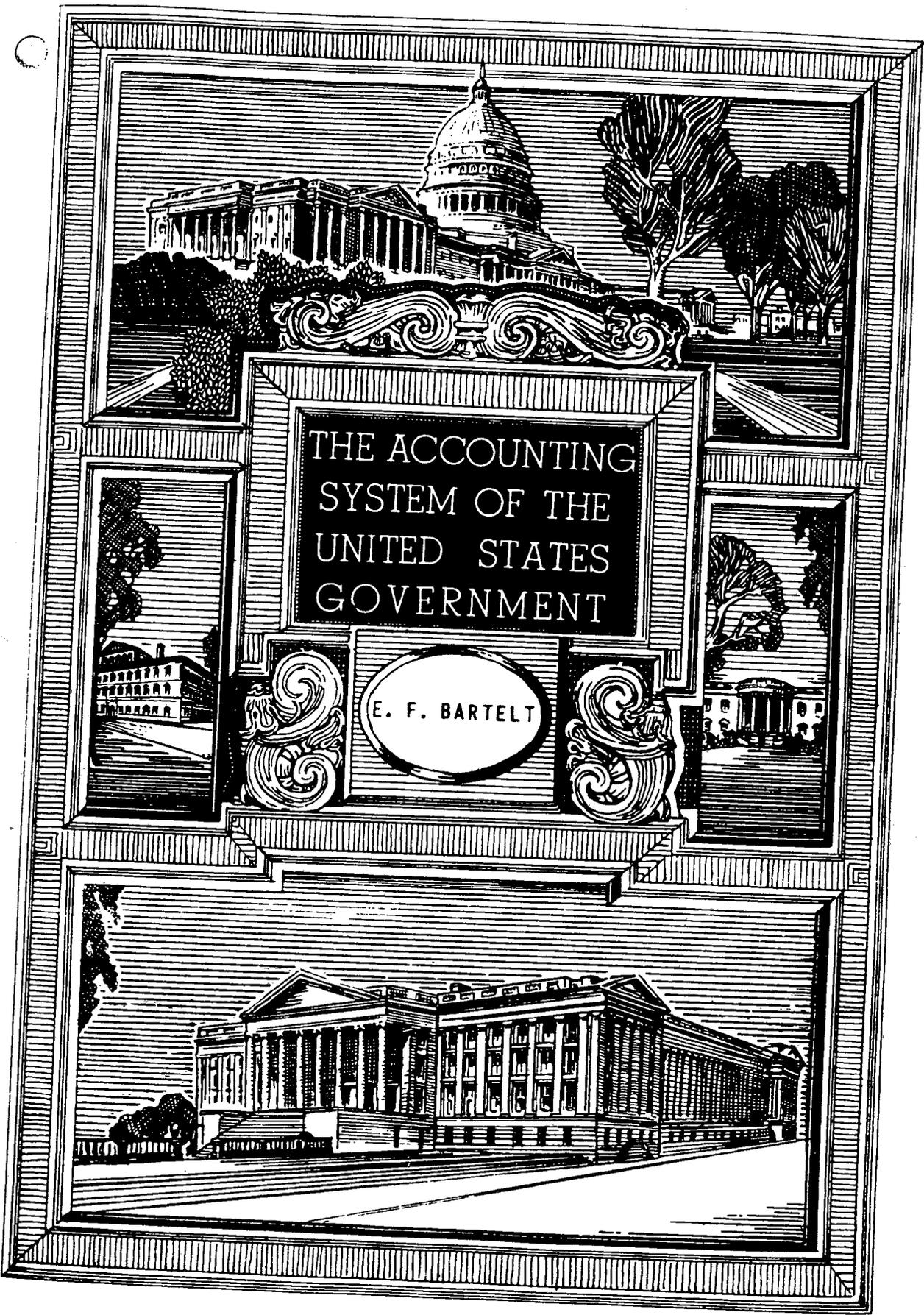


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Room 1255 - Federal Reserve Bank
230 South LaSalle Street
Chicago, Illinois

Letter No. 110

November 25, 1942

PERSONAL AND CONFIDENTIAL

Mr. E. P. Bartelt
Commissioner of Accounts
U. S. Treasury Department
Washington, D. C.

