR) and the European Branch of the General Accounting Office last December has had a full year of profitable experience. This organization, which is now usually referred to as UFAT, was created to assist the Army Command in Europe in the implementation of the various facets of the Army Financial Management Plan and, in connection therewith, to generally improve the accounting systems and related procedures. Most prominent among the accomplishments of this cooperative group are the following: (1) development of a cost accounting system within the concept of the Depot Command Management System and its installation in seven depots (one depot in each of the technical services), with 100% installation in all USAREUR depots projected for April 1, 1957; (2) application of the Army Command Management System to the Headquarters Area Command, Heidelberg, Germany, as a pilot installation consistent with Public Law 863, which is now in progress; (3) improvement of mechanized controls over "property in excess" accounts thereby insuring periodic mechanical screening of such items against current requirements in order to avoid "buying and selling the same items simultaneously" (these improvements during a two-month period resulted in the utilization of property valued at more than $1,000,000 in one technical service which had been previously classified as excess, and it is expected that major savings will continue to accrue); (4) analysis of the frequency and degree of unit price changes in inventory items (this effort was coordinated with a parallel study of Air Force price changes and was submitted concurrently to top management as the basis for recommended policy revision).

In January 1956 the United States Air Forces in Europe (USAFE) organized a project team, with full participation by the European Branch of the General Accounting Office, to improve the supply procedures and increase the accuracy of base level inventory accounting. This team completed a study at the Neubiberg Air Base, Germany, which resulted in two major recommendations to Headquarters, USAF, and Air Materiel Command. The first of these, which recommended the discontinuance of the practice of revising inventory unit prices for insignificant changes, was put into effect by AMC on November 15, 1956. This new policy will result in an over-all savings which is in excess of one man-year per air base, with additional savings being achieved in each depot. The second recommendation, which is still under consideration by USAF and AMC, provided for distributing centrally procured low cost items through the base Local Purchase Store, which operates on the self-service principle without the high degree of accountability and inherent paper work now required by the present system. The Neubiberg study, which included six months of issue experience, disclosed that 63% of the paper workload represented less than 3% of the dollar value of the

over-all centrally procured issues. Additional joint projects are currently in process and it is expected that a major effort will be made during 1957 in the integration of budgeting and accounting consistent with Public Law 863 and Air Force regulation 170-6.

The Far Eastern Branch of the General Accounting Office, with headquarters in Tokyo, Japan, was established in July 1956. As soon as appropriate and practicable, cooperative efforts of the General Accounting Office and the agencies will be initiated to develop joint projects for the improvement of accounting and related processes in Far East organizations.

10. Bonding of Federal Employees. Individual bonds, paid for by each bonded employee, were generally obtained throughout the Government prior to 1956. Pursuant to Public Law 323 (69 Stat. 618), dated August 9, 1955, and implementing regulations, the Government agencies are now authorized to procure blanket or other types of surety bonds, as may be appropriate, covering employees required by law or administrative regulations to be bonded, and to pay the premiums thereon from Government funds. The bonding regulations were issued by the Treasury Department after consultation with the General Accounting Office, Bureau of the Budget, and staff of the Committee on Post Office and Civil Service of the House of Representatives.

Results under the new bonding arrangements, based on the first report since Public Law 323 was enacted, disclose the following:

a. The premium cost to the Government of bonds purchased under the provisions of Public Law 323 was $585,156. However, since the majority of the bonds are for two years, the annual premium cost is at a rate of about $300,000. The premiums paid by the employees immediately before the new bonding arrangements went into effect was at the rate of about $1,700,000 a year.

b. The aggregate penal sums of bonds procured under the new Act is $3,280,000,000. The aggregate bond coverage before the new Act was $1,997,000,000.

c. Administrative costs of the Government to maintain records and process the individual bonds prior to Public Law 323 was about $500,000 a year. Under the new bonding arrangements, the Government's administrative cost will aggregate about $75,000 a year.

In summary, the penal amount of bonds indemnifying the Government has been increased from about $2 billion to about $3.3 billion, affording over 50% greater protection to the Government. At the same time, Government employees save $1,700,000 a year in bond premiums and the Government saves over $100,000 a year when the annual rate of premium costs to the Government and the cost of administering bonds under the new Act are compared to the cost of administering individual employee bonds under previous bonding arrangements.

11. Central Billing and Payment of Passenger Transportation Charges. The Bureau of the Budget, after discussions during 1956 with the representatives of the transportation industry (airlines, railroads, bus, and water carriers), formally proposed to them that the Government would consider central payment of civilian passenger transportation charges, based on central billing by the transportation companies, on condition that the transportation companies would reimburse the Government for the cost of the central billing and payment facility at the rate of 3/10 of 1 percent of the total amount of each bill. This proposal is under consideration by the transportation companies.

12. Use of Imprest Funds. Joint regulations issued in March 1952 for the establishment and use of imprest funds, and release of a General Services Administration Circular in August 1953, were designed to promote appropriate use of simplified procedures for making small purchases. This has been highly successful. From a condition where, at the beginning of 1952, practically all purchases (no matter how small) had to go through a complicated routine of special certification, bill and voucher processing, and check payment, Government agencies are making increased use of the simplified procedures for small purchases, paying them in cash from imprest funds. Generally, the use of these procedures and cash payments is limited to purchases of $50.00 or less. The latest figures available for 1956 disclose that there are now 1,600 imprest fund cashiers in the civilian agencies and 1,853 in the Department of Defense.

13. Indirect Costs of Research Projects. The large number of Government-sponsored research projects being conducted by schools and universities led to a joint study by the Bureau of the Budget, the General Accounting Office, and the Treasury Department of the cost determinations involved in such projects. The purpose was to study current principles and practices of Government agencies in determining and paying for overhead on research contracts and grants with educational institutions, with the view of developing criteria for Government-wide application.

This review resulted in the formation of an interagency committee of the three central agencies together with representatives of the Atomic Energy Commission, National Science Foundation, Department of Health, Education and Welfare, Office of the Secretary of Defense, and the Army, Navy, and Air Force. This group has developed a draft set of principles which is being considered preparatory to discussions with university representatives. The objective is to eliminate present inconsistencies and provide a more equitable basis for arriving at amounts to be paid by the Government.

14. General Regulations and Other Developments. Regulations and other communications on accounting procedures and related matters are necessarily issued by authorized Government agencies to provide uniformity - when uniformity, rather than "tailor-made" procedure, is appropriate. Generally, regulations having Government-wide effect are issued by the General Accounting Office, the Bureau of the Budget, the Treasury Department, and, to a specialized degree, the General Services Administration. Before any such regulations are issued by any of these agencies, however, the principles of the Joint Accounting Improvement Program require that the subjects of the proposed regulations, as well as the wording of the regulations themselves, must be reviewed and discussed with the three central fiscal agencies, and with representative operating agencies that will be affected, in order that full understanding of the problems will be obtained and all points of view will be considered.

During 1956, the General Accounting Office issued or revised two Accounting Systems Memorandums, fifteen General Regulations, and eight Circular Letters. Most of these instructions dealt with simplification of existing procedures or established new procedures due to new laws. Several of the instructions directly affect the public in its relationship with Government agencies.

Circular letters were issued on December 2, 1955, February 3, 1956, and March 1, 1956, authorizing telephone companies (1) to support their toll bills with the original toll ticket rather than a detailed listing, (2) to require only a showing of date, place called, and total charge, (3) to include on current bills any unpaid balances as separate items rather than preparing separate bills, and (4) to discontinue special Government forms and use the companies' regular commercial statements. By these instructions, the billing requirements of the Government on telephone companies were made more comparable to commercial practice.

Additional improvements were started during 1956 in the accounting and billing requirements of the Government in connection with telephone services. Following a survey made in 1955 by the General Services

Administration and the General Accounting Office, implementation was initiated during 1956 to simplify the detail procedures to obtain telephone service, maintain inventories of equipment, billing of services, and payment for such services. A pilot installation in the Department of Agriculture tested a revised approach by the Chesapeake & Potomac Telephone Company in recording and billing equipment installations.

General Services Administration has, with the cooperation of the local telephone company, converted one of five joint switchboards now in operation to the same basis used in the Agriculture pilot installation.

On February 3, 1956, the Comptroller General requested all Government departments and agencies to review their administrative requirements with respect to the number of copies of bills or invoices requested of all vendors. Several agencies have since then found that the original invoice will meet their requirements. Elimination of unnecessary copies of bills results in a saving not only to vendors but also to the Government.

PART II

FINANCIAL MANAGEMENT DEVELOPMENTS IN INDIVIDUAL AGENCIES

FOREWORD

Part II of this report was prepared by staffs of the various agencies of the Government and contains illustrations of some of the improvements which they made in their accounting and related financial management systems and procedures during the period from January 1, 1956, to September 30, 1956. The illustrations are not intended to be all-inclusive of every improvement in every agency but to be indicative of some of the efforts being made throughout the agencies to develop effective, useful, and economical systems and procedures.

The material in this Part is included as it was submitted by the various agencies except for editorial changes and without, at this time, an independent evaluation, in all cases, of agency efforts to improve their programming, budgeting, accounting, funding, and reporting systems and procedures.

The report does not attempt to evaluate the work that remains to be done in each agency. By Bureau of the Budget Bulletin 57-5 dated October 10, 1956, the agencies were requested to review their financial management systems in relation to Public Law 863 (approved August 1, 1956), the Budget and Accounting Procedures Act of 1950, related legislation, and other recent criteria, and to develop planned programs for the improvement of their systems and procedures. Formulation of these planned programs should be completed by the agencies by December 31, 1956, but, in any event, not later than March 31, 1957.

The attainment of adequate financial management processes throughout Government depends in its fullest extent on the efforts devoted by the agencies in developing and installing the financial management systems and procedures best suited to their individual management needs within a broad framework of applicable laws, regulations, and other policy directives. Under the Joint Accounting Improvement Program, agency improvements are developed on the initiative of the agencies themselves. The three central agencies - the General Accounting Office, the Bureau of the Budget, and the Treasury Department - advise and assist the operating agencies in these developments on a cooperative basis as appropriate and as required, but the accomplishments made are directly attributable to agency efforts. The accomplishments illustrated in this 1956 report, when related in cumulative effect to the accomplishments of prior years, are indicative of the continuing drive within the operating agencies to install improved financial management systems and procedures.

DEPARTMENT OF AGRICULTURE

Departmental

The Office of Budget and Finance, Office of the Secretary, continued to furnish leadership and technical assistance in the revision of agency accounting systems and procedures to conform to Department policies, the accounting principles and standards prescribed by the Comptroller General, the objectives of the Joint Program to Improve Accounting in the Federal Government, and the requirements of the Budget and Accounting Procedures Act of 1950. The work was performed with the assistance of the Civil Accounting and Auditing Division of the General Accounting Office and with the cooperation of the Treasury Department and the Bureau of the Budget.

The agencies in the development of their accounting systems, which includes both proprietary and fund accounts and subsidiary records, gave consideration to their internal organization, the extent of field activities, and diversity of programs and operating methods. The agencies and the Office of Budget and Finance continued their efforts in developing and modifying procedures and methods to conform with changing accounting concepts and to effect improvement and efficiency of operations. In this connection consideration was generally given to the establishment of needed internal controls, the development of simple allotment ledger systems and controls, and provision for obtaining from the records meaningful, timely, and reliable financial data for local management use and data necessary to meet reporting requirements.

Revised accounting systems, together with implementing manuals, were approved during the year by the Comptroller General of the United States for the Office of Information and the Foreign Agricultural Service. To date, five revised accounting systems and manuals of the agencies have been approved by the Comptroller General. The work in the field of accounting systems, which includes revision, modernization and simplification of accounting systems and manuals, is progressing to various stages of completion in all other agencies of the Department. Upon completion of the revision of the basic accounting systems and development of related manuals, emphasis will then be placed on simplification of fiscal procedures and methods with a view to effecting economy and efficiency in operations.

The Department also continued its efforts towards the development, modification and simplification of existing fiscal policies, procedures and methods to conform with changing accounting concepts and to effect improvement and efficiency of operations. Achievements include: (1) the issuance of regulations to embody the policies, principles and standards for maintaining sound accounting systems, to establish fiscal policies, standards and responsibilities as aids in the conduct of the Department's financial affairs, and to

establish simplified procedures for the transfer of funds; (2) the development of a Guide to Travelers for the Preparation of Travel Vouchers; (3) the study of Department-wide methods used in the audit of telephone toll call bills which led to a simplification in the handling of the toll tickets through the elimination of 60,000 postings a year; (4) the installation of a program for the bonding of employees of the Department under a position schedule bond; (5) the strengthening of control over foreign travel by having foreign travel orders cleared and coordinated through the Foreign Agricultural Service and reviewed by the Office of the Secretary prior to the travel; (6) collection of statistics and a close study of data on the cost of operating privately owned vehicles which resulted in establishing a limitation of 8 cents per mile for reimbursement of such vehicles in the United States; and (7) the development and installation of a revised procedure for determining amounts of payments to the Post Office Department for mailings which eliminates detailed record-keeping of mail usage at points of origin, annual inventory reports, and quarterly certifications of compliance with penalty mail laws.

The property accounting and management surveys conducted jointly with the General Services Administration and General Accounting Office were completed. The survey covered all agencies of the Department in Washington and representative field locations throughout the United States. Final reports of findings and recommendations have been received from the General Services Administration and the objectives of the recommendations have been agreed to by the Department.

The Secretary appointed a member of his staff to be responsible for the general review of the adequacy of inspection activities within the Department and to keep currently advised of significant findings of the GAO and agency audit staffs. To further strengthen Departmental guidance in internal audit activities, the Office of Budget and Finance reestablished its audit staff as a separate organizational division and increased its personnel to provide more effective technical assistance to the agencies. A Department procedure was developed for the handling of GAO audit reports and for the reporting of significant findings by the Director of Finance to the Secretary and his staff. A Department reporting system is now being developed whereby the Secretary and members of his staff will be currently advised of significant findings disclosed by agency audit staffs.

Preliminary action has been taken for developing a reference library of internal audit programs, procedures, and related matters for use by the agencies. Assistance was rendered to agency audit staffs through release of statements setting forth principles, suggested phases for review, participation in training sessions, and review of policy statements and audit programs. A comprehensive survey was initiated of one agency audit unit for the purpose of determining its adequacy and effectiveness.

Most of the activities of the Department are now covered by internal audit. A study is in process to determine the need for extending internal audit to areas and programs not presently covered.

Agricultural Marketing Service

An accounting system manual has been completed and submitted to the Office of Budget and Finance, Office of the Secretary, for review and approval prior to formal submission to the Comptroller General.

A nation-wide administrative-clerical training program was conducted for the purpose of effecting improvements in the execution of obligation procedures by program offices. The training program resulted in improvements in financial reports and obligation records maintained by the offices and divisions.

Procedure was amended to require the area fiscal offices to assume the responsibility for controlling and liquidating all unliquidated obligations as of September 30 each year for the prior fiscal year. This procedure requires transfer of unliquidated obligation documents to the area fiscal offices. These documents, together with a listing of all unliquidated obligations as of June 30 each year, provide an audit basis for Section 1311 compliance at three locations rather than upwards of 200.

Agricultural Research Service

The Service, following the establishment in 1955 of four regional business offices in addition to the Finance Office in Washington, D.C., completed the assignment of functions, including payrolling, on a regional basis to these offices with the exception of certain phases of the billing and collection operation which the Finance Office in Washington has continued to handle.

A system for developing personal services information by means of punched cards was devised. This system facilitates the preparation of reports for personnel, program and budget purposes.

Procedures have been developed and prescribed for the processing of trust fund receipts for fees advanced for services to be furnished.

Commodity Exchange Authority

A comprehensive survey of the accounting system and procedures was made during 1956, resulting in recommendations for simplification and improvement.

Modifications, changes and developments now in effect include (1) revised internal procedure for administrative control under apportionments resulting in a reduction in the number of allotments from six to one; (2) simplified obligation control records and expenditure distribution ledgers with costs developed through classification accounts have replaced all allotment ledgers; and (3) adequate internal control over collections.

Further planned improvements will provide for a completely revised chart of general ledger accounts; strengthened general ledger control over personal property and installation of composite property records; and a refinement of the system for distribution of administrative costs to activities.

The major part of the revised accounting system was installed July 1, 1956.

Commodity Stabilization Service

The Service has adopted the policy of issuing accounting and budget instructions in handbook format. The completion of the budget handbook has consolidated in one place the policies, procedures and instructions necessary for the formulation and implementation of the budget.

The comprehensive survey of allottees' obligation records and cost systems was completed and the methods of distributing costs to the programs and activities submitted for review and approval.

Revised methods were placed in effect July 1, 1956, for (1) distributing obligations to programs under Section 392 allotments for the Agriculture Stabilization and Conservation State and Insular offices and, (2) the distribution of costs to the programs of the ASC County offices.

The installation of a new collection register in ASC county offices has established uniformity and eliminated receipt and transmittal forms.

A new printing allotment method was instituted whereby printing funds are allotted only to the Administrative Services Division and all requisitions and vouchers for printing are processed through that Division resulting in a saving in funds and greater control over the quantity and kinds of material printed.

The success in the use of work measurements for preparing budget estimates and determination of staffing requirements in one division has led to plans for a work measurement system in two other divisions.

Approval was obtained for the establishment and use, on a trial basis, of a Treasury disbursement account for payment of administrative expenses distributable to more than one appropriation or fund. The account is to be reimbursed monthly from the funds chargeable on the basis of the related obligation amounts. Its use will avoid numerous adjustments by allowing distributions of charges to be made on sound bases generally available only after the close of the month in which the expenses are paid.

Farmers Home Administration

The general ledger procedure for FHA accounts, Rural Rehabilitation Corporation accounts, Disaster Loan Revolving Fund accounts, and the Farm Tenant Insurance Fund accounts was completely rewritten to provide for changes brought about by the consolidation of the area finance offices into a National Finance Office in St. Louis. Revisions included in this procedure were designed to improve control and financial reporting of fiscal transactions.

There has been developed a combination statement of account and trial balance form for operating loan borrowers which has reduced by 50 percent the running time of semiannual statements of account and trial balances, resulting in a savings of approximately 700 man and machine hours annually.

The method of compiling and producing the weekly and monthly reports of loans made has been improved through a more complete utilization of punched card equipment. This change eliminates considerable typing and proofreading with a consequent minimizing of transcription errors. Also, the frequency of submission of these reports for operating type loans has been curtailed to actual need. The change has resulted in an over-all savings of approximately 5,312 man hours annually.

A complete change has been effected in the method of processing miscellaneous administrative expense vouchers. The new system takes advantage of tabulating equipment to prepare check listings for the Treasury Disbursing Office and to summarize punched card data for allotment control records. Use of this system removes the necessity of preparing typed listings for the Treasury Disbursing Office and makes the preparation of Form FHA-381, Voucher Distribution Slip, unnecessary. As a by-product of the use of this method, a record for the monthly balancing of object classifications is provided.

In February 1956, an improvement in the method of paying rent vouchers without landlord billings was inaugurated. Treasury addressograph plates were substituted for typewritten transfer posting lists. It relieves the Finance Office of the task of typing a monthly list of approximately 650

vouchers and affords an easy means of identifying each check with the related contract. Under this system, the checks are mailed on the first working day of the month whereas under the former plan an approximate 10-day delay occurred.

During the year, an extensive utilization survey of nonexpendable property was made to bring about compliance with the new office equipment standards prescribed in FHA instructions. As a result, approximately 2,500 items, representing an inventory value of $62,500, have been released, approximately 1,800 items of nonexpendable property have been set aside for planned reserve, and the major portion of unserviceable property has been eliminated.

Federal Extension Service

The Service put into effect on July 1, 1956, a revised system of expenditure classification to be followed by State and Territorial Services which will result in man hour savings to the State Extension Office in budgeting, accounting and reporting for cooperative extension funds.

A revised handbook was issued setting forth detailed procedures in budgeting, accounting, and reporting the use of funds under the Agricultural Marketing Act for educational work in marketing.

Simplified procedures for the payment of penalty mail obligations were initiated whereby appropriations made specifically for the payment of penalty mailings will be used to reimburse the Post Office Department. The "year-end adjustment procedure" will no longer be required and meticulous recordkeeping and recurring reports will be eliminated.

Foreign Agricultural Service

The revised accounting system as outlined in the Service's accounting manual was approved by the Comptroller General on September 19, 1956, and is now in operation.

The Service also brought about an improvement in the procedure used in making requests to the Bureau of the Budget for allocations and apportionments of foreign currencies. The procedure now provides for requesting allocations and apportionments at the same time for all countries in which projects will be carried out rather than making separate allocation requests for a few countries at a time and individual apportionment requests for each project. This revision has resulted in a substantial saving of time not only in the Service but also in the Departmental Office of Budget and Finance and the Bureau of the Budget, and even more important, it has shortened considerably the time required to get a project in operation.

An internal audit staff has been established, attached to the Office of the Administrator, to review and appraise the Service's financial operational, and management functions.

Forest Service

After a trial period in selected areas, the consolidated deposit fund account was approved for use by all Forest Service offices. The use of the consolidated account has resulted in considerable simplifications in accounting by reducing the amount of paper work necessary in recording, depositing and refunding receipts from timber sales. This reduction was possible because all receipts are deposited in the account when received and are classified and transferred quarterly to appropriate receipt accounts, thus eliminating approximately 50,000 line entries on billing statements and on daily deposit records. Other significant improvements resulting from this procedure are streamlined and simpler methods of making refunds, and improved accounting control over earned and unearned revenue.

Further improvements in financial management will be possible through the use of a working capital fund which was approved by Congress during the year, as a result of a proposal made last year. This improved method of financing and accounting for supply and equipment services in support of Forest Service programs will enable the services to be operated in a more business-like manner and will eliminate complications in financial administration that were present under annual appropriations used to finance the service operations.

Another development was the field office installation on a test basis of automatic punch card equipment for performing payrolling, scheduling and other accounting work and for processing program data. A favorable review and appraisal of this pilot installation in one region has shown that an extension of machine methods to other Forest Service field offices may lead to further improvements in accounting and in accumulating statistical program data.

The Forest Service also developed a multi-purpose time report for use in payrolling emergency firefighters. Its use simplifies payrolling of approximately 35,000 payments annually and provides employment and other data needed by management.

Library

During the year the appropriation structure of the Library was simplified by consolidating the two budget activities under its Salaries and Expenses appropriation into one beginning with F. Y. 1957.

The allotment ledger accounts on expired appropriations were consolidated by activity. This resulted in the reduction from 87 to 6 in the number of allotment ledger accounts kept on these appropriations.

Authority was obtained to finance the reimbursable photo copying operations of the Library through the use of the Working Capital Fund of the Office of the Secretary of Agriculture.

During the year a survey of the budget and accounting practices was initiated by the Library with the participation of the Office of the Secretary of Agriculture and the General Accounting Office to determine what further improvements and simplifications can be made in its accounting, budget, and reporting practices.

Office of Information

The accounting system of the Office of Information was approved by the Comptroller General of the United States on September 19, 1956, after a test period of operation. The integrated system of accounts provides segregation of the financial transactions covering activities financed from a working capital fund, appropriated funds and other type funds. The accounts pertaining to the working capital fund are based on the accrual concept of accounting. The accounts pertaining to appropriated funds are maintained to show obligation transactions in the budgetary accounts and to record financial transactions on the cash basis in the proprietary accounts except for (1) nonexpendable personal property transactions and (2) recording accounts receivable for repayments to the appropriations. These are maintained on the accrual basis of accounting.

Since development of the basic accounting system, a constant refinement of procedures and flow of financial documents has resulted in the reduction of one position in the fiscal office and at the same time accelerated the furnishing of monthly financial reports to the program directors and division heads. Moreover, providing operating personnel with regular and systematic reports on the financial status of programs will result in a better understanding of the financial aspects of the program and will, in turn, provide for more realistic budgets in the future.

Office of the Secretary

A survey of the financial structure and organization of the Office of the Secretary, including operating accounts and related records and procedures under appropriated, working capital and other funds was completed. The survey report is currently being reviewed by management.

Improvements accomplished include: (1) simplification of fund control by segregating the control of funds, resulting in a reduction of allotment accounts from 43 to 5, (2) reduction in the number of expenditure distribution ledger accounts and (3) revision of the general ledger for appropriated funds.

Rural Electrification Administration

An accounting manual was completed and submitted for review and formal approval of the system. The manual sets forth the agency's policies, principles, standards and procedures providing for: (1) full disclosure of financial facts relating to REA activities; (2) adequate financial information needed by REA officials in establishment and execution of policies, planning and directing lending programs; (3) effective control over assets, liabilities, income and expenses; (4) accounting support for budget preparation and execution; and (5) compliance with the RE Act and with statutory requirements for administrative control and expenditure of funds.

Revisions have been made in various issuances governing procedures and standards of reporting, e.g., revised manual of minimum standards and procedures for CPA's conducting and reporting audits of electric borrowers; guide for borrowers' boards of directors explaining REA accounting and the interpretation of financial statements; placing of a majority of electric borrowers on a quarterly basis of submitting financial and statistical reports; and a handbook of accounting procedures for telephone borrowers.

Soil Conservation Service

Payroll procedures were revised for employees paid at hourly or daily rates. Because the pay of these employees usually varies each pay period the payrolls are prepared in the payrolling office rather than by the disbursing officer as is done for the employees whose pay is more static. This has resulted in considerable savings in administrative expense.

A more uniform and formalized system was prescribed for securing distribution of employee's time whereby each employee records daily, the number of hours chargeable to each fund. This results in a better distribution of charges to appropriations and allotments.

Individual card records were devised to record salary payments to employees by appropriation, the reverse side of these cards provides all the personal services information necessary for budget presentations. The Service plans to explore the possibility of having the data transferred to punched cards so that needed reports can be prepared by machine. This would open the door for considerable re-use of information which is not practical under the present hand compilation method.

Forms have been developed or improved for: (1) securing accrued cost information from all travelers and field offices to expedite and improve obligation reports, and (2) improving the checking of internal agreement of accounts and verification of control accounts with subsidiary records.

DEPARTMENT OF COMMERCE

Office of the Secretary

The processing of accounting documents was revised in order to use punchcard techniques. This has permitted the preparation of reports to management 10 days earlier, and has made it possible to reduce the number of allotment accounts from 665 to 160. Also the maintenance, by bookkeeping machines, of about 5,000 object class distribution accounts were eliminated with the required information developed directly from the cards.

Bureau of the Census

The Bureau, with the assistance of representatives of the Office of the Secretary, Department of Commerce, and of the General Accounting Office, conducted a study of its accounting system. As a result of this study a revised accounting system was placed in operation on July 1, 1956. The revised system uses a modified accrual basis of accounting and project costs under general ledger control. Through a method of project identification, cost is recorded simultaneously at the project, organizational unit, and budgetary activity. This will permit the presentation of cost-based budgets. Revisions were also made in the budgeting structure resulting in a simplification of the allotment pattern and a more consistent classification in programing, budgeting, accounting, and reporting. Through these revisions budgetary statements will be developed directly from the accounts.

Property accounting was surveyed by representatives of the General Services Administration and the General Accounting Office in collaboration with agency representatives and a report of findings and recommendations was informally submitted to the Bureau for comment.

Civil Aeronautics Administration

A revised chart of accounts, predicated on a branch type relationship of accountability, was installed on a pilot study basis at the Washington National Airport. In addition, the financial reports pertaining to the operations of the airport were redesigned. These revisions were designed to provide management with a better disclosure of the financial results of airport operations and to act as the basis for establishing rates and charges to users and tenants. In addition better control and accountability should be obtained for all funds, property, and other assets of the airport.

Coast and Geodetic Survey

Refinements were made in the new accounting system installed July 1, 1955, based on experience gained in its operation. The accrual basis of accounting which is part of the new system, enabled a more accurate distribution of costs for use in the Bureau's programs in the 1958 budget.

Maritime Administration

A study of inventories and property accountability was completed and several major recommendations disclosed by the property accounting survey were adopted.

Patent Office

Revisions were made in the time and attendance report system which simplified payrolling of premium pay and eliminated the use of Payroll Change Slip for this type of pay.

Through arrangements with the Treasury Department, salary checks are now mechanically produced by the Treasury Department, directly from punched cards furnished by the Patent Office.

Bureau of Public Roads

The Bureau continued the study of its accounting system and, during this period, determinations were made to effectuate several revisions to the accounting system. A revised system, in process of development, will include: (1) decentralization to the field regional offices of all accounting functions including voucher examination and disbursement of funds; (2) development of accounting procedures to eliminate repetitive recordation both in the field and in the central office; (3) better financial disclosure through a more meaningful chart of accounts and control through the books of accounts of construction financial statistical data; and (4) strengthening of the internal audit function to achieve uniformity of compliance with prescribed policy and directives.

In addition, a new procedure was developed to obtain a better utilization of engineering reports regarding the status of construction projects. The new procedure will eliminate repetitive recordation of engineering information at different levels of management.

National Bureau of Standards

The introduction of mechanized procedures for time reporting and payroll computations resulted in the reduction of four positions, better utilization of punched card equipment and other marginal benefits.

The Bureau's internal audit staff was strengthened. This staff has been of significant assistance in the improvement in the quality of the accounting operations. The internal audit staff has also assisted the Bureau's management in its continuous evaluation of all policies related to financial administration.

Additional legislation was obtained which permitted improved fiscal practices in the Bureau. These include: (1) placing advances from other agencies directly into the working capital fund and (2) simplification of costing methods.

DEPARTMENT OF DEFENSE

Department-Wide

The Office, Secretary of Defense, continued to provide over-all policy guidance and direct assistance to the military departments' accounting improvement program. Some of the areas in which significant improvements were effected or where detailed studies are now in process are highlighted below.

Stock Funds. A simplified method for obtaining reimbursements for stock fund sales based upon the billing being supported by shipping documents rather than signed copies of the receiving report has been developed. A proposed Department of Defense Instruction establishing a uniform Defense-wide policy of establishing accounts receivable and billings for stock fund sales to be supported by shipping documents is now in the process of coordination.

Proposed Department of Defense regulations have been coordinated and are in the process of publication relative to the disposal of stock fund excess property and the rates for reimbursement. This instruction will also clarify those circumstances when the stock fund will be reimbursed for the disposal of excess and state the circumstances under which it may be transferred without reimbursement.

Continued action has been taken relative to facilitating the establishment of the single manager assignments, particularly in the area of stock funds. Under the single manager plan, the Secretary of Defense will designate the Secretary of a military department to be responsible for the operations and functions of a particular organization established for the purpose of handling specified categories of common-use items or common-service activities. The primary objectives of single manager assignments are (1) to eliminate duplication and overlapping of effort between and among military departments, and (2) to improve the effectiveness and economy of supply and service operations throughout the Department of Defense. In this respect, preliminary studies and actions necessary in connection with the proposed Medical-Dental, Petroleum, Photographic, and Clothing and Textile categories have been taken and follow-up action on the Subsistence category has been maintained.

Appropriation Accounting. An extensive study was made by the Office of the Assistant Secretary of Defense (Comptroller) of the financial management problems of the Army General Depot at Atlanta with special reference to proposed improvements in the financial and accounting system being tested by the Department of the Army at Atlanta and Letterkenny

Depots. Conclusions by the Department of Defense were that the Ordnance and Engineer equipment-overhaul shops should be financed under the Army Industrial Fund upon the basis of project orders to be placed by the various middle management activities which control the overhaul work to be performed. This would leave the ordinary depot functions of receipt, storage, and issue to be financed by a single allotment from the Quartermaster General. A similar study of the Army's proposed system of financing and accounting for training installations to be tested at Fort Jackson was made.

Department of Defense instructions were developed concerning improved methods of developing requirements, budgeting, and effecting exchanges of requirements and orders between military departments where one military department has a single-service procurement assignment.

A complete plan has been developed for financing and accounting for research and development under appropriation methods, with special reference to financing research and development laboratories and test facilities by single allotment rather than by the use of the industrial funds.

A new report form has been developed for reports and certifications required by Section 1311 of the Supplemental Appropriations Act, 1955, in accordance with revised accounting and reporting standards. The new report form and reporting requirements became effective for the reports to be certified as of 30 June 1956. Discussions were held with representatives of the Bureau of the Budget, General Accounting Office, and the Treasury Department.

Uniform classification of cost accounting for maintenance of buildings and operation of utilities has been completed and is in the hands of the military departments for coordination. Informal comments indicate general acceptance of the uniform account classification and adoption by about 1 July 1956.

The Department of Defense developed a directive prescribing a system of commitment accounting in the Defense Establishment. Under the terms of the directive, commitments represent funds reserved to cover firm procurement directives, contingent liabilities, and other transactions of this character which cannot be recorded as valid obligations under section 1311 but for which funds must continue to remain available to avoid disrupting the orderly and efficient flow of business. Commitments are required to be accounted for in the areas of procurement, research and development, and construction--the areas in which procurement lead-time is greatest and where commitment accounting is most useful in managing approved programs.

Other Improvements. Progress is being made in the attempt to establish a system of supply categories into which the Federal Supply Classes can be grouped for managerial control purposes. The military departments are in the process of converting all stock numbers to the Federal Supply Codes and it is planned to have the managerial category system functioning before that conversion is completed. The proposed system will produce data that will be of assistance in reviewing budgets as well as significantly improve inventory and supply management control.

A ledger system for the reporting of all changes in both military and civilian personnel authorization has been developed. This new system will permit more sensitive authorization control and further protect against the granting of such changes without adequate justification.

Appendix B, Manual for Control of Government Property in Possession of Contractors of the Armed Services Procurement Regulations, was published, establishing monetary control over Government industrial facilities with contractors. It also provides for other improvements, such as strengthening single property administration, and reducing the accounting requested for minor plant equipment costing less than $100 per item.

Department of the Army

Organization for Accounting in the Army. The program for establishing Finance and Accounting offices at Army installations has been substantially completed. This program represents an important step in establishing an Army-wide field accounting organization within command channels to accomplish decentralized accounting under modern accounting principles and methods. It was officially launched in October 1953 after two years of testing at selected installations. The Finance and Accounting offices were established by organizationally combining the disbursing, payroll and allotment accounting functions and instituting a procedural integration involving the principles of double entry bookkeeping and general ledger control. The establishment of 42 installation Finance and Accounting offices during 1956 (as of 31 August), brings the total to 263, with only a few minor activities remaining to be converted.

In addition to providing the basic organization and system framework around which more comprehensive accounting can be instituted as envisaged in the Joint Program, the program has resulted in a marked increase in the efficiency and effectiveness of accounting and financial practices. The duplicate recording of expenditures in the command and disbursing channels, respectively, and the consequent heavy burden of reconciliation between the two is eliminated. Errors in documentation and bookkeeping are reduced, discovered, and corrected at their source, thus eliminating

the processing of correction documents through various offices. The administrative control of appropriations is facilitated because allotment accounts are more accurate and current; obligations are adjusted more promptly; and the reports are more complete, timely and accurate.

Army Command Management System. Considerable progress has already been made by the Army toward achieving a fully integrated accrual accounting system designed (1) to disclose the results of operations, financial condition and accountability in order to serve management and other interested individuals or agencies; and (2) to provide performance and cost data for developing and justifying cost-based budgets and for evaluating accomplishments against planned objectives. The accounting system supports the Army Command Management System (formerly termed the "Integrated Programing, Budgeting, Funding and Accounting Systems") which provides for a clear definition of responsibility and authority; for forecasting workload and resource requirements; and for reporting and evaluating actual accomplishments, utilization of resources and financial status in relation to plans and forecasts.

The system will be used at all levels of management for planning and control of operations by (1) scheduling the work (programing); (2) costing the scheduled work, effecting adjustment for reduction or buildup of resources on hand and scheduling procurement actions to develop the periodic fund requirements (budgeting); (3) accounting in appropriate units for the work done, the resources consumed or used and the status of assets and liabilities, including funds (accounting); and (4) comparing the performance, costs and financial status with forecasts (reporting and evaluating). A common classification of accounts will be used for programing, budgeting, accounting and reporting; and the accounting data are summarized and controlled by means of a general ledger maintained on the double entry and accrual bases.

A summary of the Army's accomplishments during 1956 in realizing this objective includes the following:

1. Army Command Management principles, applied to the needs of directors of major segments of the Army's maintenance and operations type programs, training and supply distribution and maintenance, have been expressed in a Class I Command Management System and a Depot Command Management System. The former has been installed in camps, posts and stations of the Continental U.S. Armies; and the latter in Continental U.S. depots. A Hospital Command Management System has been developed for application to the medical care program, and is being tested and refined at Valley Forge Hospital prior to extension to the entire medical care establishment.

2. Command management principles have been typified for procurement and production programs in the Ordnance Command Management System which has been installed in the Ordnance Ammunition Command. It is planned to extend the system to other Ordnance Commands in 1957.

3. The principles have been applied to the Army's construction program in the Engineer Command Management System. An improved accounting system has been installed in all Engineer Districts and Divisions (see Military Construction).

In recognition of the manpower costs involved in the implementation of a comprehensive accounting system such as that envisioned in the financial management plan, the Army has continued to apply modern accounting machines and procedures to the voluminous data gathering and reporting job in order to limit such costs. Tests of data gathering for all aspects of the Army Command Management System at an installation by means of punched card equipment are nearing completion at Fort Bragg, North Carolina and Fort Gordon, Georgia.

Military Construction. In 1956 the Chief of Engineers developed and completed procedures under the accounting aspects of the Engineer Command Management System for military construction activities. These procedures, which integrate cost accounting with a uniform classification of general ledger control accounts, have been installed as of 1 July 1956 at Engineer divisions and districts in the U.S. Extension of the system to oversea divisions is scheduled for the last quarter of 1956. The new accounting system provides that the accounting records be maintained on an accrual basis, reflecting the application of goods and services to operations as consumed or used. The new system, further, incorporates the accrual accounting principle with respect to funds made available to the Chief of Engineers under Air Force appropriation 57X3300, Acquisition and Construction of Real Property, thus maintaining all military construction accounts involving either Army or Air Force projects in a uniform manner.

Revised Budget and Account Classifications for the Operations and Maintenance Appropriation. The Army revised its Operations and Maintenance appropriation structure for fiscal year 1957 by reducing the number of budget programs from 16 to 12. Further reduction will be made in fiscal year 1958 to eight programs. Simultaneously the approximately 180 projects and subprojects in fiscal year 1956 were reduced to approximately 127 in fiscal year 1957, and these will be further reduced to approximately 50 in fiscal year 1958.

At the same time a subsidiary expense account classification is being designed to meet the needs of headquarters of the Department of the Army and the Operating Agencies for the reporting of costs related to programs, to budget formulation, to budget execution and for review and analysis of performance.

These revisions are designed to:

(1) develop costs on an accrual basis under a uniform expense classification as the basis of a cost-based budget, and

(2) reduce the number of fund accounts by which the accomplishment of total program at the installation level has been hampered in the past.

The effective development of these expense account classifications also entails determination by the Office of the Secretary of Defense of the specific data to meet top management requirements in this area.

Financial Inventory Accounting. The installation of financial inventory accounting which prescribes the reporting under uniform categories was completed this year. Procedures have been developed which place a monetary value on those inventories located at smaller installations where inventory data is not required to be reported by categories. These procedures provide a means for obtaining the financial inventory data required to meet the needs of the Army Command Management System.