Dear Mr. Bartelt:

In compliance with your letter of November 7, 1942, I am submitting herewith comments on certain parts of chapter 10 of your book now being prepared. These comments follow excerpts taken from your material, in which differences have been noted in the methods of procedure as described in my recent report of the Office of Collector of Internal Revenue, Chicago, Illinois.

Page 10-5 Cashier's Office reads:

"He receives all returns, classifies and lists them on document registers to be forwarded to the appropriate tax division."

Comments

Income tax returns on which remittances are received are listed on Form 813, Document Register. Returns without remittances and non-taxable returns are forwarded to the appropriate tax division without Form 813.

Page 10-5 Tax Division-Control Section reads:

"Also, each return is given a serial number which becomes the account number for the taxpayer in the Bookkeeping Department."

INTERAGENCY RELATIONSHIPS

A knowledge of the functional relationships of the Treasury Department, the Bureau of the Budget, the General Accounting Office, and the various administrative agencies is essential to a proper understanding of the accounting system of the United States Government.

It is the purpose of this chapter to explain these relationships with the thought that it may be helpful in clarifying the Government's accounting system.

Treasury Department

We will first take a look at the Treasury Department. It has a number of important functions, among which are these:

- First, it must see that there is always a sufficient amount of cash in the Treasury with which to meet the prompt payment of all the Government's obligations. (ch. 9)
- Second, it must safeguard the cash, and see that it is paid out only pursuant to proper authorization. (chs. 8,9)
- Third, it collects the Government's revenue. (chs. 10,11)
- Fourth, it borrows money to the extent that the revenue is insufficient to meet expenditures. (ch. 13)
- Fifth, it keeps the general accounts relating to the receipts, appropriations, and expenditures of all departments and establishments of the Government. (ch. 8)
- Sixth, it makes two annual reports to the Congress -- one on the state of the finances, and the other a detailed statement of receipts and expenditures, classifying the receipts, wherever practicable, according to districts, states, and ports of collection, and the expenditures under each separate head of appropriation. (ch. 24)

In addition, the Treasury Department handles investments for about 25 different trust accounts, (ch. 15) the holdings of which amount to almost 10 billions of dollars.

Bureau of the Budget

Now we will look at the Bureau of the Budget (ch. 23). Just what are its functions relating to financial management?

First, it compiles for the President the annual budget. In compiling the budget it has the power, with the approval of the President, to reduce or revise the estimates of the various departments and establishments.

While it requires only a few words to describe this function its importance cannot be overestimated because it determines to a large degree the scope and extent of the work upon which all the Government departments shall engage.

Second, after the appropriations have been made by Congress the Budget Bureau again enters into the picture. Before the departments commence their programs of expenditure, they must submit to the Budget Bureau for approval the total amount which they propose to obligate during each month of the year. This is known as the "apportionment of appropriations."

After the monthly apportionments have been approved by the Budget Bureau they may not be modified except with the Budget Director's approval. The Budget Bureau watches the progress of the program through monthly reports taken from the accounting records of the various administrative agencies and from cash statements compiled by the Treasury Department. Although the Budget Bureau does not keep accounting records, its control over public expenditures is greater than that of either the Treasury Department or the General Accounting Office.

General Accounting Office.

Next, let us take a look at the General Accounting Office (ch. 25). This agency is probably the least understood of all Federal activities. It is presided over by the Comptroller General, and is independent of the executive branch of the Government. The Comptroller General's duties are:

First, he countersigns the warrants issued by the Secretary of the Treasury.

These warrants authorize (a) the setting up of appropriation accounts, based upon acts of Congress, (b) the transfer of disbursing credits from such appropriation accounts^{1/} to checking accounts^{2/} of disbursing officers, and (c) the payment of money by the Treasurer of the United States upon direct settlements of the General Accounting Office.

Second, he renders advance decisions concerning the legality of proposed expenditures.