An improved method for the distribution of expendable supplies has been developed and is being implemented in the Army. This new method is referred to as the Self Service Supply Center system, and in concept and operation is comparable to a commercial supermarket. Pilot installations at Fort Lee and Fort Lewis have been in operation on a test basis since early in the year. Each Army area is scheduled to commence operation at one pilot installation within their area during this calendar year. Between 1 January and 30 June 1957, Self Service Supply Centers will be established at 47 more Continental U.S. installations. Accounting procedures have been developed for these centers and have been incorporated in a manual of operations which was published 1 July 1956.

Stock Funds. All divisions of the Army Stock Fund were extended to the Southern European Task Force in Italy effective 1 July 1956. Uniform Accounting and Reporting Criteria for Branch Offices were developed and established as of 1 July 1956, to provide more simplified and uniform procedures for branch office operations reporting to home offices. Reporting requirements for home offices were revised to provide comparable improvement in home office operation and reporting to the Department of the Army.

Army Industrial Fund. The Department of the Army has 20 of its industrial and commercial type activities financed by means of the Army Industrial Fund, an increase of two during the year. Utilization of the industrial fund technique has revealed the many advantages of the system of management and accounting over previous methods of operation.

Operations under the Army Industrial Fund have permitted and encouraged many management improvements, some of which have resulted in greater efficiency, and others which reflect definite savings in manpower and dollars. Some examples selected from specific installations follow:

"(1) Improvements in inventory control resulted in the relocation of supplies and a saving of 250,000 square feet of space, eliminated 187 different records for various financial inventory categories and accomplished turn in of substantial excess material due to discontinuance of overlapping stocks of similar supply items in several places; resulted in a reduction of 28 personnel spaces, reduced the supervisor to worker ratio by 50 percent and reflected an estimated saving of approximately $133,000 per year.

"(2) Method improvements based on a management study of intransit warehouse procedures resulted in a reorganization which it is estimated will effect a saving of $150,000 annually.

"(3) In the field of materials management, continued effort was made to reduce the cost of supplying materials to operations. The Indirect Material Inventory has been decreased by $381,434 due to careful screening of requisitions, and a continued review of inventory to determine those items on hand in excess of requirements.

"(4) The managerial value of the entire standard cost system has been apparent during Fiscal Year 1956. The data generated by this system, and furnished to operating officials, has provided a firm basis for planning, scheduling, and analyzing operations. The flexible budget in its area has proved to be as effective a tool as the engineered standards in controlling costs.

"(5) Through management techniques outlined under the Army Industrial Fund and applied by the Depot Maintenance Division, budget requirements have been reduced twice in Fiscal Year 1956 which resulted in a reduction of $295,000. Further, through analysis of cost data this Division is able to recommend a further reduction in budget requirements for Fiscal Year 1957.

"(6) Engineered Standards were applied to much of our manufacturing work in FY 1956 and the results of this are apparent in increased efficiency of our manufacturing operations. We estimate that approximately $625,000 was saved during the past fiscal year because of improved direct labor efficiency."

The program for Fiscal Years 1957 and 1958 calls for the installation of the Army Industrial Fund in 28 additional commercial and industrial-type facilities as well as placing increased emphasis upon the further development and utilization of engineered standards.

Occupational Standards and Qualifications (Accountants). New accounting concepts and systems generated under the Army's Accounting Program (based on PL 216 and PL 784, 81st Congress) have resulted in marked changes in the character of accounting work performed, and qualifications required of personnel serving in these positions.

Specialized job requirements have made positions directly concerned with the commercial-type accounting systems no longer compatible with other less specialized positions properly classified in the existing Accounting and Fiscal Clerical Series, GS-501-0. In an effort to identify the factors underlying the Army's staffing problems in this area, the Department of the Army has conducted studies of its job requirements under the new systems and of 8,368 positions in the GS-501-0 series.

One of the results of the studies has been the development of a Manual of Evaluation Standards for Civilian Jobs, "Supervisory Accountant GS-510-9 through GS 510-15" which will be published in the near future. This manual is intended for Army-wide use in staffing the accounting organizations of the subordinate commands and activities as well as at the departmental level. The format of the Standard has been arranged to facilitate ready reference to particular situations affecting the position grades.

The Army also has recommended to the Civil Service Commission that the existing Accounting and Fiscal Series be subdivided and that two

new ones be established and recognized as "Sub-Professional." This is a part of the Army's Training and Career Planning and Development Program.

Internal Audit. In the Fiscal Year 1956 the Army Audit Agency provided comprehensive audit service to 223 installations in the continental United States out of a total of 440 auditable installations and activities.

During the past two years the Army Audit Agency has developed the "vertical" approach in its audit of the Army. This entails selecting for an audit a representative number of installations which contribute to the accomplishment of a funded commodity program or a command within a technical service or other staff agency of the Army. By auditing these installations and the technical service headquarters simultaneously, all financial aspects of the entire program or command are covered and a more meaningful over-all operational audit report can be prepared.

The "vertical" approach is being extended to cover the Army's operations overseas. When the Army Audit Agency has staffed its overseas regions sufficiently (the responsibility for auditing overseas was assumed during 1955), it will accomplish audits of the Army's funded commodity or command programs on a world-wide basis.

Proposed New Military Pay System. The Department of the Army is conducting a field test of a proposed new Military Pay System. The test covering approximately 50,000 troops is being conducted at eight selected installations.

The principal feature of the proposed military pay system being tested is the individual military pay voucher which is prepared monthly. This voucher is prepared in the unit personnel office to show basic entitlement information and then is computed and paid by the Finance Office. The original copy of the voucher is sent through accounting channels to the Finance Center, U.S. Army where the allotment reconciliation, postaudit, budgetary analysis and filing functions are accomplished. A copy of the military pay voucher showing a detailed statement of earnings and deductions is furnished each service member at the time he is paid.

Under the present military pay record system, financial data concerning each service member is maintained on a six months cumulative record. Each payday the record is computed and only the net amount due together with the service member's name and serial number is transcribed onto a multi-name money list. The money list is the document on which the service member is paid. At the end of each semi-annual period the record is closed and forwarded to the Finance Center,

U.S. Army where the detailed accounting, allotment reconciliation, budgetary analysis and filing functions are performed.

The proposed pay system is designed to provide flexibility in operation and to overcome the major weaknesses of the current system which include: lack of pay status information to the payee, large numbers of personnel required in field finance offices, large amounts of equipment and records required in field finance offices, difficulty in paying casualties or transient personnel, and substantial delays in accounting for the appropriated funds involved. A comprehensive evaluation of the proposed system is to be made during 1957 prior to final decision on the adoption of the proposed system.

Department of the Army - Corps of Engineers, Civil Functions

Revisions were made within the appropriation structures to assure clearer presentation of the civil works program to the Bureau of the Budget and the Congress. The elimination of one of the intermediate schedules previously required for budget presentation substantially relieved the workload.

Cost-type budgets for the Civil Functions Construction, General and Flood Control, Mississippi River and Tributaries appropriations were prepared for Fiscal Year 1958.

A manual, "Accounts and Procedures, Office, Chief of Engineers, Civil Funds," was issued. The headquarters records provided in this manual facilitate over-all control by the Chief of Engineers of the funds appropriated, apportioned and allotted in support of the Corps' civil works functions.

Department of the Navy

Comptroller Organization and Training. Continued emphasis and acceptance of comptroller and comptroller type organizations for financial management have resulted in the establishment of 54 additional activities, bringing to 146 the total of such fiscal organizations in the Navy as of June 30, 1956. Included in the increase is the establishment of comptroller organizations at ten major field installations of the Marine Corps.

In consonance with the expansion of comptroller organizations, increased emphasis has been placed on personnel training in this area. Seven two-week classes in Navy Comptrollership were attended by 310 civilians and officers. The fifth class of the Navy Graduate Comptrollership Program, conducted by George Washington University over the

academic year for 22 Naval and 6 Marine Corps Officers was concluded and the sixth class begun. Twenty-five junior auditors participated in a 26 week training class conducted under the Department of Defense auditor training programs. The Bureau of Ordnance has established a formal training and development program in the financial management area. In addition, Industrial Fund seminars were conducted by the Bureau of Ordnance and the Bureau of Ships for key personnel of their respective stations financed under the Navy Industrial Fund.

Industrial Fund. One additional activity was converted to revolving fund financing and commercial-type accounting during the year, making a total of twenty-two major activities, including the Defense Printing Service, and the Navy Printing Service, operating under the Navy Industrial Fund with an annual volume of approximately $1.358 billion.

With the experience gained in operations under the Fund, improvements in financial management were stressed during the year. The accounting handbook for ordnance plants was revised to provide improved budgetary controls and to permit management to relate quarterly operating budgets to appropriation budgets and to the annual budget submissions. The accounting handbook for the Military Sea Transportation Service was also revised to provide improved reporting and other procedures. Previously all Naval Shipyards and the Naval Gun Factory had been authorized to bill customers at a predetermined fixed price for jobs estimated to cost $5,000 or less. This limitation has now been increased to $50,000. The use of predetermined fixed price billings has served to simplify financing and billing procedures and to highlight the need for accurate cost estimating.

The establishment of programs for review and analysis of financial reports and operating budgets at activity and bureau levels has resulted in more effective management of activities by providing officials at all levels with analyses of data enabling them to measure performance effectiveness. The study initiated last year at the Charleston Naval Shipyard by the Comptroller of the Navy and the Bureau of Ships with respect to standard costs, production controls, and related areas for eventual application at all shipyards, has resulted in improved management procedures. The procedures are currently being further tested and evaluated at Charleston.

The major savings resulting from increased cost consciousness and improved management as a result of improvement in financial management practices generally are not susceptible of translation into dollars and cents. However, certain improvements made at various activities can be measured on a monetary basis. Examples of such savings follow:

1. The Defense Printing Service revised its method of distribution for bulk printed material and discontinued parcel post shipments in favor of consolidated freight shipments with estimated annual savings of $40,000.

2. The Naval Ordnance Plant at York, Pennsylvania, consolidation of inventories previously carried in three separate accounts into a single account resulted in an estimated annual saving of four man-years. In addition, the improved control of material resulted in credits to job orders of $75,000 for returned material and credits of $42,000 to manufacturing expense for excess materials which represented direct savings to customers of the plant. At the same activity, the utilization of electrical accounting machines (EAM) for the controlled maintenance program produced savings of approximately two man-years of clerical labor.

3. The Naval Gun Factory adopted EAM procedures for payroll computations, timekeeping, and maintenance of subsidiary ledgers with resultant savings of approximately $36,000 annually.

4. At the Puget Sound Naval Shipyard, a proposed expense item of $60,000 for maintenance of shipyard service craft led to a study of such craft and resulted in the declaration as excess of one tug and several barges and the recovery of approximately $10,000 annually for nonshipyard service craft usage.

5. At the Long Beach Naval Shipyard, an internal review of inventories resulted in a reduction of approximately $307,000 in shop stores insurance items.

6. A shop stores inventory purification program at the San Francisco Naval Shipyard, effected a reduction of approximately $386,000 in these inventories.

7. The Pearl Harbor Naval Shipyard realized savings of approximately $25,000 annually from the elimination of duplicate records, and approximately $314,000 annually through the abolition of seventy-four supply department positions by transferring 40,000 items formerly stocked at the Shipyard to the Supply Center. At the same activity, a "Value Engineering Program" was established to promote more

economical work methods and an interchange with other governmental and private industrial activities of new industrial techniques and technological advancements. During the months of March and April reports of the program indicated approved savings of $240,000 and potential savings of $120,000 pending approval.

8. At the Philadelphia Naval Shipyard the emphasis on economy and cost control led to studies which resulted in the use of sludge oil for heating instead of heating oil with annual savings of $10,000. Internal audits at the same activity resulted in the recovery and placing under accounting control material valued at more than $300,000 which was previously unaccounted for, with an additional $100,000 in process of recovery in the public works area. Also, excess material valued at $61,000 was disposed of.

Stock Funds. During the year, five additional classes of material approximating $800 million were included in the Navy Stock Fund. This addition increases the capital of the Navy and Marine Corps to approximately $2.5 billion with annual sales approximating $1.1 billion.

Budgeting. Budgeting procedures were revised and the annual process of budget formulation, preparation, presentation, review and revision was placed on a firm schedule designed to provide adequate time for handling each phase. The schedule was partially implemented for the FY 1958 estimates and will be fully implemented for the FY 1959 estimates.

Procedures for development of the Bureau of Ordnance portion of the Research and Development budget have been simplified through the use of multilith masters. It is anticipated that the new procedures will save considerable clerical time through the elimination of retyping and preparation of revised work sheets as the budget is changed in the review process.

Hospital Accounting. The installation of a new system of financial management has been completed in all naval hospitals. The system includes a revised accounting system which integrates the accounting for payroll, stores, allotments, property, and costs.

Military Construction. An integrated financial management system for programing, budgeting, accounting and reporting is being developed for military construction. The accounting and reporting portions of the system have been tested at two activities and approved for world-wide installation at all Public Works District and Area Offices. The approved

portion of the system has now been installed in six of the twenty-two Bureau of Yards and Docks activities where it will be installed ultimately.

Accounting Afloat. Revised procedures have been adopted for accounting afloat in order to effect maximum utilization of available funds and to reduce to a minimum the accounting required aboard ships of the fleet. Individual suballotments to ships have been eliminated. Ships accounting divisions have been established at Norfolk and Oakland to perform allotment accounting for all allotments issued by fleet commanders for the operation of forces afloat.

A plan also has been developed for performing allotment accounting for Fleet Marine Forces at division or wing headquarters, thus eliminating much of the paper work from basic combat units. The system is integrated with supply procedures and control is exercised through cost limitations imposed on subordinate echelons.

Plant Account. Marine Corps Orders have been issued directing the commencement of accounting for plant property of the Corps in accordance with regular Navy procedures, and to establish ledger accounts for financial control of property in use by reserve activities.

The Bureau of Medicine and Surgery has adopted revised property accounting procedures which eliminate records that duplicate information already contained in plant property cards.

Military Pay. An "Error Detection and Reduction Program" was established to reduce the number of military pay errors. The analysis of erroneous payments detected through examinations performed on the basis of scientific sampling highlighted the major problem areas which required attention. Corrective action applied in these areas has resulted in a significant decrease in erroneous payments as evidenced by the reduction in Notices of Exception issued by the General Accounting Office. During the first ten months of fiscal year 1956, 12,223 notices totaling $979,940 were issued as compared with 22,224 totaling $1,784,051 issued during the comparable period in fiscal year 1955.

Contractor Held Property. The system of accounting for Navy property in possession of private contractors has been revised to strengthen financial control and accountability over such property. The "custody receipt basis" of loaning Navy property to contractors has been eliminated. The revised system requires that:

1. No property will be furnished to contractors unless specifically authorized by the contract.

2. Property furnished to contractors will be reflected in the Navy property accounts.

3. A record of property furnished be given to the contractor and reflected in his records.

Funding. Financing of cross-servicing orders between the Navy and other military departments has been simplified. Such orders will be financed initially by the receiving department on a reimbursable basis, thus reducing the number of accounts to be maintained, simplifying the procurement and supply processes, and reducing the workload incident to cross-disbursing. The reimbursable principle has also been applied in connection with the new system installed in the military construction area for transactions involving the procurement of technical collateral material for the Bureau of Yards and Docks by other Bureaus.

Procedures were revised to effect a closer alignment of financial responsibilities with management control. A new instruction requires the management bureaus to initially finance for medical and dental activities located at field activities, maintenance and operating expenses, including all costs except those for technical equipment meeting the criteria of plant account, and the cost of military personnel. Another new instruction requires activities furnishing support to tenants or joint-users to bear the financial responsibility for such support where practical. The tenant or joint-user will be charged only for additional indentifiable expenses provided the allocation can be made without unreasonable expense or difficulty.

In implementation of Public Law 863, 84th Congress, the Secretary of the Navy has issued an instruction prohibiting grantors of allotments from issuing more than one allotment to an allottee from a single budget activity.

Reporting. A new quarterly publication, "Inventory Control Operations at Supply Distribution Activities" was established to provide supply managers and interested offices with inventory data for each type of material and detailed operating statistics. It is anticipated that this data will contribute to the evaluation of supply system effectiveness and promote action toward improvement of inventory control procedures. Inventory Control reporting has been extended to include coverage of major naval air stations.

The Bureau of Ships has revised the management reporting system for shipbuilding and conversion programs for 1953 and subsequent years. The revised system is intended to furnish a comparison of planned estimates with actual obligations to provide a basis for analysis of progress and better control of programs. Also, the revised system will provide the basis for making necessary adjustments in financial plans and will generate consistent historical data for future estimating. The Bureau is also engaged in standardization and clarification of monthly management reports on ship repairs, alterations, activations, and inactivations to provide the Bureau and Fleet Commanders with comparable financial data from all repair activities.

The Bureau of Ordnance has installed an integrated financial, production control and management reporting system at the Naval Ordnance Plant, Macon, Georgia, in connection with the Bureau's continuing program for Production Management Improvement. At present, three other stations are actively engaged in this program.

Internal Audit. Continued expansion and improvement of the internal audit program of the Navy in accordance with Title IV of the National Security Act Amendments of 1949 and policies of the Comptroller of the Navy was noted in the past year. A total of 112 internal audits were completed in the fiscal year compared with 77 in the prior year. Also, 21 limited examinations and 19 special audits were conducted. Audit work was accomplished on contracts amounting to $7.1 billion during the fiscal year as contrasted with $5.7 billion during the previous year. The program for audit of disbursing activities afloat and ashore was accelerated during the year. The scope of internal audit was expanded with the assumption of responsibility for audit of the 269 Navy rental housing projects.

The major result of the audit program is the improvement in financial management practices noted at major activities visited a second time. Monetary savings resulting from internal and contract audits were also noted as indicated by these examples:

1. Savings in the cost of Government procurement were estimated at $166.4 million in fiscal year 1956, consisting largely of cost disallowances, reduction of prices due to audit reports submitted to contracting officers, and amounts recommended for exclusion under termination settlement proposals.

2. An estimated $50,000 saving was realized in the year subsequent to an internal audit at one activity as the result of elimination of nonessential positions.

3. Another activity realized savings of $25,000 annually by implementing a recommendation to discontinue a superfluous officers' mess.

4. A Navy-wide review of records maintained by allotment administrators based on audit findings and recommendations resulted in the elimination of duplicate and unnecessary records at an estimated annual saving of 30,000 man-days or $400,000.

5. As the result of an audit, one activity reduced its stock fund inventory by $2.8 million in the six months subsequent to the audit.

6. At another activity disposition of excess stocks in the amount of $600,000 was instituted.

A new program of continuous internal audits at departmental and field activities has been adopted by the Comptroller of the Navy. The first residencies under this program have been established at Headquarters, Military Sea Transportation Service. Activities where the volume does not warrant the establishment of residencies will continue to be audited periodically by mobile audit teams.

The Bureau of Ordnance has established a regular and continuing program for the management evaluation of major ordnance stations. Under the new program, a management survey and evaluation will be made biennially of each of the 26 major installations under the management control of the Bureau. The surveys will be directed by the Inspector General of the Bureau. Each survey will be conducted by representatives of the Inspector General with the assistance of representatives of other Bureau divisions as required for the particular station being surveyed.

Department of the Air Force

Air Force Regulation. The Air Force published a Regulation (170-6) on the Financial Management System. This regulation prescribed the policies and principles for guidance in modifying or adjusting Comptroller procedures or for developing new procedures to improve Air Force capability of giving financial management service to commands. The basic objectives of the system are to:

1. Provide management with formal, planned, and comprehensive procedures and methods for budgeting, accounting, disbursing, reporting, analyzing, and auditing, with full cognizance of their complementary character as an integral part of total Air Force management.

2. Provide analyzed financial data for use in the preparation and justification of operating budgets, and of estimates submitted to higher authorities, including the Congress; to assist management in making day-to-day decisions and evaluations; to provide the basis for long-term and intermediate planning and programing necessary for effective use of resources; and to facilitate financial reporting and auditing.

3. Provide management with an effective tool in the form of fiscal data, statistical and program data, and analytical services.

4. Provide on a timely basis the financial costs of the resources required by the Air Force, including costs of materials and services consumed, of assets in use, and of resources which must be on hand and available for use to accomplish the Air Force missions; relate these financial data to other data which measures the quality and quantity of mission accomplishments at all echelons; and at the same time provide for compliance with general and specific policies, laws, and regulations.

Organization. Clarification of all functional responsibilities was undertaken during this period with a view toward attaining unity of direction, and simplification of operations to agree with policies, plans and programs. With this in mind, the Directorate of Accounting and the Directorate of Finance, Hq USAF, were consolidated and redesignated as the Directorate of Accounting and Finance, effective 26 July 1956. This change in the Comptroller organization is a result of the survey of functional areas which was started in 1955 and concluded in early 1956. The purpose of this reorganization was to:

1. Provide policies and procedures for accounting, disbursing, and financial reporting without duplication of records, accounts, files and staff effort.

2. Provide policies and procedures for direct correlation of accounting and disbursing to comply more effectively with such laws and regulations as Section 3679, R.S., Section 1311, PL 663, 83rd Congress.

Planning and staff action have been underway since mid-summer 1956 for the orderly reorganization of these two functions and for the realignment and relocation of responsibilities, functions and operations between Hq USAF and the Air Force Finance Center at Denver. To date this action has resulted in a decision to locate, with minor exceptions, the accounting operations and the general accounts of the Air Force at the Finance Center at Denver and retain policy, system, and procedural development responsibility at Hq USAF.

Personnel. A total of 2,605 comptroller personnel participated in formal courses of instruction during fiscal year 1956. In addition, a total of 4,103 airmen were undergoing up-grade or cross training toward a comptroller speciality in the On-the-Job Training Program.

Property Accounting. The Air Force in its Inventory Accounting (Monetary) system adopted a chart of transaction codes designed to produce uniform classification of inventory transactions at both depot and base level. This will facilitate the summarizing, analysis, and reporting of dollar data relating to the conditions and disposition of the Air Force materiel inventory.

Revised accounting and supply procedures for certain low cost items (Category III) were prepared and sent to all major commands. These items involve a high percentage of supply transactions at base level but represent only a small proportion of the value. The revised procedures provide for accounting for such items in a single account without regard to subproperty class and thus will concentrate the workload on those items constituting the major value to the logistics system.

Progress has been made in the development of accounting procedures to control Air Force assets in the possession of contractors. These assets include real property, production equipment and tooling, laboratory and test equipment, Government-furnished aircraft equipment to airframe and other manufacturers, Government-furnished property for new production and for modification, overhaul and repair contracts, and advances, partial and progress payments to contractors. These procedures will be first applied to property held by contractors whose contracts are administered by Air Materiel Command.

A draft of the financial accounting procedures for "Equipment in Use" was completed. The provisions of this system apply to such major categories as unit mission equipment, unit support equipment, flyaway kits, fixed communications - electronics and meteorological facilities. These procedures are designed to produce financial data relating to all equipment in the possession of using organizations.

Military Interdepartmental Purchase Request. Action has been taken to improve Military Interdepartmental Purchase Request accounting as follows:

1. An effective expenditure document control and reconciliation system has been established to assure that all cross disbursements by Army and Navy disbursing offices are recorded by the appropriate Air Force Accounting offices.

2. Improvements have been made in document control to assure the receipt and recording of MIPR obligating documents, shipping orders and other status documents by accounting components, and other affected Air Materiel Command activities.

3. Cross disbursing is being reduced by the screening of new amendments to old contracts to make certain that, whenever practicable, Air Force disbursing officers are designated to pay Air Force bills.

Depot Maintenance Management Improvement Program. The Air Force has been vigorously pursuing a maintenance management improvement program at its depots, a program that has consisted of the introduction of engineered production cost standards, accompanied by plant layout and methods improvement studies, in the major activities relating to the repair of reparable inventory items. This program, developed and tested at the Sacramento Air Materiel Area, was extended to the following depots, with installation completed on 1 July 1956: Middletown AMA, Mobile AMA, Oklahoma AMA, Ogden AMA, San Antonio AMA, San Bernardino AMA, Warner Robbins AMA, Dayton AF Depot, and Rome AF Depot.

The management improvement program has resulted in a consistent improvement in the utilization of resources. The general pattern of productivity has been a reduction from 170 percent to 120 percent of standard in the time required to accomplish materiel maintenance operations, with the trend still headed downward.

Cost Systems. Substantial progress has been made toward completion of a cost system for real property maintenance and operations. The system has had a long period of development and current staff action has been directed toward a careful integration of this cost system within the whole financial accounting system. The account structure has been developed within the DOD general classifications of real property maintenance activities and utility operations. At the same time it is in alignment

with the Air Force budget and expense structure and provides the detailed management data desired by Air Force installation engineers. The result is intended to be a fully integrated budget, accounting, reporting and financial management system designed to satisfy these requirements from base to the DOD level.

Change in Canadian Reimbursable Military Assistance Billing and Collection Procedures. Processing of Canadian Reimbursable Military Assistance cases was decentralized from Headquarters USAF to Headquarters Air Materiel Command. This shift of the function, accompanied by revised procedures, has speeded up billing and collection, reduced clerical effort, and eliminated duplicate accounting records. The change met the approval of the Canadian Government, which simplified their own procedures and established a suboffice of the Canadian Department of Defense Production at Headquarters Air Materiel Command.

Reimbursable Military Assistance Over-The-Counter Sales. A procedure is being established whereby foreign countries authorized to purchase materiel from the USAF can obtain those items "over-the-counter" at designated overseas depots and installations rather than formally requesting approval through Washington offices. The items which may be purchased are those which are normally available "in stock" or "due-in" within 30 days. This sales outlet provides foreign countries with a local source of supply in cases of immediate need. With minor modifications to the existing accounting system, the Air Force will be able to maintain accounting control through a decentralization of reimbursable military assistance accounting to the sales outlets, Major Commands, and Area Control units.

Changes in Standard Prices of Materiel. The Air Force changed its policy with respect to the pricing of (Category III items) items of low cost. Under the revised policy, standard prices of such items will not be changed more frequently than once every two years. In addition, action was taken to preclude the publication of insignificant price changes. It is estimated that this changed policy will eliminate approximately 40,000 pricing actions each year. This will result in substantial reduction in the administrative effort required to process price changes with no significant loss in inventory accuracy.

Revision in Operation and Maintenance Appropriation Structure. During this period, the Air Force developed a proposed budget account structure designed to reflect on an obligation basis the missions or activities which the Air Force performs under the operation and maintenance appropriation. This performance budget structure has the objectives of (1) improving the management capabilities of the Air Force, (2) facilitating the

review processes of OSD, the Bureau of the Budget, and the Congress, (3) making more readily understandable and effective the computation and substantiation of budget estimates, and (4) facilitating budget administration directly in consonance with and responsible to the assignment of functional responsibilities.

This account structure is being studied by the Office of Secretary of Defense and the Bureau of the Budget.

The proposed Operation and Maintenance Appropriation structure has the following major objectives:

1. Under the principles of responsibility accounting and budgeting, the structure should be aligned in consonance with the assignment of functional responsibilities within the Air Force.

2. By providing a distinct segregation between mission and mission support activities, and by grouping homogeneous functions under each, the structure should depict clearly the total picture of the Air Force operations and of each component thereof.

3. The structure should identify like functions regardless of where performed within the Air Force, thus establishing a broad basis for the development of work measurement and standard cost factors for application to each activity for purposes of both budget justification and evaluation of operations.

4. The structure should be fully compatible with, and an integral part of, the Air Force Financial Management System, including the cost account classifications being developed. An additional objective of the OSD is that the structure should be consistent with similar account structure established for the Department of the Army so far as the missions are comparable.

Policy on Budget Authorizations, Allocations and Allotments. The Department of the Air Force on 18 May 1956, issued to all major commands a policy letter that details by all sources the level at which budget authorizations, allocations and allotments will be issued by respective command echelons. The policy, effective 1 July 1956, provides that:

1. Budget authorizations be issued at the highest practicable level within an appropriation, consistent with the requirements of Air Force management and limitations imposed by the Legislative and Executive Branches of the Federal Government.

2. Allocations and allotments (including suballocations and suballotments) be issued at the appropriation level by all echelons.

3. Receiving commands and agencies issue budget authorizations and allocations at the same level as those received.

4. Recipients place no additional restrictions or limitations on budget authorizations or funding documents issued to subordinated echelons beyond these reflected on budget authorizations received.

After issuance of original budget authorizations and allotments to an allottee under a particular appropriation, budget program or project for a Fiscal or Program year, any subsequent budget authorization or allotments to that allottee was directed to be additive to the original authorizations or allotment. The issuance of such changes to the budget authorization or allotment as separate and distinct authorizations or allotments was not authorized.

Budgeting and Funding for Special Activities. The Air Force policy in budgeting and funding for special activities was revised on 10 February 1956, to be effective commencing with fiscal year 1957. It provides for consistency in the development of budget area funding procedures in a manner that the Air Force programs and accomplishes the respective elements of its mission. The revised policy prescribes:

1. A more positive delineation of responsibility under the "host-tenant" relationship.

2. Eliminates dependency upon the financial capability of the host for providing local purchase type items for special activities of other commands.

3. That the parent command will also furnish fund support for local purchase material provided to its special activity by the host installation.

Estimates of Aviation Fuel and Oil Requirements. On 6 September 1956, the Air Force Manual of Budget Administration was amended to incorporate new standard forms which were developed and established for the submission of aviation fuel and oil fund requirements by operating agencies in revisions to their annual financial plans. These forms provide a uniform basis for presentation of all flying hour program data, fuel consumption factors, and standard stock fund prices. The benefits to be derived are as follows:

1. The computations underlying the operating agency revisions to annual financial plans will be more accurate and complete.

2. The Air Staff will be provided with a more uniform and complete basis for review of command fund requirements because of the improved identification of the factors of computation utilized.

3. It will provide comparability between operating agency submissions of budget estimates and financial plans and revisions to the operating financial plans.

Agreement on Cross-Feeding of Air Force and Navy Personnel. An agreement has been developed with Department of the Navy to simplify procedures for cross-feeding of Air Force and Navy personnel and became effective 1 July 1956. The object of this agreement was to minimize the billings and reimbursement procedures incident to the furnishings of meals by one service to another for personnel authorized subsistence in kind. Heretofore, reimbursement by processing of a Standard Form (SF 1080) had been effected although only one or a small number of meals were involved. The new arrangement provides: (1) that personnel in an official travel status and authorized subsistence in kind will be fed on a common-service basis; and (2) that personnel in an assigned, attached, or tenant status and authorized subsistence in kind will be fed on a common-service basis and reimbursement effected only when the accumulated cost of meals furnished is $100 or more. The agreement is not applicable to medical-operated food service facilities or to MSTS vessels.

Air Force/Navy Joint Utilization Policy Agreement. The Air Force has developed with the Department of the Navy an agreement to standardize and clarify joint policies and procedures for the utilization of facilities of one service by units or forces of another. The objective of this agreement is to provide field commanders with common basic policy for the development of local operating agreements.

Budget and funding responsibilities have been one of the foremost obstacles encountered in implementing the desires of Congress and the policies of the Department of Defense for more effective and efficient joint utilization of facilities. Due to the lack of a policy agreement, the Navy and Air Staffs have spent many hours negotiating and approving local agreements which could have been readily completed by field commanders. The establishment of unified commands, the joint nature of modern operations, and the interdependence of Army, Navy and Air Force units have accented the need for departmental level agreement on basic policy and procedures.

The agreement recently formulated with the Navy staff will clarify for field commanders the basic responsibilities incumbent upon each service for joint use or occupancy of facilities. It will facilitate negotiations at the operating level, reduce interdepartmental invoicing procedures, and provide a more uniform basis for budget and funding actions.

USAF Construction Program. During this period positive action was taken by the Air Force to improve the method of programing and financing the acquisition and construction of facilities at Air Force locations. This management improvement was accomplished by consolidating into one, all programing and funding documents for each location. The new procedures provide greater flexibility and better utilization of funds for required construction in addition to reducing the associated administrative workload.

Prior to the consolidation, Military Construction Programs were directed to construction agents on separate documents based upon specific authorization laws. This sometimes resulted in the issuance of as many as five separate documents to a construction agent on a given Air Force Base as authorization for Air Force construction has been passed by the Congress in increments. On this basis the establishment and maintenance of individual fiscal accounts were required and construction agents were restricted to the amount shown on each individual document. Under the new method, only one fiscal account is established and funds available to the construction agent may be utilized for any approved construction.

General Supplies Division of the Air Force Stock Fund. The General Supplies Division, which includes selected common-use items of general supplies, of the Air Force Stock Fund was expanded to include base support stocks at all Zone of Interior depots. Starting 1 July 1956, all FEAF and USAFE overseas depot stocks of items within the General Supplies Division was directed to be capitalized. By 30 June 1957, the stock fund will include all depot stocks world-wide of items in the General Supplies Division. This Division was activated 1 July 1955.

During the first eighteen months of operation of this stock fund division inventories in excess of $32,000,000 was converted into cash which can be used either to expand the operations of this stock fund division or to provide working capital for stock fund operations in other areas. At present, approximately 70,000 items in 126 Air Force and Federal Supply classes are included in the stock fund operation.

Financial Analysis of Stock Funds. Financial analyses of several divisions of the Air Force Stock Fund were undertaken during this period. These analyses highlighted operational trends, accomplishments and deficiencies pointing up areas for management consideration and action, including items such as sales lags, shortage of storage capacity, and the impact of military construction on fuel requirements. Action was initiated to include this type of financial analysis in the USAF Summary Control Statements for consideration by top management.

Flexibility Authorization in all Divisions of the Air Force Stock Fund. The FY 1957 apportionment, as well as the approved financial plan, included a flexibility authorization in all divisions of the Air Force Stock Fund, except the Air Force Academy Division. Prior to FY 1957, the Air Force had secured approval of the flexibility factor for the Aviation Fuels Division only. The flexibility factor is to provide the additional funds essential for proper fund administration where (1) procurements are effected by numerous locations through means of call contracts, and (2) fund authorizations are required to be distributed to numerous locations.

Conversion from quarterly to semiannual buying cycle for clothing and textile materiel. Provision was made in the FY 1957 apportionment for a semiannual in lieu of a quarterly buying cycle for clothing and textile materiel. It is anticipated that this change in the buying policy will result in (1) securing more reliable sources, thereby, improving the quality of clothing received from contractors, (2) greater flexibility in adjusting actual procurement to meet changing requirements, and (3) savings from an administrative standpoint as well as on the cost of the end item.

Reimbursement Between Army and Air Force for Stock Fund Issues. Improved procedures relating to reimbursement between the Army and the Air Force for stock fund issues were adopted, effective with fiscal year 1956 transactions.

These procedures authorize payment when the furnishing agency certifies that the materiel was delivered to a military or common carrier for delivery to the requisitioning agency. These changed procedures speed reimbursement and reduce workload.

Management Fund. The Assistant Secretary of Defense (Comptroller) approved, as of 1 July 1956, the charter for Air Force Management Fund Account No. 9, the "Central Federal Catalog Office." The purpose of this account is to provide on a continuing basis the means for budgeting, financing, and accounting for those expenses associated with the "Central Federal Catalog Office." The Assistant Secretary of Defense (Supply & Logistics) is responsible for the direction, control, and centralized operation of the program. The administrative service support will be performed under the supervision of the Secretary of the Air Force as an administrative agent for the Secretary of Defense. The Department of the Army, Navy, and Air Force will participate in the financing of the program on an equal basis during FY 1957 and until such time as the Assistant Secretary of Defense (Comptroller) shall determine a different basis of financing this program.

Audit Programs. Preparation of programs for audits of the many activities at Air Force installations heretofore have been the responsibility of the Resident Auditor at the installation level. The Auditor General is now compiling centrally prepared audit programs to obtain greater uniformity of audit action. Centrally prepared programs will serve as an effective training guide; will conserve the time of resident auditors and supervisory audit staff; greater uniformity of audit working papers and installation audit reports will be of commensurable assistance in the preparation of summary audit reports for major commanders and Air Force Headquarters.

Further activity was undertaken during this period for extending the internal audit program by surveys of internal control procedures. A major project in this area, initiated and completed during this period was concerned with the adequacy of control procedures over Government property which has been returned to contractors for evaluation and suggested improvement of various unsatisfactory features. As a result of this survey, new control procedures have been recommended, which will assure that the interest of the Air Force in the return of this property is fully protected and that the requirements of the Armed Forces Procurement Instructions are satisfied.

Evaluation of Contractor Pricing. A major undertaking completed during this period was the evaluation of the methods employed by contractors in pricing spare parts, the reasonableness of the prices, and of their review by Air Force Contracting Officers and Cost Analysts. This survey was designed to improve the quality of spare parts pricing.

Audit Assistance in Cost Forecasting. The Auditor General has under study a joint program with Headquarters AMC whereby estimated future costs supporting contractors' price proposals will be evaluated by an

audit representative in the light of the contractors' past experience and other known factors existing at the time of evaluation. It is anticipated that the entrance into this area by auditors having a thorough knowledge of the contractors' past cost experience will aid in the conservation of Air Force resources by pointing out to procurement officials those instances in which dubious cost forecasting is used to support proposals for prices to be paid by the Air Force.

Examination of Food Service Activities. A special examination of Air Force food service operations was completed during this period. The recommendations made as a result of this examination have led to a simplification of operating regulations and procedures which will facilitate increased control and economy of operations in the food service system.

Internal Audit of Finance Operations. In March 1955, an internal audit system was established at the Air Force Finance Center to provide information relative to the quality of work produced at finance offices to permit all echelons to take appropriate action in improving the efficiency of finance operations. Audits conducted at the Air Force Finance Center indicate the relative degree of compliance with procedures and regulations at all finance offices throughout the Air Force. Information furnished from the audits to major commands and appropriate offices indicate corrective action that is necessary.

Responsibility for Evaluation of Contractor's Accounting System. One of the important determinations to be made in preaward survey is the adequacy of the contractor's accounting system. The Auditor General has a staff well qualified to perform this phase of the preaward survey. Air Force directives are being revised to provide that the determination of the adequacy of a contractor's accounting system be the responsibility of the Auditor General.

Internal Audit Approach Changed. The internal audit approach was modified in order to provide better audit coverage within existing capabilities. In the implementation stages of the Air Force accounting system, it was considered desirable to audit the system by account groupings rather than as a complete entity. Developments to date permit the internal audit approach to be modified to audit the accounting system as an activity. This will require less time and fewer formal reports, yet will provide command officials with necessary management information concerning the system as an entity. In the implementation stages of the Air Force Accounting System it was considered desirable to focus audit effort on the accounting system, at the same time placing emphasis in activity audits on the financial data contributed to the accounting system.

Formal reports of audit were issued periodically on various general ledger groups of accounts. This approach served to accomplish two objectives:

1. To encourage and assist operating personnel to install the new accounting system effectively and promptly.

2. It served to indoctrinate thoroughly audit personnel in the operation of the system.

Since this approach required additional audit time to be expended in connection with the accounting system, less time was available to accomplish internal audit within the various operating activities wherein materiel and manpower actually were used. Because of the progress made to date in implementing the accounting system, and the need for reemphasizing the internal audit of operating activities, it was considered desirable to modify the audit approach. The Base Accounting System will now receive a complete audit; however, it will be audited as an entity rather than by account groupings. The audit approach is such that the accounting system will be given adequate coverage and more time will be available for auditing the contributing activities. The present approach is such that it provides for interim audits of the Base Accounting System as well as an annual formal report as of 30 June.

It has been the consistent practice of the Auditor General to devote special audit attention Air Force-wide to new or materially revised applications of Air Force financial management techniques. This practice has proven to be of considerable benefit in achieving prompt and effective implementations throughout the Air Force. In the past, special attention has been devoted to compliance with Section 1311 on prerequisites for recording and certifying obligations, the Air Force vehicle reporting system, and the older divisions of the stock and industrial funds. During this reporting period additional accomplishments were made by extending this special attention to the new General Supplies and Commissary Divisions of the Stock Fund, the Laundry and Dry Cleaning Division of the Industrial Fund, and the Hi-Valu (Inventory) Item Control Program.