These decisions are rendered only upon request of the head of a department or establishment, or a disbursing officer, in cases where there is some doubt as to the legality of a proposed expenditure.

Third, he makes a preaudit of expenditures when requested to do so by the head of the department concerned.

As in the case of advance decisions, the determination as to whether expenditures shall be preaudited by the General Accounting Office is made by the head of the department having jurisdiction over the appropriation or activity.

Fourth, he makes what is known as direct settlements of claims filed by individual claimants.

For instance, if a person believes he has a claim against the

^{1/} On books of Secretary of the Treasury (Division of Bookkeeping and Warrants) ch. 8.

^{2/} On books of Treasurer, U. S., ch. 9.

Government which he is unable to get approved for payment by one of the executive departments he may submit it to the Comptroller General for settlement. If the Comptroller General believes the claimant is entitled to payment, and if there is an appropriation available therefor, he issues a certificate of settlement in favor of the claimant. This certificate may be sent either to the Secretary of the Treasury for payment by the Treasurer of the United States on a settlement warrant or it may be sent to a Government disbursing officer for payment by check drawn on the Treasurer of the United States. The practice is not uniform.

Fifth, he audits and settles the personal accounts of collecting and disbursing officers of the Government.

At the end of each month (or quarter) every collecting and disbursing officer must prepare an account current which is in the nature of a summary of debits and credits showing the amounts which he has received, paid out, or deposited in the Treasury. The disbursements are supported by vouchers certified by responsible administrative officers attached to the various operating units of the Government. Before they are sent to the General Accounting Office for audit and settlement, the accounts current, with supporting vouchers and papers, must pass through the administrative department at Washington for what is known as an "administrative examination." The administrative department examines the account and forwards it to the General Accounting Office for audit and settlement, with a statement of differences which it has noted in the examination of the account. The administrative examination is not uniform among the various departments. Some examine the accounts and papers in much greater detail than others.

If the General Accounting Office takes exception to any item in the account it notifies the accountable disbursing or collecting officer.

Most of such exceptions are cleared through the furnishing of additional information. In event the officer is unable to satisfy the General Accounting Office as to the legality of the expenditure, it is "disallowed" in which case the disbursing officer must recover the money; make reimbursement out of his personal funds; or procure relief from Congress.

In this connection it should be mentioned that Public Law 389, approved December 29, 1941, defines the respective responsibilities of disbursing and certifying officers. (ch. 12). Under this Act officers and employees who certify vouchers to disbursing officers of the executive branch of the Government must be bonded and are accountable for any illegal, improper, or incorrect payment resulting from any false, inaccurate, or misleading certificate made by him, as well as for any payment prohibited by law or which did not represent a legal obligation under the appropriation or fund involved.^{1/} Public Law 528, approved April 28, 1942, provides: "That the responsibility and accountability of certifying officers under the Act of December 29, 1941 (Public Law 389), shall be deemed to include the correctness of the computations of certified vouchers and disbursing officers shall not be held accountable under Section 1 of such Act for the correctness of such computations." If the Government is unable to recover from the claimant or the disbursing officer it may sue on the disbursing officer's bond. It is at this point where the Attorney General becomes an important factor in the Government's accounting system, since it is he who must determine whether the Comptroller General's determination will stand up in the courts.

^{1/} The Act of Dec. 29, 1941, does not apply to the disbursing functions under the jurisdiction of the War Dept., Navy Dept. [including the Marine Corps], and the Panama Canal, except those pertaining to departmental salaries and expenses in the District of Columbia.

Sixth, the Comptroller General is responsible for the recovery of certain debts due the United States.

For instance, if an executive department should be unable to collect an old debt it would report the matter to the General Accounting Office where the case would be placed on a debtors' list. If at a later date the debtor should file a claim in the General Accounting Office on some other account, the General Accounting Office would effect the recovery of the amount due the Government by setoff against the claim. Or, a department might send a claim to the General Accounting Office for settlement with a recommendation of setoff. Since only a small percentage of the Government's accounts are settled in the General Accounting Office before payment this procedure contains an element of discrimination. For instance, if Mr. A should file a claim with the General Accounting Office for settlement the General Accounting Office may wipe the claim out entirely by offsetting against it an old debt. On the other hand, if Mr. B. should have a current claim against the Government he may send it to an administrative agency for payment through a disbursing officer and he might receive payment in full, notwithstanding the fact that he also may be indebted to the United States on some other account.