Reports on Appropriations. A special project was initiated during the winter of calendar year 1956, to review, revise and consolidate the reporting requirements for reports on appropriations. The project on completion (1) evaluated all appropriation reports currently received by the departmental comptroller activities and reports prepared by them; (2) appraised the source data including feeder-type reports and reporting

systems; (3) determined possible overlap between reports which could be eliminated by consolidation of reports; (4) reduced the detail contained in current reports; and (5) eliminated those reports no longer required.

Development of New Military Construction Progress Report. After being tested for six months in the South Pacific Division, Corps of Engineers, a new Military Construction Status Report was implemented on 31 May 1956. The new reporting system calls for a monthly report of the construction status of each line item in the current Air Force Military Construction Program. Under the new system reports of month-end status in terms of percent of completion are prepared by the actual construction agents and are forwarded to Headquarters USAF. In areas where the Corps of Engineers are the construction agents, Programatic Flexowriters are used in the maintenance of construction records and the preparation of the new reports. Tapes containing the month-end status of each construction project are forwarded from the Engineer District responsible for the construction directly to the Office of the Chief of Engineers, Washington, D.C. where these tapes are converted mechanically to punch cards, and in turn delivered to the Air Force.

The new report is designed specifically for machine analysis of the great volume of construction data. By mechanically comparing a current report with previous reports, slippages in programed actions can be emphasized in order to allow immediate corrective action to be taken. The new system will provide better data and at a much earlier date than was possible under the old system. In addition, five recurring reports have been eliminated as a result of this system.

Progress Report on Foreign Military Assistance Program. This new report is prepared semiannually to include total estimated cost and estimated progress on the part of both the United States and each foreign Government concerned for each project financed with USAF MDAP funds, earmarked for the subject program. This program relates to the expansion, conversion or modernization of manufacturing facilities, maintenance shops, storage, and similar facilities for military equipment and/or components thereof for countries receiving MDAP grant aid. In addition to cost data, the report reflects information on facility capacities and time schedules on estimated completion and utilization of each facility covered.

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

Office of the Secretary

Development of Manuals. Progress can be reported on the development of several manuals for department-wide use. A system of department committees is being utilized to compile and review these manuals. Manuals covering Travel, Administrative Audit, and Administrative Accounting are in various stages of completion and when issued should contribute materially to improved department procedures.

Improvements in Accounting Operations Branch. A manpower utilization study of the Accounting Operations Branch, which was completed during the year, resulted in more efficient and economical operations by: (1) elimination of duplications in records and accounts; (2) improvement of allotting and reporting procedures; (3) adoption of conventional type journals permitting summary postings; (4) reduction in amount of verification of extensions on supply requisitions; (5) establishment of a subsidiary accounts receivable ledger; (6) streamlining of accounting procedures for funds transferred from the International Cooperation Administration and the Federal Civil Defense Administration; and (7) improvement in payroll processes. Recurring annual savings from these improvements will approximate $17,000.

Public Health Service

Simplification of Billing and Collecting Procedures. Effective July 1, 1956, a new system for billing and collecting receivables was placed in operation in 13 Public Health Service hospitals. The new system provides for the simultaneous preparation, by carbon process, of the patient's bill, accounts receivable ledger, and register of transactions. This procedure has resulted in the elimination of the time of one employee at several of the hospitals.

Other Accounting Improvements and Simplifications. Other accounting improvements and simplifications were effected during the calendar year as follows: (1) general ledger reports were modified and simplified to provide self-balancing features; (2) allotment accounting procedures pertaining to Indian Health Activities were modified to improve control, furnish management with increased useful information, and facilitate the preparation of monthly reports; and (3) a procedure was initiated for using one obligating document a month in the procurement of publications for the National Library of Medicine instead of several hundred individual obligating documents previously used.

Bureau of Old-Age and Survivors Insurance

Combining Benefits Payable to a Husband and Wife Into One Check. Under Title II of the Social Security Act there are approximately 1-1/4 million wives and husbands entitled to benefits on the wage record of their spouses. Separate monthly benefit checks were previously issued to a husband and wife where one was entitled to old-age insurance benefits and the other to wife's or dependent husband's insurance benefits. Procedure was initiated during September 1956 whereby these benefit payments to husbands and wives were combined into one check with respect to new awards, reinstatements, and recertifications. A mass conversion of benefit payments to husbands and wives already on the rolls to a combined check may be made at a future date, after experience with the cases currently being processed.

Simplified Method of Completing Subsequent Award Forms. Revised procedures for the preparation of subsequent award records, approved by the Comptroller General, were installed in August 1956. Since the inception of monthly benefit payments under Title II of the Social Security Act, procedures provided for repeating detailed entitlement and computation data of prior awards in instances where subsequent award action was taken to certify payment to an individual whose entitlement was dependent on the prior entitlement of another beneficiary. The new procedure eliminates the necessity of repeating on the subsequent award actions the total earnings, starting date, disability period excluded, years dropped, increments, and divisor. The savings resulting from this procedural change cannot be measured accurately until the system has been functioning for a longer period of time. However, it is estimated that the simplified method will apply to 1 million out of 2-1/2 million claims in 1957.

Improved Procedure for Certifying Earnings for Disability Claims. A revised form for certifying earnings for disability claims, prepared in part mechanically, replaced a previous form prepared manually. Use of the new procedure will substantially reduce the manual transcription required and eliminate, in a substantial number of cases, clerical efforts in determining total earnings before and after the alleged quarter of onset of disability. The new procedure will save an estimated amount of $62,000 annually.

Removal from Flexoline File of Accounts for Individuals Age 72 and Over. The Bureau maintains a National Employee Index of all established accounts on flexoline strips in Soundex code sequence. A detailed study during the year showed that because of infrequent reference, it would be practical to remove from the file 8,000,000 accounts of individuals age 72

and over, and to microfilm these accounts as a supplement to the main file. Immediate savings of $147,000 resulted because additional flexoline panels and stands which otherwise would have been required were not purchased. The annual recurring savings for subsequent years are estimated at $28,000.

Elimination of Screening of Applications from Individuals Age 16 and Under. In the past all requests for new account numbers were screened against the Bureau's record of established account numbers to minimize the possibility of maintaining more than one account number for an individual. This screening has been discontinued where the applicant is age 16 or under and in his application stated that no previous account number had been assigned. The Bureau's experience in screening this age group was not productive in locating previously assigned numbers. The estimated annual savings are $27,000. The savings are based on an anticipated 23 percent reduction in the workload of applications screened and takes into consideration the maintenance costs of the small number of additional multiple accounts which may be expected to result from the revised procedure.

Elimination of the Use of Employer's Name in Employer Report Cards. The punching of the employer's name into the employer report card and subsequent gang-punching into employees' earnings cards have been eliminated. The employer's number will continue to be punched and gang-punched, as in the past. This revision in procedure was practicable because there is substantially less correspondence directed to employers regarding incorrectly or incompletely reported cases due to the improved techniques adaptable to newly installed electronic data processing equipment. The estimated annual savings are $21,000.

Miscellaneous Procedural Improvements. There were miscellaneous procedural improvements during the year in connection with the maintenance of wage records which resulted in savings of approximately $45,000 annually. These improvements included such items as: (1) the development of an improved abstract of earnings which eliminated the necessity of reference to more detailed microfilmed earning records in a substantial number of cases; (2) the use of reproduced forms in replying to certain types of requests for statements of earnings, which eliminated the need for preparing approximately 5,000 dictated letters annually; (3) the development of an improved request for earning records for use in processing disability claims, which provided check-boxes to eliminate the necessity for manual transcription of certain data; and (4) the coordination of a change in procedure with the Internal Revenue Service which permitted the Bureau's use of Internal Revenue Service block numbers on most single-page employee reports, thereby eliminating the requirement of assigning duplicate block numbers for Bureau operations.

DEPARTMENT OF THE INTERIOR

The Department continued active participation in the Joint Accounting Improvement Program during 1956 to revise and perfect accounting systems and related financial processes in its principal bureaus and other operational units.

Accounting. This year a survey team comprised of representatives of the Department, the General Accounting Office, and the Bureau of Mines completed a review of the latter's accounting system with the objective of determining need for improved financial reporting. A survey report of findings and recommendations has been submitted for consideration.

A modern accounting system has been installed in the National Park Service and the accounting manual for this system is being prepared for submission to the Comptroller General.

The Alaska Railroad has submitted a manual of its revised accounting system to the Comptroller General for approval as to the accounting principles and standards on which the system is based.

Budgeting. Cost-type schedules are being submitted to the Bureau of the Budget for inclusion in the President's 1958 Budget for the Bureau of Reclamation, Bonneville Power Administration and the Bureau of Indian Affairs. The 1958 budgets for the Southeastern Power Administration and the Southwestern Power Administration are being submitted to the Bureau of Budget on both the obligations basis and the cost-type basis.

The Department has obtained approval from the Bureau of the Budget for modifications in the budget structures of the Bureau of Mines and Geological Survey. These modifications involve revisions in budget activity classifications.

A survey of the budget structure of the National Park Service was initiated during the current year. A survey has also been initiated to study the budget structures of the Bureau of Commercial Fisheries and the Bureau of Sports Fisheries and Wildlife. These two agencies were created by Public Law 1024, 84th Congress, and are presently in the process of organization.

DEPARTMENT OF JUSTICE

Departmental Administrative and Legal Activities

During the year the number of allotment accounts were reduced from 138 to 116 accounts.

A new procedure for recording and disposing of monies received by the United States Attorneys in payment of claims on behalf of various government agencies has been developed and placed in operation, resulting in a savings of approximately seven man-years.

Standardization of legal forms used by United States Attorneys and Marshals resulted in the elimination of 92 separate forms through consolidation.

Personal property accounts were established in the general ledger as of June 30, 1956.

Steps have been taken to provide more careful screening of requests for expedited payments by the Treasury Department which has resulted in a reduction in the number of schedules requiring such special handling.

Bureau of Prisons

Improvements in fiscal management procedures included; (1) conversion to the simplified payroll system; (2) standardization of stock number designations; (3) the completion of codification of accounting regulations; and (4) formalizing procedures for field reports to support budget estimates, budgeting and planning at operational levels, and installing field internal audit programs.

Comprehensive field audits and inspections were completed at all institutions within a year, emphasizing improvements in management practices at the operating level.

The fund and cost accounting regulations for "Buildings and Facilities" have been revised to conform to the accounting structure established for activities under appropriation accounts.

Federal Bureau of Investigation

Work incident to District of Columbia income tax was absorbed without necessity of increasing personnel and with very little additional work.

This was possible because of inauguration of a mechanized payroll (previously reported) during calendar year 1955. Under the manual payroll system considerable additional expense would have been involved.

General ledger accounts were set up on personal property as of June 30, 1956.

It has been possible to reduce the number of "special" schedules sent to the Treasury Disbursing Office from 18 percent to .47 percent. This was accomplished by carefully evaluating all requests for "expedite" payments to make sure that "regular" handling would not suffice. This reduction saves work on the part of both the Treasury and FBI personnel.

Steps were taken to increase the size of Imprest Funds of 32 FBI Field Divisions, resulting in a considerable reduction in the number of individual fund reimbursement checks required to be drawn by the Disbursing Office, and with a savings in personnel time in the Field Divisions involved.

Immigration and Naturalization Service

Sub-object reporting of obligations and disbursements by program activity for personal services was redefined and aligned so as to provide specific amounts for all classifications of employees utilized by the Service, thus enabling the Budget Officer to more accurately evaluate specific programs, to make comparisons, and to execute the budget as intended.

Sub-object reporting for equipment was also redefined so as to provide immediate information of operation and maintenance costs as they relate to specific types of equipment.

Greater emphasis was placed on all accounting offices operating within strict compliance with Section 1311(a) of Public Law 663. The accounting system was redesigned to allow for the posting of administrative reservations to the ledgers and the subsequent nonreporting of same until they met the criteria of firm obligations as defined by section 1311(a). An intensive follow-up program reduced the unliquidated obligations as reported June 30, 1956, by more than 50 percent in comparison with the previous fiscal year. The subsequent percentage of changes in obligations during the review period, July 30 to August 31, 1956, was considerably less than one percent.

The time consumed in the preparation of annual financial statements was reduced considerably by the redesign of statement formats, and the

presubmission of statement forms to each regional accounting office prior to June 30 to insure uniform, complete, and consistent reporting by each.

A property accounting system has been designed which provides for the control and accountability of property, and for integrating the monetary values into the accounts.

The internal audit staff has expanded its activities to include the audit of all fiscal and procurement matters throughout all offices of the Immigration and Naturalization Service and, on a selected basis, the audit of all other administrative matters, i.e., personnel, staffing, records, budget, property management, and statistics.

POST OFFICE DEPARTMENT

General

During 1956 the extensive accounting and financial simplification and retooling job in the Post Office Department begun in 1953 was substantially completed. The modernization of its controllership and management programs has walked hand in hand. Accounting and financial administration has been decentralized to 15 regional controller organizations, which are being equipped with qualified personnel, equipment, and procedures to serve management at all levels with effective financial tools for controlling, planning and measuring postal operations. Technical personnel have been recruited at the field and Department levels, thus assuring the continuation of this progressive program.

The gigantic task of transferring and regionalizing disbursement and accounting functions from postmasters, other field units and the Washington headquarters was completed. This represents a task performed with record dispatch, and under "business as usual" conditions. It should be recognized that in a job of this magnitude difficulties develop and other areas for improvement become apparent. It will naturally take a period of refinement and revision to achieve fully the desired efficiency and economy of all operations. This goal is being sought.

Considerable strides were made toward the development of workload measurement techniques and cost information to achieve greater efficiency and economy of operations. As a result, it is contemplated that more economies will be achieved in the Post Office Department through better financial control and the use of the management tools which are now available.

Payroll Regionalized and Mechanized

On June 29, 1956, the Post Office Department completed the transfer of the function of issuing pay checks to the 525,000 employees of the postal field service from approximately 38,000 post offices to 15 regional controller offices. The payrolls for nearly 500,000 of these employees are now computed and prepared on electrical tabulating equipment The present program plans for the mechanization of the computation of pay for the balance of the employees in the near future.

In all regions, with the exception of two where the leave recordkeeping has not been completely mechanized, the regional offices mechanically

process and maintain current leave balances, individual earnings records, retirement records, savings bond deductions and balances, and other related payroll records. Plans have been laid to complete 100 percent mechanical processing of leave before the end of the current fiscal year.

In order to test different approaches in the numerous steps required to process these complicated payrolls, varying methods have been developed for certain phases of payroll preparation in different regional controller offices. It is planned that each of the methods employed will be reviewed and reevaluated in order that the most efficient and economical procedure can be adopted for all of the offices.

Each regional office prepares the required reports quarterly and makes direct settlement to the Bureau of Internal Revenue for FICA taxes and Federal income tax withheld. Reports are also rendered by each region as required and direct settlement made to the Civil Service Commission for Federal Employees Group Life Insurance and retirement deductions.

Plans and procedures for the processing of man-hour data information simultaneously with the payroll journal preparation operation are now in the final stages of development and testing. It is contemplated that all regional offices will be developing man-hour data as by-products of the mechanized payroll beginning with the third postal quarter of fiscal year 1957.

After man-hour data processing methods are perfected, it is planned to develop such data by cost centers in conjunction with the preparation of the payrolls.

Retirement Records

Retirement records for all postal field employees were transferred from the 318 post offices, PTS installations, and the Washington headquarters, to the 15 regional controller offices where payrolls are now being prepared. A new retirement manual was developed to assure uniform compliance with Civil Service Commission regulations and procedures. General ledger accounting control was established over retirement deductions for the first time.

Personnel Statistics

A punchcard personnel statistical reporting system has been developed and is being tested at the Denver Regional Controller Office. Under this system all types of personnel action are indicated and coded on a

newly developed Notification of Personnel Action form from which punch-card action cards are developed. This new personnel action form replaces approximately a dozen variations of Standard Form 50. Reporting requirements of the various bureaus have been revised and reduced by 30 to 70 percent. The Department expects to be able to prepare any required reports on the status of personnel and analysis of personnel actions.

Initiation of No-Receipt Procedure

As a further refinement in the direct-to-bank deposit plan, whereby all post offices deposit their surplus cash in whole dollars directly with the Federal Reserve Banks, a "no-receipt" procedure was installed nationwide on March 19, 1956, after extensive testing. This method of not acknowledging deposits unless they fail to agree with the deposit slip has eliminated handling over five million remittance receipt cards annually.

Conversion to Punched Card Checks

Effective July 28, 1956, the Post Office Department completed the conversion from paper to punched cards of all Treasury checks issued by its disbursing officers. This has simplified and mechanized the reconciliation processes in both the Post Office Department and the Treasury. In addition, the Department has converted to checks for making all payments out of appropriated funds, thereby eliminating payments formerly made in cash.

Conversion of Local Bank Accounts

A policy was adopted to convert postmasters' local bank accounts from demand to 30-day time deposits, wherever practicable, thus reducing the amounts required by banks to cover the cost of the account and making more funds available to the Treasury.

Establishment of Reports Management Program

A reports management program was established to provide a streamlined and integrated reporting structure for all echelons of the postal establishment, to assure that reports are produced in the most economical manner, and to prevent duplication and costly compilation of unnecessary information. Moreover, data collecting is closely coordinated with the statistical sampling program wherever possible. Regional controllers prepare financial statements every four weeks covering activities within their regions and districts, thereby giving regional and district managers comparative data for evaluating the operating and financial results of the post offices and units under their jurisdiction.

Operating statements for larger post offices have been developed and are being prepared by regional controllers for the use of postmasters at these offices. Postmasters' Statements of Account have been greatly simplified. All post offices other than first-class are reporting their cash transactions (now limited primarily to postal receipts) on a quarterly basis rather than monthly, thus reducing the volume of paperwork.

Scientific Sampling Program

Great importance is being placed upon the use of modern scientific statistical sampling procedures for collecting data for management purposes. Toward accomplishment of this end, a sampling section was created with responsibilities for developing sampling procedures relating to all phases of postal operations. This unit has revised some existing sampling procedures and has extended the technique to other areas which were normally reported on a 100 percent basis. For example, (1) in conducting the biannual bin test to determine the number of sacks and outside pieces to fill three linear feet of space for computing railroad mail claims, the sample size was reduced to one-half of the previous test, without impairing the validity of the results; and (2) the flow pattern of airmail is being determined from a sample of one-tenth of the total number of billings.

Initiation of Economic Studies

Economic studies are being made to improve present indices and to develop new ones which will provide a better base for forecasting mail volume and other potential workloads, both for the nation as a whole and for each of the 15 regions. Such economic data will form one of the bases for preparing the budget.

A central statistical file was established in the Statistics and Economics Division where all information will clear to insure accuracy and consistency of data used, for internal as well as external purposes.

Development of Accurate Measures of Cost

Important progress has been made in introducing and developing unit cost techniques for multiple use by management as tools for control, appraisal, planning, and attaining optimum operating efficiency. A system has been developed which determines the man-hours required to handle a given amount of mail. Under this system the time required for processing the various types of mail (machine canceled letters, circulars, flats, pieces of parcel post, etc.) are equated into a common work unit, by multiplying them by weighting factors, giving effect to the varying man-hours required to process each type of mail. This program is still in the

experimental stage. It has encouraging possibilities for making comparison of unit costs of individual post offices and provides a yardstick for estimating total workload and manpower requirements for each region.

Improved Classification of Accounts

Numerous improvements have been made in the classification of general ledger accounts regionally installed on July 1, 1954. For example, the budgetary account numbers were integrated with the general ledger accounts, eliminating the problem of conversion. The new account classification permits the accumulation of data under standard accounting concepts of asset, liability, equity, revenue, and expense, as well as appropriation accounts, which at present cut across this classification.

The motor vehicle cost accounting system has been completely integrated with the general accounts. Motor vehicles and garage equipment are carried in the accounts and depreciated currently. Inventories of garage materials and supplies are carried and charged off as consumed. Cost of vehicle usage is distributed currently to installations involved.

General ledger control has been established over inventories of stamps and stamped paper at all locations. A major program is being planned to establish property controls for all post office realty, supplies, and equipment, and to develop comprehensive plant records.

Separate accounts have also been established for salary expenses at post offices to provide more detailed comparative information on operations.

Accounting and financial instructions for regional controller offices are being codified into a Regional Manual. This will outline all of the activities and procedures of the regional controller offices. Plans are being formulated to develop individual handbooks covering technical subjects, such as tabulating procedures, miscellaneous disbursements, etc., having a limited audience. The Motor Vehicle Manuals, previously developed, have been further improved and revised.

13-Period Fiscal Year

Beginning July 1, 1956, the Post Office Department adopted a reporting system of 4-week accounting periods to simplify comparative reporting for management purposes. Each accounting period consists of exactly two biweekly pay periods. This permits the use of actual expense figures rather than estimated accruals at the end of each period, as was formerly required. Because of legal requirements, the Department will continue to observe the traditional Government fiscal year for external

reporting and annual budget purposes. However, the Bureau of the Budget has agreed to apportion Post Office Department funds on the basis of postal quarters rather than calendar quarters and Treasury has accepted the same period for interim financial reporting purposes.

The adoption of a 13-accounting period year facilitates the integration of the man-hour control system with the payroll and accounts.

Public Enterprise Basis of Reporting

The Post Office Department requested and obtained authority from Treasury and the Bureau of Budget to report the status of funds on a public enterprise basis instead of an appropriation basis as heretofore. This eliminates the necessity for attempting to identify disbursements by separate appropriations.

Establishment of Controllership at Large Post Offices

During the previous year the accounting and financial operations of large post offices were reorganized. In order to provide further economies and more efficient operation, an educational program was conducted to foster controllership at large post offices with annual receipts of $1 million or more. This program was particularly helpful in bringing to the Chief Accountants of the large offices a better understanding of their important part in the controllership and financial program.

Financial Statements for Large Post Offices

Operating statements have been developed for post offices with annual revenues of $200,000 and above. They are prepared by the regional controllers each 4-week accounting period, showing (1) significant financial and operating statistics; (2) relation of costs to workload; (3) comparisons between periods and between post offices; (4) comparison of actual results and targets for all expenses of post offices for the period and for the fiscal year to date; (5) comparison between man-hours expended and man-hours allowed; and (6) workload by the newly developed formulas of equated pieces of mail.

Simplified Penalty and Franked Mail

Two important steps were taken to reduce recordkeeping costs, both to the Department and other agencies, for penalty and franked mail. At the request of the Post Office Department, the law (P. L. 785, 80th Cong.) requiring an annual inventory of envelopes by all agencies and departments was repealed (P. L. 451, 84th Cong.). Instead of the annual inventory, the Department instituted a simplified reimbursement procedure based on mail samplings. A reimbursement plan, requiring only one reimbursement for all types of official mail, including packages over 4 pounds, is

being extended to all agencies and departments as rapidly as agreements can be reached with individual agencies.

At the request of the Post Office Department, Public Law 705, 84th Congress was approved, requiring executive departments and agencies to reimburse the Post Office Department for registry service. This law also requires that reimbursement be made to the Department for certain matter mailed by experimental stations and extension service units of the Department of Agriculture, census matter, copyright material, and immigration and naturalization papers.

Reduced Official Registered Mail

To further reduce administrative costs, the Post Office Department decreased the number of pieces of official registered mail by approximately two million pieces in fiscal 1956. This was accomplished primarily by shipping stamps and other accountable paper in amounts of $25. or less by ordinary mail instead of registered mail.

Postal Savings

The payment of certain deceased depositors' accounts and the issuance of postal savings certificates to replace certificates incorrectly issued, or lost, stolen, destroyed, or improperly withheld from depositors have been decentralized from Washington headquarters to regional controller offices. Simplified procedures were developed to handle unclaimed postal savings accounts inactive for 20 or more years.

Legislation was obtained which authorized discontinuance of the $1 postal savings certificate of deposit and provided that postal savings must be made in multiples of $5.

Improved COD Procedures

A test program is being conducted at 76 of the largest post offices and of approximately 20 COD shippers to consolidate daily payments of COD collections on a single check. Under this procedure, postmasters will prepare individual money orders in the usual manner for firms having less than three delivery collections to be remitted. However, where there are more than three, the postmaster will prepare a register of COD remittances to the shipper and draw a single check. This plan will (1) speed up and simplify daily processing of COD shipments; (2) reduce the number of searches now required in compiling outstanding accounts; and (3) improve controls and accounting procedures.

Regionalized Payment of Indemnity Claims

The review and payment of indemnity claims for registered, insured and COD mail was transferred from 15 designated post offices to the regional controller offices. By integrating this work with similar functions in the regional offices and reevaluating and establishing more modern standards of review, it was possible to release a substantial number of employees for other assignments.

Improvements in the Money Order System

The 3-part money order card form previously adopted for use at all first and second-class offices was extended to all post offices. The new form uses a second stub, retained by the post office, which replaces the money order application and simplifies issuance of money orders.

The payment of commissions to postmasters at fourth-class offices for issuing money orders was discontinued.

Effective July 1, 1956, the auditing of money order transactions between the United States and foreign countries was transferred from the Washington headquarters to the Kansas City Money Order Center. This represents the final step in the centralization of the money order audit function. Plans are being formulated to adopt electronic data processing methods to facilitate filing and searching and accelerate the reconciliation process.

Surface Transportation Accounting

Regional controllers assumed the payment to contractors for mail messenger, star route, powerboat, short-haul truck and contract highway post office services, effective May 1, 1956. Mail messengers were previously paid by the postmasters having supervision over the service and credit was claimed in their postal accounts. The other services were paid by the postmaster at the location of each Regional Transportation Manager.

Railroad Transportation

The function of verifying railroad mail transportation bills was transferred from regional transportation manager offices to regional controller offices, effective July 1, 1956.

A study is under way covering the feasibility of recording rail transportation data at either the train or district transportation manager level,

in such form that a punchcard record can be developed for payment, and for statistical and other management purposes. Two major railroad companies are interested in joining the Department in the study, and pilot tests will be conducted with those companies when the level for recording this data is determined.

The Post Office Department has proposed to the railroads that (1) monthly space authorizations for Railway Post Office space be eliminated and that payment for such service be based on an agreed annual rate; (2) payment to be made at the expiration of each 28-day accounting period to conform to the Post Office Department's 13-period fiscal year.

Air Transportation Accounting

The paying function was further decentralized to seven additional regions to bring regional controller paying offices and airline accounting offices closer together. Settlement procedures were developed for helicopter carriers. Capital and Braniff Airlines filed equalization agreements with the Postmaster General on April 9, 1956, to carry airmail between 59 pairs of cities at rates of pay equal to the standard rates applicable to the shortline carriers. Procedures for processing equalized airmail dispatch forms, and settlement of equalized billings were developed. These bills are now being paid on a current basis.

The form for reporting operational irregularities was improved with the assistance of the airlines and installed on November 1, 1956.

Partial payments (advances) to airlines were discontinued July 1, 1956. Generally, carriers are being paid within 20 days after the receipt of their bill.

Minimum requirements for the presentation of transportation bills for United States mail by air were revised and published.

The format of an airmail statistical report was developed for supplying data concerning airmail flow.

Foreign Airmail Accounting

The payment for mail service between the United States and Honolulu, Puerto Rico, Bermuda, Havana, and Mexico was decentralized to the appropriate regional controller offices and minimum requirements were prescribed for the guidance of carriers to achieve uniformity in the submission of bills. Procedures were revised to provide for developing the billings direct from dispatch documents. Previously, this amount was

estimated. A survey is being made of foreign airmail procedures to simplify accounting through the application of tabulating methods.

Paperwork Management

Considerable strides were made in reducing the number of forms used in post offices. The program was instituted to standardize local forms at all offices with annual receipts over $3 million. Over 5,400 forms from post offices were collected and analyzed. These forms will be replaced by the development of approximately 55 new ones. This study will be extended to smaller offices and should result in further substantial reduction in local forms, and greater standardization in forms usage and procedures. Form letters and specialized forms used in the field are also scheduled for review.

A Forms Catalog is being developed and will be issued in the very near future. This catalog will contain a numerical listing of post office, regional, and other field and Departmental forms, with a functional index applicable to all operations of the Post Office Department.

A comprehensive functional records disposition schedule is being developed for early publication. An inventory of all records is being taken to implement this schedule, and a uniform filing guide designed to standardize filing systems throughout the postal establishment is nearing completion.

Future plans provide for taking an inventory of all filing equipment. If condition of equipment so warrants, a gradual replacement program will be developed in conjunction with the Bureau of Facilities for budgeting replacements over scheduled periods of time.

Internal Audit

Increased emphasis was placed upon the internal audit program with increased staff and broadened scope of responsibility. Long range plans for auditing activity have been developed. Recruiting of additional internal audit staff is progressing.

DEPARTMENT OF STATE

Departmental

Office of Assistant Secretary-Controller. A financial internal audit program has been established under the Office of the Assistant Secretary-Controller for the purpose of providing management with analyses and appraisals concerning the accounting, budgeting, disbursing, purchasing and other related financial matters.

Office of Budget. Efforts were continued to improve financial planning both in departmental offices and at overseas posts. New financial plan forms were designed and used for reporting each quarter by each bureau and office. As a result, reimbursement agreements for administrative support were concluded during the first quarter of the fiscal year 1957 instead of later, and from the analysis of reports resources available are more adequately related to requirements, thus enabling the Department to plan financial programs on a more satisfactory basis.

Office of Finance. Under a joint Treasury-State Department program to improve internal control in the overseas fiscal operations, cash authorization letters were developed and issued to each of the posts having either United States disbursing officers or agent officers. These authorizations limit the actual cash which United States disbursing officers and agent officers may have in their custody at any time. The verification procedures used in the field were revised to assure the correctness of the cash on hand and established specific responsibilities for independent cash verifications.

In-transit procedures were revised to effect better controls over cash and budgetary documents and reports. Controls have been established at departmental level to assure the identification and correction of any differences and provide determination that prompt notice of payment has been given to the allottees in those cases where the two functions are physically separated.

Controls over shipments of household effects and unaccompanied baggage were strengthened by revising procedures to require the recording of total weight and volume of shipments on an individual basis and obtaining employee certification to the correctness of the number of shipments authorized. Assignment was made of specific responsibilities to posts and Office of Finance for the prompt billing and collection for shipments in excess to an individual's authorized limitations.

A work simplification program has been established in the Office of Finance for the purpose of surveying, evaluating and improving methods currently used, and to determine processes adaptable to mechanization. Work distribution and process charts have been completed on a major portion of the operations which indicate that significant results will be obtained.

Regulations for travel advances have been revised to provide more effective control of advances and to insure prompt repayment to the Department of balances due from travelers.

Approval was obtained from the Comptroller General for a system of "flat fee" for certain overseas services in the field of protection of American interests, and following this, a fee schedule is being developed for the various services together with fiscal procedures for collection and accounting for such fees.

The operations of the Cultural Presentation Staff of the International Educational Exchange Service were examined with a view to improving the effectiveness of the program and establishing better control of the operations. The recommendations developed are currently being evaluated for implementation.

Foreign Service fiscal regulations and procedures were surveyed and a comprehensive order has been issued. A program for codifying and incorporating fiscal circulars into the Department and Foreign Service manuals was established. With the progress under this program numerous improvements in bonding, vouchering and cash accounting were attained.

A study was made to determine the possibility of mechanizing the Foreign Service accounting procedures on obligation, liquidation, reporting and reconciliation of travel funds.

Office of General Services. A survey of the United States Despatch Agency resulted in an over-all simplification of operations, including more prompt payment of carrier invoices.

International Boundary and Water Commission

The Commission is submitting its 1958 budget on a cost basis. It has an approved system which provides accounting for cost on an accrual basis integrated with budgeting, programing, and reporting.

Passport Office

Implementation of recommendations developed from the joint survey made last year, and others made during the year, under the active

leadership of the Director, has resulted in improving the operations of this Office as follows: (1) organizational changes resulting in more efficient performance of Passport Office functions; (2) reduction in paperwork required for the processing of applications for passports and the issuance of passports; (3) a simplified accounting system with acceptable internal controls over cash collections and deposits; (4) depositing fees in such manner that the deposits now may be used more promptly for Government purposes; (5) development of management control charts and statistical data tables to forecast workload and reflect actual relationships to the plans; (6) issuance of statistical information to private industry and the public, resulting in improved public relations; (7) improved communication services through the use of teletype with field offices, resulting in an estimated annual savings of $8,500; and (8) mailing of passports under the "one-indicia" system and elimination of the general use of registered mail, resulting in annual savings of about $150,000 based on the current volume of passports issued.

International Cooperation Administration

Project Accounting and Reporting by Overseas Missions. In recognition of the need for more complete information for management and operating purposes, the agency's accounting and financial reporting systems were revised to provide for accounting at the approved project level with distribution of obligations and expenditures by the cost components. As a result, reports will (a) assist the mission in more effectively implementing and controlling projects; (b) more adequately provide Washington officials with timely data on the status of project implementation and cost; (c) more readily provide agency budget officials with necessary data for budgetary presentations; and (d) provide more complete information for reply to the numerous congressional inquiries on the status of individual projects.

Multiple Function Coding of Allotments. The pattern of allotment coding was revised to provide a means for developing more comprehensive financial information. At the end of each month reports on the status of appropriations and allotments are now produced mechanically through the use of electrical accounting machines from data accumulated on Washington allotment ledgers and from summaries prepared in Washington from reports received from field installations and from participating agencies. In addition, the electrical accounting machine operation recasts this same information into detailed reports by country, function, and purpose and also provides a means for producing numerous special reports required in budgetary and congressional presentation.

Consolidation of Appropriations and Allotment Accounts. Pursuant to legislation applicable to the agency, consolidation of the unliquidated balances of most of the prior years' appropriations with fiscal year 1956 appropriations was effected. The above consolidation of appropriations resulted in (1) a net decrease of 67 allocations (cash) accounts heretofore maintained by the agency, the Treasury Department and participating agencies, and (2) a net decrease of 115 agency allotment accounts.

Simplification of Financing and Accounting. Legislative authority was requested and obtained to pay certain expenses from one appropriation with subsequent charge to and reimbursement by the several appropriations chargeable for the costs. By applying this authority to the accounting for inter-regional expenses, the agency has been able to reduce its own financial workload as well as that of several other Government agencies to whom funds are allocated.

Control, Accounting, and Reporting of U.S.-Owned Foreign Currencies. Foreign currencies comprise a significant part of the agency's resources. Additional instructions were issued to the agency's overseas missions and its Washington offices outlining their responsibilities for controlling the local currencies and for supervising their programing and expenditure for approved purposes. Accounting and reporting instructions for U.S.-owned foreign currencies have also been issued to provide information to responsible management officials on a consistent basis with the information provided for dollar funds.

Improving Procurement Practices of Cooperating Countries. A manual order was issued to the missions to furnish the Washington office with a narrative report on their review and evaluation of ICA-financed procurement by cooperating countries. One purpose of these reports is to assure that the instructions cooperating countries give to their importers include adequate reference to statutory and administrative procurement requirements.

Better Control of Procurement Authorizations. The agency has instituted procedures for more effectively reducing procurement authorizations to contracted amounts. The new procedure serves to reduce the "pipeline" and results in the more effective utilization of the agency's financial resources.

Program Evaluation. The agency recently established a Program Evaluation Staff which has responsibility for evaluation of the objectives, content, and effectiveness of country programs. This responsibility is discharged through systematic field evaluations and surveys of overseas missions. These surveys deal with matters of broad policy and are an addition to the regular internal audit program.

Internal Audit. Policies and procedures have recently been promulgated which establish an internal audit program based on generally accepted auditing standards and which provide for recurring audits, the scope of which includes review of financial activities as well as matters of program implementation and management operations.

Special Task Force Review of Program Implementation. A major review of the agency's methods for program implementation undertaken by a special Task Force has resulted in a series of recommendations designed to increase efficiency through greater decentralization of responsibility to the overseas missions. The recommendations of the Task Force have been approved by the Director and are generally in process of implementation.

Development of Personnel Statistics. A new electric accounting machine system was instituted for reporting personnel statistics. As a result, more personnel information is developed for use in budgetary and financial planning and management, including listings by activity, grade, years of service, home leave dates, RIF register classification, dates available for reassignment by Assignment Board, appropriation charged, and position occupancy.

TREASURY DEPARTMENT

Bureau of Accounts - Division of Disbursement

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

Improved Check Preparation Processes. The transfer posting process called the thermal method of check preparation, described in the 1955 Progress Report, was extended to all regional disbursing offices in the continental United States during calendar year 1956. This process was used in the preparation of certain salary checks, as well as certain tax refund checks, prepared from lists sent to the disbursing offices. Annual savings attributed to extension of the thermal method during 1956 approximate $35,000.

The Division of Disbursement, in close cooperation with the Internal Revenue Service, also extended the use of the bill-feed process in the preparation of tax refund checks from punched cards. In addition, the Division converted to the bill-feed process, in lieu of addressograph plates, in the preparation of salary checks and pay lists from punched cards. It is estimated that savings in excess of $72,000 were realized during 1956 from the extended use of this method of check writing.

Improved Comprehensive Surveys. A more comprehensive survey manual was developed and utilized by the Field Supervision Branch in order to strengthen the survey and internal audit procedures covering every phase of disbursing operations in the regional disbursing offices. Various improvements in operations were installed during the course of the surveys or were recommended for future study by the regional office staffs.

Foreign Disbursing Transaction Procedures. The classified transactions of United States Disbursing Officers (Department of State) in foreign areas are recorded directly in subsidiary accounts of the central general ledger of the Treasury without being processed in the accounts of the Chief Disbursing Office. The U.S.D.O.'s statements of transactions now serve as direct posting media. Annual savings of about $25,000 are estimated to result from these changes.

Other Improvements Made During the Year. These included: (1) the establishment of an optional payroll certification procedure under which

the administrative offices may forward to the disbursing office the payroll certifications with the final payroll change notices; (2) changes in the Division's cost-finding methods, reducing and simplifying the number and complexity of monthly computations for unit classes under the "Other Obligations" cost category; (3) the extension of the simplified procedure for changes of address on addressograph plates to additional periodic payment programs; (4) the elimination of certain bookruns through the use of punched card tabulated lists; and (5) the adoption of a new procedure for immediately remailing certain returned checks, thereby reducing the number of returned check notices required to be prepared by the disbursing officers and the number of remail notices handled by the administrative offices.

Bureau of Customs

Administrative Accounting and Reporting. A revised system for appropriation accounting and reporting for central fiscal offices in the field prescribes a new form of ledger sheet to record obligations, payments, and reimbursements to appropriations. This has improved and reduced the work of recordkeeping and has eliminated one book of original entry. Only one basic allotment is granted for each fiscal year to a principal officer of customs, controlled only by three major financial plan categories. The resulting simplification in coding and reporting systems will facilitate and expedite the reporting of appropriation accounts by the field offices to the headquarters office and the consolidating of reports in the Washington office of the Bureau of Customs. The new system consolidates the former reimbursable earnings journal with the appropriations ledger in the Customs field offices. In addition, the information formerly contained in three monthly accounting reports is now included in one monthly report.

Transfers of Charges to Customs Field Offices. The procedure for transferring charges to customs field offices for transportation requests and bills of lading paid by the Bureau of Customs headquarters office in Washington was adapted to electric accounting machine operations. In addition to savings in manpower, this procedure provides that the charges be scheduled and the field offices notified of their disposition on a monthly basis.