Seventh, under Section 312 of the Budget and Accounting Act the Comptroller General is required to investigate, at the seat of Government or elsewhere, all matters relating to the receipt, disbursement, and application of public funds. Under Section 313 of the same Act he is authorized to examine the records of any agency of the Government as defined in the Budget and Accounting Act.

~~The duties performed under Section 312 are to be distinguished from those previously mentioned with respect to the audit and settlement~~

of accounts of collecting and disbursing officers. The audit and settlement of collecting and disbursing officers' accounts are performed by the Audit and the Bookkeeping and Accounting Divisions, whereas the work under Section 312 is performed by the Investigations Division. The audit and settlement of accounts are based largely upon balanced accounts and supporting documents submitted to the General Accounting Office by accountable officers, while the investigative work under Section 302 is performed in the various departments and establishments, both in Washington and the field. To some extent it supplements the work of audit and settlement although it is much wider in its scope.

Eighth, the Comptroller General has the duty of prescribing the forms, systems, and procedures for (a) administrative appropriation and fund accounting in the several departments and establishments, and (b) for the administrative examination of accounts and claims.

This function has to do with the installation of appropriation and fund accounting systems in the several departments, bureaus, and offices and deals largely with matters referred to in chapter 18.

Finally, the Comptroller General is required to make to the President when requested by him, and to the Congress at the beginning of each regular session, a report in writing of the work of the General Accounting Office.

The law requires that such report shall contain recommendations concerning the legislation deemed necessary --

- (a) To facilitate the prompt and accurate rendition and settlement of accounts, and
- (b) Such other matters relating to the receipt, disbursement, and application of public funds as the Comptroller General may think advisable.

In such regular report, or in special reports at any time when

Congress is in session, it is the Comptroller General's duty to make recommendations looking to greater economy or efficiency in public expenditures. Further, the Comptroller General is required specially to report to Congress every expenditure or contract made by any department or establishment in violation of law.

Summing up the functions of these agencies as they relate to the preparation and execution of the Government's financial program, we find essentially that the --

Bureau of the Budget

Prepares the financial program.

Treasury Department

Finances the program.

Executive Departments and
Establishments

Execute the work programs.

General Accounting Office

Determines whether the program has
been executed in accordance with law.

This summation, however, indicates a clearer division of authority and responsibility than exists in actual practice, as will appear when we study more closely the accounting system of the Government.

THE PRESENT SYSTEMS OF ACCOUNTS

ACCOUNTS MAINTAINED BY THE TREASURY DEPARTMENTDivision of Bookkeeping and Warrants - central accounts

The central accounts of the Government relating to receipts, appropriations, and expenditures are maintained upon the books of the Division of Bookkeeping and Warrants of the Treasury Department (ch. 8). Such accounts, however, as presently constituted, are based upon warrants issued by the Secretary of the Treasury and countersigned by the Comptroller General.

These warrants are formal statutory documents issued by the Secretary of the Treasury authorizing: (1) the setting up of appropriation accounts; (2) the advance of money to disbursing officers; (3) the payment of claims settled directly by the General Accounting Office; (4) the covering of money into the Treasury; (5) the transfer of funds from one appropriation account to another; and (6) the clearing from the books of unexpended appropriation balances. They constitute the Treasury's central control of receipts and appropriations. Since the central books of the Government are based only on Treasury warrants, they do not reflect the current financial condition of the Government.

In the accounting for Government revenue there are involved at least four basic transactions:

First, the assessment of taxes or duties;

Second, the collection of such taxes or duties;

Third, the deposit of the collections into a Federal Reserve Bank or designated depository for account of the Treasurer of the United States, and

Finally, the formal acknowledgment of the receipt into the Treasury on a covering warrant.

Of these four transactions, only the last is reflected in the central accounts of the Treasury Division of Bookkeeping and Warrants.