Accounting for Collections. A new procedure relating to the collection accounting system of collectors of customs was prescribed whereby the vouchers for certain classes of collections are recorded on a daily summary in "batches" by classes of vouchers. This procedure eliminates individual postings to collection schedules and results in a saving of time. Also, simplified accounting procedures were prescribed to relieve subports of much detailed recordkeeping for collections and deposits. Both

of these procedures are optional with the field offices. When adopted generally, they will result in substantial savings of time and paperwork.

Integration of Customs Accounts with Treasury Central Accounts. A revised collection procedure, applying the provisions of Department Circular 945-Revised to the collections and deposits of collectors of customs, has been developed to permit the use of the accounts rendered by the collectors for audit and settlement as a basis for maintaining the central accounts in the Treasury. This system is expected to be installed in fiscal year 1957.

Bureau of Engraving and Printing

During 1956 there was increased utilization of cost accounting reports by production officials in measuring operating efficiency and controlling operations. Accounting personnel participated in meetings with operating supervisors to discuss these reports. The reports are designed to serve accounting, budgetary, and operating needs, with emphasis placed on cost analyses to inform production officials of areas for improvement or remedial action.

Comprehensive reviews of certain operating divisions are under way which have resulted in the issuance of several integrated operational and accounting manuals. The reviews have also resulted in the elimination of unnecessary operations and paperwork and should aid in a study of the possible installation of machine accounting in the Bureau.

Other improvements during the year included: (1) establishment of a formal accounts receivable register as a replacement for monthly summary worksheets of products delivered, and the conversion of records of income and cost by products from kardex cards to a book record; (2) grouping of certain classes of fixed assets according to their useful life in order to simplify monthly computations of depreciation and to eliminate considerable year-end work; and (3) issuance of new procedures for investigating, recording, and adjusting discrepancies in counts of currency and securities in process designed to (a) clarify areas of responsibility, (b) resolve items due to mechanical deficiencies without adjusting the accounts, and (c) standardize and simplify reporting.

Bureau of the Mint

During the year the methods of financing the operations of the Bureau were improved by enactment of Public Law 677 (84th Congress) which permitted copper used in the manufacture of silver coins to be purchased from a revolving type fund. This is consistent with the method for purchasing other coinage metals.

Accounting controls and procedures for processing uncurrent coins returned to the mints for redemption were simplified, resulting in savings. Other improvements were made in accounting for refinery operations, cost reporting, and the content of the Bullion and Monetary accounting manual.

Bureau of the Public Debt

Accounting for Public Debt Transactions. Extensive tests were made to determine the effectiveness of punchcard methods for the maintenance of the accounts. A new system of accounting for public debt receipts and expenditures by the Bureau of the Public Debt is in operation on a trial basis. In anticipation of the conversion to the new system, a number of improvements were made in present accounting procedures.

Accounting for various security exchange transactions was simplified through the development of a single item multi-purpose form. Also, arrangements were made for the Division of Loans and Currency to use wire facilities to authorize Federal Reserve Banks to issue coupon securities on registered exchange transactions. These changes will make possible annual savings of approximately $15,000.

Fiscal agents are submitting daily instead of monthly reports of certain exchange and allotment delivery transfer transactions. This change provides current information for the Federal Reserve Bank auditors and Federal Reserve Board examiners in addition to simplifying the Bureau's accounting procedures.

Most of the Government offices and agencies that formerly reported security transactions direct to the Bureau are now reporting through the Federal Reserve Banks. This simplifies the accounting in all offices concerned and eliminates the joint audit of registration stubs by representatives of the Bureau and the Post Office Department. This change will save an estimated $21,500 annually.

Electronic Accounting. The study of the possibility of applying electronic data processing techniques to the operations involved in the issuance, servicing, and retirement of savings bonds has been further pursued. Four companies have submitted proposals for electronic systems. Members of the Bureau's Electronic Committee and Bureau officials are studying and evaluating these proposals, with the advice and help of representatives of the Bureau of Standards and the members of a Joint Government Committee under the Joint Accounting Improvement Program.

Accounting for Interest on the Public Debt. During fiscal year 1956 the method for computing and reporting interest on the public debt was

changed from a due and payable basis to an accrual basis. The new method does not apply to United States savings bonds, Treasury savings notes, and Treasury bonds of Investment Series A.

Internal Accounting Controls. Improvements during the year in internal accounting controls included: (1) simplification of control accounts covering returned, withheld, and blank interest checks; (2) elimination of certain transaction records and intermediate controls over smaller loans in connection with the accounts of holders of registered securities; (3) discontinuance of a deposit fund account used in making payments of proceeds of Armed Forces Leave Bonds in deceased owner cases and the elimination of 13 relatively inactive disbursing accounts; and (4) consolidation of exchange transactions used in connection with Treasury bonds of Investment Series.

Property Accounting. Monetary accounting control was established over nonexpendable personal property held by all offices of the Bureau. The following steps have been taken to implement this control: a procedural manual has been issued; an inventory has been made; all items have been classified and numbered; IBM punchcard control records are being established; forms and procedures have been designed to effect changes and maintain the activity on a current basis; and the system is being integrated with the equipment replacement program.

Internal Revenue Service

Significant revisions in the revenue accounting system installed July 1, 1956, resulted in (1) a substantial reduction in the number of accounts in the general ledger; (2) simplification of recordkeeping in all field stations of the 64 district directors' offices, including the streamlining of procedures regarding deposits of collections by such field offices; (3) improvements in the reporting of revenue collections by handling unidentified remittances within the over-all classification of revenue receipts rather than deposit funds; (4) adoption of official accounts regarding real and personal property held as collateral for the payment of taxes; and (5) improved methods for transferring tax payment information between district offices, when necessary.

Plans have been completed for the establishment on January 1, 1957, of the third area service center at Ogden, Utah, to service the District Offices in the far west. Its functions will be similar to those performed in the other two service centers at Kansas City, Missouri, and Lawrence, Massachusetts. These functions provide for mass processing of tax returns, billing of taxpayers, and approval of refunds by electronic accounting methods.

Office of the Treasurer of the United States

Application of Electronic Equipment to the Payment and Reconciliation of Government Checks. On August 1, 1956, the Office of the Treasurer of the United States began Phase I of the program to use electronic equipment in the payment and reconciliation of checks drawn on the Treasurer of the United States which was described on pages 7 - 9 of the 1955 Progress Report. Phase I pertains only to checks drawn on the Treasurer of the United States which are payable in Washington, D.C. In preparation of the new system, various Government checking accounts involving a clearance of over 6,000,000 checks for the first six months of 1956, were converted from paper to card check form. Phase II of this program will involve the payment and reconciliation of checks now being paid by head offices of the Federal Reserve banks, and which are still being reconciled in the General Accounting Office. The installation of Phase II, while begun on November 1, 1956, will be accelerated beginning January 2, 1957. The Treasurer of the United States issued several technical memorandums prescribing regulations and procedures to be followed with respect to checks handled under the new program.

Simplification of Accounting for Deposits. Accounting procedures for deposits were simplified to give immediate credit except in those instances where the depositors do not wish credit until the supporting items are finally collected. In addition, the closing time for the acceptance of deposits was changed. As a result of these revisions, immediate accounting control was established over all deposits made during any one day, the number of ledgers maintained was reduced, and the accounts simplified.

Closely associated with these changes was a simplification in the processing of certain refunds involving check claims through the use of a consolidated certificate of deposit.

Improved Procedures for Issuing and Cashing Savings Bonds. A duplication in savings bonds stock records was eliminated and a more economical method of operation was provided by the consolidation in one division of the issue and reissue functions, except for over-the-counter sales. Changes were also made in the operations involved in paying savings bonds in routine cases so as to eliminate duplicate functions between divisions.

United States Coast Guard

The financing of commuted ration messes was revised to provide for charging the actual cost of food consumed, rather than the amount of ration allowance, to the operating expense appropriation. This revision facilitated standardizing the financing, accounting, and reporting procedures for approximately 416 commuted ration messes with those prescribed

for about 138 general messes. It also precludes the accumulation of excess funds and resulted in the transfer of the surplus balance of $493,240 in the Commuted Ration Mess Fund to the General Fund of the Treasury.

Trial studies of an improved method for financing maintenance and repair work at bases and depots reported last year were completed during the fiscal year. The improved techniques resulting from these studies were adopted for service-wide application and put into operation at a number of bases and depots. The Coast Guard contemplates that the installation of the new method of financing at 24 bases and 5 depots performing industrial work will be completed by the end of fiscal year 1957.

DISTRICT OF COLUMBIA

Budget

The budget processes for the fiscal year 1958 were revised to provide a streamlined presentation to the Commissioners and to acquaint the public with specific plans for the budget year. This enabled the Commissioners to eliminate the review of requests for items involving millions of dollars for which there was no possibility of financing, and resulted in the saving of many man-days of work. Similarly, the agencies of the District were able to consolidate their justification with consequent savings. Revenue statements and copies of the condensed justifications were made available to the public to permit the taxpayers an opportunity to review the proposed programs.

The process of simplifying budget procedures was continued by permitting the agencies more flexibility in their operations with a reduced number of limitations. Further progress was made in the consolidation of appropriations and the elimination of appropriation language.

Standard Classification

In conjunction with the Accounting Office of the District, the Budget Office developed a standard classification for coding which, when fully implemented, will permit a more complete application of punchcard methods to accounting for all agency budgetary transactions. It will also permit composite reporting for the Government of the District of Columbia and will establish consistency in agency budgeting.

Requisitioning of Funds

The requisitioning of District funds for the use of the Disbursing Officer was formerly accomplished on an individual appropriation basis. The District of Columbia developed a procedure providing for the requisitioning of funds on a fund basis. As a result, it is not necessary to maintain cash balances in the Disbursing Officer's account for each appropriation. The flexibility provided by the new system has facilitated the maintenance of a lower cash balance, thereby making additional funds available for investment.

Electrical Accounting

The maintenance of the central allotment accounts, formerly a bookkeeping machine operation, has been converted to electrical accounting

machine methods. Copies of these accounts are furnished the departments periodically as required. More detailed statements have been made available for the use of management and budgetary reporting purposes on a centralized basis, resulting in the production of more uniform and timely information.

Disbursement schedules are prepared on electrical accounting machines and checks in payment thereof are prepared from the same cards. These cards are also used as a basis for posting the individual subsidiary accounts supporting the general ledger appropriation accounts and for the production of the monthly statement of transactions in the Disbursing Officer's accounts for submission to the Treasury Department.

The entire payroll process has been performed by electrical accounting machines for the past two or three years. Bond allotment accounts and related records are now also maintained on the electrical accounting machines.

INDEPENDENT OFFICES

Atomic Energy Commission

Accounting for Nuclear Power Reactors. In view of the technical progress that is being made in the design, construction, and operation of nuclear power reactors for the generation of electric power, steps have been taken to study the accounting problems inherent in this type of operation and to develop a standard accounting basis to reflect the operating economics of nuclear electric generating plants. The major emphasis to date has been upon the pressurized water reactor since it is estimated that this plant will be completed and in operation in 1957. While much of the basic system developed for the pressurized water reactor will apply to all nuclear power plants, the physical and operating characteristics of different reactors will require modification in some of the details. The Commission is working with the Federal Power Commission, the Accounting Committee of the National Association of Railroad and Utility Commissioners, and representatives of the utilities involved in this project.

Financial and Cost Reporting. The Commission's financial and cost reporting have received continued attention. More informative financial reports were published on an unclassified basis for fiscal year 1955 and will be continued this year. Also, monthly cost-budget reporting has been improved through requiring narrative analyses and explanations of variations between actual and projected costs.

Standard Service Lives. The preliminary schedule of standard service lives of various plant and equipment items developed during fiscal year 1955 has been further revised and finalized. The schedule was developed for use in determining uniform depreciation rates on like items of plants and equipment, and based on such rates, all accounts for accumulated depreciation have been or will be adjusted.

Laboratory Equipment. A simplified plan of accounting for laboratory equipment has been developed and is now being put into effect on a trial basis in certain laboratories. Under this plan there are three degrees of control: (1) catalogued equipment which is individually accounted for, (2) uncatalogued equipment which is not individually accounted for, and (3) equipment expensed upon acquisition. Criteria have been established for the identification of property in each of these classes. Savings result from the uncatalogued equipment concept in that undue refinements in the accounting for a large volume of generally inexpensive items are eliminated.

Contract Finance and Insurance. During the year procedures were developed and issued for handling the financial close-out of completed, expired, or terminated contracts and subcontracts. Also, a statement of cost principles was developed to be used in the settlement of terminated fixed-price contracts.

In the insurance area, the Commission conducted a program for a committee of insurance executives assigned to work on the problem of providing adequate insurance coverage for designers, constructors, and operators of private power reactors. As a result of these activities, insurance syndicates were formed to make available a liability coverage capacity of $50,000,000 to $65,000,000 for any one accident. The indemnity provided by these syndicates reduces the possible need for a Government indemnity.

Pricing of Materials and Services. During the period, prices were established on practically all materials and services sold or furnished to non-AEC users under the Atomic Energy Act of 1954. The necessity for establishing these prices required, in some cases, the establishment of more accounting refinements than had heretofore been necessary particularly in determining the cost of producing relatively small batches of material at different assays and specifications. Refinements were also made to provide for the costs of special handling and analytical work, plant clean-out, packaging and shipping.

In addition procedures were established for billing, collecting and accounting for the charges for materials and services sold or furnished to non-AEC users, represented by individuals, organizations, and Government agencies.

Budgeting. The budget structure was revised to confine the appropriation for Plant Acquisition and Construction to those items requiring Congressional authorizations of appropriations. Funds needed for the acquisition of equipment not included in construction projects are now provided through the Operating Expenses Appropriation.

Auditing. A significant change during the year in the AEC-wide internal audit system was the centralization under the Washington audit staff of the responsibility for auditing the direct activities of AEC's Operations Offices. These activities were previously audited by audit personnel on the staffs of the Operations Offices.

In the Controller's annual report an audit certificate accompanies the financial statements. The certificate results from completion of the annual AEC-wide internal audit cycle, one aspect of which provides for the examination of individual AEC offices and integrated contractors and their consolidation into the AEC-wide financial statements presented in the Controller's report.

Civil Aeronautics Board

Procedures for the submission of punched-card machine listings of detailed flight and mileage data, in support of carriers' monthly subsidy vouchers, were extended to four additional carriers, so that six carriers now use the process. In addition to providing more complete information, the change has resulted in savings to the carriers through simplification of paperwork previously required, and to the Board in the audit of subsidy payments.

Federal Civil Defense Administration

The administrative accounting manual for program appropriations was approved by the Comptroller General. A format was established for the complete budget and fiscal manual, which is to incorporate all previous accounting manuals and directives. Several chapters of this manual have been completed.

The audit staff has been augmented to meet the increasing workload in the Disaster Relief Program and the Survey and Research contracts. Auditors attached to the seven regions have been made certifying officers, thus enabling them to perform on-site audits and certifications, eliminating duplication of documents and efforts at the national level. The budget staff has also been increased.

An Accounting Systems Division was formed and staffed to service national headquarters, as well as the regions, establish firm lines of documentary processes, complete transition to the EAM system, provide necessary cost data for budget preparation, initiate and carry forward to completion revisions and changes in systems when necessary, and promulgate systems for new programs.

Electric accounting machine (EAM) procedures were developed for (1) allotment ledgers for all programs, including the new "Civil Defense Functions in Other Agencies" and "Survival Planning" programs, (2) fiscal accounting for the Stockpiling Program, and (3) property accounting under the Stockpiling Program. The allotment ledger procedure has been put into operation. The other two procedures are in process of installation. The results will be to bring all stockpiled property and most of the fiscal transactions under complete machine accounting control. In the process of machine adaptation of fiscal and allotment records, a systematic method of obligation review was set up and action taken to expedite liquidation of obligations. As a part of the stockpiled property procedure development, stock catalog revisions were initiated to eliminate parts and descriptions that could not be adapted to the EAM system.

Federal Communications Commission

As a result of a survey of the Commission's internal budget, accounting, and reporting activities, improvements have been made. These include: (1) the number of allotments and accounts were reduced from 52 to 39; (2) many general ledger accounts were reclassified and renumbered; (3) payroll procedures were revised in order to provide for an independent internal audit of terminal leave payments; (4) the use of form letters for the transmittal of pay checks to banks was discontinued by introducing a simple inclosure instruction; (5) disbursement improvements were made through use of certified invoices in lieu of Standard Voucher Form 1034, changes in numbering and filing of voucher schedules and vouchers, and a reduction in the recordkeeping in connection with liquidations; and (6) receivables were established for reimbursements earned.

Federal Power Commission

Improvements effected during the year related to budgetary practices. These include: (1) the development of complete work programs by activities for fiscal year 1958 as a basis for the preparation of budget estimates; (2) the development of workload units for additional subactivities as a means of more factually demonstrating workload, production per man-year and fund requirements; and (3) an improved format for the budget document.

Interstate Commerce Commission

In the Independent Offices Appropriations Act for 1957 the agency obtained a consolidation of their three previous appropriations under one appropriation title, which permitted the consolidation of allotment accounts on an agency-wide basis.

With assistance from the General Accounting Office, a revised accounting system was installed. A manual of the system has been prepared and submitted to the Comptroller General for approval. Under the system the control of funds is accomplished at the appropriation level, with costs by organizational units and by activities obtained through the classification of cost accounts. This has resulted in effective control and simplification in accounting and reporting.

A revised procedure for controlling and reporting travel expenses has eliminated the difficulties encountered in this area.

General Services Administration

Establishment of Accrued Cost System of Accounts. To fulfill a need for more complete cost data for each program and budget activity, a

system was designed for integrating budget, accounting and reporting procedures in which increased emphasis is placed upon the accrued expenditures of each activity. Under this system, activity cost accounts are maintained in which all expenses for the year are accumulated, regardless of whether paid from current or prior year appropriations. The system was placed in effect on July 1, 1956, and when fully implemented, will greatly facilitate the submission of cost-type budgets.

With the establishment of the new accrued cost system, a series of reports has been developed covering performance analysis and the status of all funds and accounts. These reports will be used in internal budget control, operating cost control, and budget estimates.

Single Fund for Administrative Operations. Pursuant to authority contained in the Independent Offices Appropriation Act, 1957, an Administrative Operations Fund has been established to finance staff activities other than the Office of the Administrator. The adoption of the Administrative Operations Fund has reduced the number of allotment accounts from approximately 450 to 42 and has reduced the paperwork required in identifying personnel by individual appropriations. Accounting operations have been simplified through the use of this fund and a more realistic basis for management control has been provided.

Expansion of Electric Accounting Machine Operations. During the year electric accounting machine facilities were extended to include the order processing in the stores operation; accounting for the General Supply and Buildings Management Funds; maintenance of pay accounts and related payroll procedures; maintenance of an accrued cost system; and motor pool accounting in the Central Office and five previously nonmechanized regional offices.

Performance Analysis. Progress was made in the installation of work measurement systems to provide data for effective management of the Administrative Operations Fund, for justifications in support of budget requests, and for measuring and evaluating performance. The objective is the measurement of performance both in terms of accomplishment and costs, against established goals.

Revised Accounting Procedures for Nickel Projects. Revised accounting procedures have been installed to integrate accounting systems and techniques and to accurately reflect assets, liabilities, and financial operations of the Nicaro, Cuba projects. These include the wholly owned Government corporation (Cuban Nickel Company), the operating contractor (Nickel Processing Co.), the expansion contractor (National Lead Co.), and their subsidiaries and subcontractors.

Agreement on Storage Cost for Stockpile Material. Charges for warehousing stockpile material in facilities of the Department of Defense were formerly financed by that Department from a working fund advance from GSA. This method proved unsatisfactory to both agencies for many reasons. An interagency agreement was negotiated for the Department of Defense to initially finance such costs and to be reimbursed by GSA at a uniform rate per unit for all services. This arrangement has resulted in more effective management control and budgeting for these warehouse costs.

Internal Audit - 1956. During the year, the internal audit program was sharply defined to delineate areas of basic audit emphasis. These areas include both the operating and the financial aspects of GSA. The audit program stresses the fundamental importance of reviewing internal controls on an agency-wide rather than a regional basis.

National Science Foundation

The Foundation developed and printed an accounting manual for use by the Governmental Laboratories, Akron, Ohio, in connection with the Rubber Research Program operations during fiscal year 1956, and revised its program accounting system in order to meet the increasing program operations of the Foundation. During 1956 the Foundation extended its audit program to cover all of its Rubber Research contracts.

Panama Canal Company - Canal Zone Government 1/

Valuation of Fixed Assets. During the year the valuation of fixed assets transferred to the Panama Canal Company from the Panama Canal (agency) as of February 1 and July 1, 1950, and July 1, 1951, was completed and a report thereon was prepared and submitted to the Director of the Bureau of the Budget for approval as required by section 246(b) of Title 2 of the Canal Zone Code. The establishing of sound fixed asset valuations is necessary to determine current depreciation charges and the net direct investment of the United States Government in the Panama Canal Company on which interest is payable to the United States Treasury. The compilation of the report covering assets with a valuation of about $630

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

million involved a delineation of national defense assets, assets having no foreseeable economic use, the establishment and justification of economic valuation allowances, and the reassessment of many policies and procedures.

Timekeeping Study. A comprehensive review and study was made of timekeeping practices. This resulted in a consolidation and updating of all regulations and procedures governing timekeeping and the development of a draft of a manual which includes specific illustrations of the proper timekeeping methods to be followed in unusual occupations and in unusual circumstances.

Improved Payroll Procedures. The conversion of payroll operations from punched card equipment to a combination of electric payroll machines and auxiliary equipment, included in the 1955 Progress Report, was completed early in the fiscal year. Incident to the conversion, new procedures were adopted which resulted in the elimination of certain bottlenecks and unnecessary operations, the consolidation of several payrolls, and the use of approved forms. The improved operation resulted in savings of about $100,000 for the year.

Over-all Accounting Improvements. There was continued effort throughout the year to attain improved accounting by the recruitment of new personnel qualified on an educational and experience basis, by adoption of new ideas and methods, by providing written work guides in the form of a number of accounting procedures, circulars, and manuals, and by a better alignment of some functions. A number of employees' suggestions for work simplification were adopted and integrated into the accounting operations.

Broadened Scope of Internal Auditing. During the year the Company adopted a broadened internal auditing policy which provides for reviewing financial transactions to determine the reliability of the accounting records and financial statements and reports; for reviewing operations in all organizational units to determine the extent of compliance with management policies and procedures, the efficiency of operations and the soundness and adequacy of all other elements of control; and for furnishing management with objective reports covering the activities reviewed. Also, the internal auditor has been given the independence of action necessary to carry out properly the internal audit function. Intensive study is under way to develop improved internal auditing standards and procedures in order to achieve maximum benefit from the adoption of the broadened internal auditing policy.

Railroad Retirement Board

Addressograph Plates Used for Addressing Policing Questionnaires. Addressograph plates already used in the preparation of benefit checks were initially utilized during the year for addressing annual policing questionnaires sent to approximately 225,000 beneficiaries under the Railroad Retirement Act. This procedure saves the clerical time previously required to type addresses on the questionnaires and, in addition, eliminates the need for checking claim folders to obtain the latest address information.

Mailing of Award Letters to Beneficiaries. Award letters to beneficiaries are now enclosed with the initial benefit checks instead of being mailed separately. The new procedure effected a savings in postage and envelope stock, and contributed to improved beneficiary relations.

Processing Employer Service and Compensation Reports. The Board has continued to improve and simplify the accounting operations involved in processing employer service and compensation reports by arranging for additional employers to adopt annual instead of quarterly reporting, by removing from active processing approximately 2,600,000 employee accounts which have been inactive for a period of 10 years or more, and by devising mechanical analyses to detect obvious errors in compiling reports.

Simplification of Allotment Ledger Accounting. Accounting operations and controls were simplified and streamlined by the elimination of 200 allotment ledger accounts.

Saint Lawrence Seaway Development Corporation 1/

The Corporation was created by the act approved May 13, 1954, to construct, operate, and maintain certain navigational improvements in the Saint Lawrence River in conjunction with related navigational improvements being provided by Canada.

1/ As a general rule, accounting improvements of entities subject to the Government Corporation Control Act are not included in this report. However, this newly developed corporation is of such general interest that inclusion of its accounting approach is deemed appropriate.

An accrual system of accounts has been developed and installed using accepted commercial practices and techniques. Two separate accounting entities have been devised by self-balancing ledger accounts, one for the Corporation and one for its construction agent.

Pyramidal type reporting was adopted whereby greater detail is furnished operating officials, and more summarized and salient data is furnished higher authorities.

Agreements have been made with Canada concerning uniform accounting policies that will facilitate the establishment of toll rates and permit the preparation of consolidated financial reports showing the cost of all navigational improvements and annual operations on a consistent basis.

Cost-type budgets have been prepared for submission to and approval of the Bureau of the Budget and the Congress. Work programs prepared on the basis of anticipated work performance are used as justifications for the budget submissions.

Performance reports are prepared to show a comparison of actual work accomplishments with the budget and program schedules both on a fiscal year and on a cumulative basis. Progress reports are prepared to forecast probable accomplishments, to show changes in the over-all estimate of the construction of the navigational improvements, and to alert management of any significant deviations from established goals and objectives.

Small Business Administration

The major accomplishments during the period January 1 through September 30, 1956, included: (1) completion of full decentralization of loan accounting and related disbursement functions from Washington to New York, Richmond, and Kansas City; (2) issuance of regulations approved by the Bureau of the Budget for control of administration expenses, including major simplification of allotment structure; (3) addition of a section to the Controller's manual which formalized the procedures relating to internal control of cash and negotiable documents; and (4) improvement and standardization of fiscal reporting processes.

United States Civil Service Commission

General Accounting. The Commission has revised its accounting and reporting system for the Salaries and Expenses Appropriation effective July 1, 1956, to provide the establishment of the liability for expenses at the end of each accounting period. Prior to July 1 only salaries and travel costs were accrued.

Internal Audit. The audit program previously confined to the examination of the fiscal, accounting, and related records of the regional and central offices was extended to the Office Services and Retirement Divisions. Because of personnel limitations, the audit made of the Retirement Division was limited in scope.

Retirement Accounting. Under a revised procedure one certification only is now made for each class of payment authorized instead of one for each block control area, thereby reducing the number of certifications of the regular monthly annuity roll from 206 to 6.

The biennial reconciliation of the individual annuitant and survivor-annuitant award account cards with individual case files has been expedited. In lieu of bookruns the Treasury furnishes the Commission a deck of cards prepared from the annuitants' addressograph plates in its files, imprinting the addressograph data on the cards with the related claim numbers and amounts punched therein. These punched cards are compared visually with the individual annuitant and survivor-annuitant award account cards maintained manually by the Commission. The punched cards from the Treasury are then collated with the actuarial punched card file maintained by the Commission. Differences are examined and appropriate corrections are made.

Life Insurance Accounting. The Commission has developed a punched card premium notice which provides for automatic premium billings to members of former beneficial associations whose life insurance contracts have been assumed by the Civil Service Commission. By adopting mechanized procedures the cost of Government serving the members is $75,000 a year less than the cost to the beneficial associations.

United States Information Agency

Cost Finding System - Press Productions Centers. During the calendar year 1956, the Finance Division developed and planned the installation of a cost finding system for the Agency's regional Press Production Centers located at Manila and Beirut. This system brings together the statistical operating data from cost centers within the plants, and coordinates the presentation of the information into more meaningful monthly reports for use at the centers and by management officials in Washington.

Informational Media Guaranty Program. Coincident with the transfer of the Informational Media Guaranty Program to this Agency, a formal system of general ledger and subsidiary control accounts and records was developed and installed. Improved internal control and operating economies resulted by elimination of considerable correspondence and an annual service charge of approximately $5,000, by utilizing the facilities of the

Division of Disbursement, Treasury Department for the fiscal services previously performed by the Export-Import Bank. This program guarantees to exporters of informational media material the conversion to United States dollars of amounts received in foreign currencies.

General Ledger Control. The system of general ledger control accounts adopted for use in 1955 has been refined to include in the subsidiary records a broader coverage of transactions. Improvement was made in the control of accounts receivable and travel advances, providing better information for management, especially regarding refunds and reimbursements. A more effective system of collection was adopted and the outstanding balances of delinquent accounts, amounting to $92,000 at June 30, 1955, have been reduced to $5,000 as of October 10, 1956. All advances made against grants were brought under general ledger control, and, on the basis of monthly reports by program areas, grant expenditures are receiving closer scrutiny. A system of reconciliation control over interoffice expenditure transactions was fully implemented on a world-wide basis. This system has successfully eliminated the accumulation of unaccounted for expenditure documents between paying offices.

Property Accounting. A system of property control and accounting, which utilizes punchcard equipment, was developed during the year. Domestic program and administrative areas have implemented the system and are furnishing property records within the framework of the system. The Agency is working jointly with the Department of State, which performs administrative services overseas, for the implementation on a world-wide basis of a uniform system applicable to both agencies.

Internal Audit. During the period January 1 to November 30, 1956, the Audit Staff issued 75 audit reports, 24 of which related to domestic operations and 51 to operations in foreign countries, which is indicative of a more expanded program of coverage than existed heretofore. This expanded Audit program has resulted in financial savings and improvements in financial management controls.

United States Tariff Commission

The property accounting records are supported by individual cards for each piece of property. These are constantly being appraised to reduce the number. During the current fiscal year, items of small value but of considerable quantity, such as bentwood chairs, end panels, tops, bases, etc., were combined under one key card, thereby eliminating the handling of approximately 1,500 cards and reducing the time required to take inventories.

Veterans Administration

Management Planning and Control

Major efforts were made to increase the effectiveness of management reports in facilitating executive decisions.

Control summaries for both top and intermediate management were revised to improve arrangement of key operating statistics, placing greater emphasis on the highlights and trends of the various programs. Abstracts of program, workload and personnel statistics, and related budgetary data and financial plan comparisons, were condensed into streamlined format for easier reading.

Financial statements were redesigned to furnish more meaningful reports on all activities, programs, appropriations and funds. Business-type formats were further developed to provide greater clarity, and direct attention to major control areas. The improved statements present concisely the financial results of all programs and related operations, research activities, capital asset acquisitions and inventory management, and general administration and other services. Reconciliations of costs and obligations are included where appropriate. Resources, liabilities and net equity are shown to set forth the financial position of the respective entities; and supplementary statements summarize the changes in net equity during the reporting period. The development of these improved financial statements made it possible to discontinue the publication of the related trial balances and other less effective fiscal reports.

Employment reports were changed to provide reporting of personnel by cost centers. This increases the value of both employment and cost reports by making possible direct comparison. Also, a subsidiary report was developed to show the distribution of common service employment data between servicing and receiving entities on the same basis as the related costs are accumulated in the accounting system.

Budgetary Control

Progress is being made in the continuing development of an effective system of budgetary control.

Cost-type budget schedules for the salary and expense appropriations, and justifications thereof on a cost basis, will be included in the Federal Budget for fiscal year 1958, thus implementing the provisions of Public Law 863, 84th Congress.

Business-type budgets, like those for Government corporations, will be submitted for the National Service Life Insurance Fund and the United States Government Life Insurance Fund, in the budget presentation for fiscal year 1958.

Budget status reports were redesigned to provide greater clarity and direct attention below the appropriation level by distributing data by operating departments.

Budgetary accounts in the general ledger were revised to reduce the number of accounts and entries required. This was made possible through the use of a newly designed form showing the amount of funds available for the current quarter and for each succeeding quarter.

The Financial plan concept of budgeting introduced last year was given full accounting support by reports showing consistent accounting and budget classifications of information, permitting comparison of budget execution with budget planning.

Cost Control

Cooperation at all operating and staff levels produced continuing improvement in systems and reports to instill cost-consciousness, identify cost-responsibility, and assure credible cost information as a basis for management action.

Cost accounting refinements were made in numerous areas to point up controllable costs, clarify cost-responsibility, and increase system flexibility.

Cost accounts for construction projects were completely revised to provide more specific cost information; and the cost centers were redefined to attain consistency in accounting and budget classifications. The improved system materially strengthens financial and managerial controls, and provides full accounting support for cost-type budget presentations by furnishing credible cost data for each project, fiscal year program, and activity.

The number of cost accounts for certain large operating segments was increased and additional cost centers established to furnish definite cost records for the functional work centers of these organizations.

Undistributed cost accounts and holding operating accounts were discontinued. Costs are now charged directly to cost centers.

Accounting for quarters, subsistence and laundry allowances was improved to provide adjustment of funds and costs between appropriations where such services are financed by one appropriation and rendered to employees paid from other appropriations.

Employee fringe benefits are now included on an applied cost basis in a single memorandum account for each class of fringe benefit at the appropriation level. The usual cost centers now include such benefits as personal services.

Cost reports were improved in form and became more widely used throughout the agency. Reports provide continuing analyses of cost information, interstation comparisons, and measurements against related fiscal plans, increasing effectiveness of the cost system.

The over-all cost report of the agency was redesigned to make a more concise presentation of cost information, and to make it serve both as an independent report and as an integral section of the related financial statements. Cost data is reconciled to obligations by operating appropriation. This more meaningful arrangement of detail serves to facilitate financial and budgetary decisions.

Accounting and Internal Control

Account structure of the general ledgers of the agency was improved to provide more complete information on operating results, functional responsibilities, and organization accountability, and to bring favorable or unfavorable factors to the attention of management.

Accounts, procedures, policies and principles applicable to insurance funds and appropriations were codified and incorporated into a new manual issued during the year.

Asset, liability, operating, and trust capital accounts for the General Post Fund were redeveloped on a more business-like basis and placed into effect July 1, 1956. This improved account structure facilitates financial decisions regarding trust fund allocations.

Accounts were set up for accrual of reimbursable income as earned to give more accurate information on the operating results of each fiscal period. Heretofore, some billings for reimbursement were related only to the period in which the billing occurred.

Account symbolization was simplified by the development of a six-digit numbering plan for universal application to all general ledgers. The first two digits identify the particular appropriation or fund, and

the remaining four digits designate the specific account. The improved numbering system simplifies machine tabulation, furnishes ready identification of accounts, and provides for greater system flexibility.

Accounting procedures for mortgage loan accounting were refined to (1) strengthen internal control and simplify transaction processes in numerous areas of these operations, including the interstation transfer of receivables; (2) improve provisions for write-offs of uncollectible receivables; (3) materially reduce the number of entries and documents for recording General Accounting Office collections of such receivables; and (4) simplify agent cashier's collection procedures by furnishing an automatically reproduced deck of loan account punched cards to facilitate identification and deposit of mortgagors' remittances, and by issuing packets of preaddressed remittance envelopes to mortgagors to eliminate the need for preparing receipts except for over-the-counter transactions and on specific requests of remitters.

Procedures for supply fund accounting were revised to permit discontinuance of the liquidated obligation files.

A general reduction was made in the number of copies of documents required. A newly designed 'Transfer of Disbursing Authority' document was instituted for all transfers of funds and allotments. The introduction of this new form permitted the discontinuance of five different forms formerly required in transferring funds and allotments.

Procedures for auditing insurance vouchers were revised to strengthen internal control and eliminate duplication of effort by concentrating the function in the Finance Division, instead of performing it in both that division and the insurance services.

Procedures for insurance policy loan activities were modified to employ the voucher reference file in tracing policy loan histories, thus discontinuing the policy loan history card files.

Procedures for allotment pay accounts relating to United States Government life insurance were converted to a negative posting system.

Mechanization procedures were adopted for an additional number of high volume insurance operations.

Procedures were developed for the use of punched card policy data files to expedite billing, dividend authorization, calculation and vouchering. Simultaneously with the selection of accounts for premium billing, accounts are selected for dividend authorizations. The initial application was in one premium accounts unit in each insurance office, and the

first punched card premium notices were mailed in September 1956; complete installation is expected by January 1957. Revised estimates indicate savings of approximately $375,000 per year will be realized.

Procedures for insurance collections have been adapted to employ punched card processing of premium notices received with premium remittances. This procedure has been installed for open mail items and will be applied to closed mail as the punched card premium notices are placed into use. Savings are estimated at $63,000 per year.

Procedures for maintaining employer payroll deduction insurance accounts have been revised to provide a punched card system, which provides simplified negative posting techniques.

LEGISLATIVE AND JUDICIAL OFFICES

Administrative Office of United States Courts

This office requested and was assigned disbursing station symbol numbers by the Treasury Department identical with the agency's numerical accounting and statistical code which is based on the statutory judicial district division of the United States, its Territories and Possessions. Through this expedient the agency has been able to eliminate a troublesome and time-consuming problem of reconciling its accounting and statistical reports with the reports of the Treasury Department. Also, it is now possible to prepare financial reports and statements without the necessity of converting the administrative records from the judicial district order to the disbursing station order since both are now identical. The manual coding of thousands of accounting documents annually has been eliminated with a substantial reduction in the possibility of errors due to miscoding.

The agency continued its program of greater utilization of punch card equipment in its financial record keeping processes by converting the expense distribution ledgers to this form of recording. Also, the details of obligations incurred, liquidations, and obligated balances were compiled by punch card tabulations with only summary postings to the allotment accounts.

Supreme Court of the United States

The Office of the Marshal, as disbursing office for the Supreme Court, adopted a simplified payroll system in 1956 comparable to the payroll procedures prescribed by General Regulations No. 102 for the Executive Agencies. The new system has proved to be a great time saver in the entire payroll operation.

United States Government Printing Office

The Government Printing Office is continuing its program of improving its accounting system and related procedures. This program, which is necessarily a long-range endeavor owing to the size and complexity of the operations, is particularly directed toward the achievement of simplicity and economy in the accounting, budgeting, reporting, and other processes involved in financial management. Improvements during the year have resulted in a reduction of 3.7 percent in accounting personnel despite an increase in the volume of the agency's operations; an annual savings of about $70,000. Principal areas of improvements achieved in whole or in part during 1956 are the following.

Billing Prices for Printing and Binding Work. A study of the methods followed in billing agencies for printing and binding work resulted in the adoption of a new billing procedure which provides that certain printing and binding work will be billed on the basis of the estimated cost where such cost does not vary more than 5 percent from the job order summary cost. This change has resulted in worthwhile savings in salary costs through eliminating the detailed computing work previously necessary. The study also indicated the necessity for further analysis of the cost accounting and billing processes and in a decision to appoint a committee to make such study. A representative of the General Accounting Office has been appointed to work closely with that committee.

Inventorying Procedures. A change was made in the procedure for inventorying printing and binding materials and supplies which provides for the taking of the inventory on a cycle basis. This change in procedure will eliminate the costly year-end peak load work and will tend to improve storehouse operations by providing a constant check on the adequacy of receiving, storing, and issuing procedures.

Change in Disbursement Procedures. The adoption of mechanical accounting techniques for the preparation of schedules of disbursements and checks in a single operation has resulted in reduced personnel time and related expense.

Practicability of Adopting Electronic Techniques. A study has been initiated to determine the practicability of adopting electronic data processing techniques for accounting operations.

Strengthening of Accounting Staff. The accounting staff has been augmented by the employment as Assistant Comptroller of a professional accountant with several years' experience in cost and general accounting work. One of his primary functions will be a continuing appraisal of the accounting system and related procedures.

Capitalization of Revolving Fund. During the year a determination of the capitalizable value of the revolving fund was completed and agreed to by the Comptroller General as required by the Legislative-Judiciary Appropriation Act, 1954.

☆U. S. GOVERNMENT PRINTING OFFICE: 1957 O 415008