Now let us look at the expenditure side. The expenditure of money involves eight basic transactions:

First, the setting up of the appropriation account;

Second, the apportionment of the appropriation according to the months in which the funds are to be obligated;

Third, the allotment of money to operating units;

Fourth, the incurring of obligations of various kinds and descriptions;

Fifth, the approval of vouchers for payment;

Sixth, the advance of funds for credit in checking accounts of disbursing officers;

Seventh, the drawing of checks by disbursing officers; and

Finally, the payment of the checks by the Treasurer of the United States.

Of all these transactions, only two appear in the central accounts of the Treasury Division of Bookkeeping and Warrants. One of these is the warrant setting up the appropriation account, and the other is the warrant advancing funds to disbursing officers.

Treasurer's accounts

The second and entirely different set of accounts is that maintained in the office of the Treasurer of the United States (ch. 9).

These accounts are based upon moneys received and disbursed by the Treasurer. They also include accounts with Government depositaries and checking accounts of disbursing officers and Government corporations.

When funds are advanced by the Secretary of the Treasury to a disbursing officer, the warrant is reflected as a charge against the appropriation account on the books of the Treasury Division of Bookkeeping and Warrants, and as a corresponding credit in the checking account of the disbursing officer on the books of the Treasurer of the United States. The Treasurer does not keep a separate account for each appropriation; nor does the Division of Bookkeeping and Warrants keep a separate account for each disbursing officer.^{1/}

Disbursing officers' accounts

The third set of accounts is the set maintained in the various disbursing offices of the Government (ch. 12). These accounts are on a different basis from either set of accounts previously mentioned. They are based primarily on advances of funds to disbursing officers through warrants of the Secretary of the Treasury and upon checks issued in payment of Government obligations. To some extent disbursing officers account for collections received from miscellaneous sources through the various operating agencies of the Government.

Collecting officers' accounts

The fourth and fifth sets of accounts are the accounts of

^{1/} Under Sec. 304 of the Budget and Accounting Act of 1921, the personal accounts of collecting and disbursing officers formerly maintained in the Treasury Division of Bookkeeping and Warrants were transferred to the General Accounting Office (ch. 25).

collectors of internal revenue (ch. 10) and collectors of customs (ch. 11). There are 48 collectors of customs and 64 collectors of internal revenue throughout the country. The bulk of the Government's revenue is received through these officers, who make daily deposits in Federal Reserve Banks and designated depositories for account of the Treasurer of the United States. Their accounts are based principally on assessments, collections, and Treasury deposits.

ACCOUNTS MAINTAINED IN THE
EXECUTIVE DEPARTMENTS

Administrative appropriation and fund accounts

The sixth set of accounts is the administrative appropriation and fund accounts of the several departments and establishments of the Government (ch. 18). These accounts are scattered throughout the departments, bureaus, offices, and field services of the Government. They are based primarily on Congressional appropriations, Budget apportionments, administrative allotments, and encumbrances for pay rolls, contractual obligations, purchases, etc., and approved vouchers. Administrative agencies also maintain property accounts and in some cases cost accounts. While such accounts are related to appropriation accounts, they are usually operated as separate systems. The expenditures identified with a particular appropriation account do not, as a rule, represent the entire cost of the service, function, or activity to which the appropriation relates; because, frequently, additional expenditures are properly chargeable to other appropriations.

ACCOUNTS MAINTAINED IN THE
GENERAL ACCOUNTING OFFICE

There is still another set of accounts which has not yet been mentioned. They are the accounts maintained in the General Accounting Office (ch. 25); which office, as has been pointed out, is the auditing branch of the Federal Government. The accounts maintained in the General Accounting Office consist of appropriation and personal accounts based upon warrants issued by the Secretary of the Treasury and countersigned by the Comptroller General. The purposes of these accounts are to see that warrants are not issued by the Treasury in excess of appropriations; that disbursing officers account for the moneys advanced to them for expenditure; and that collecting officers account for the moneys coming into their possession.

DIVISION OF BOOKKEEPING AND WARRANTS

The Division of Bookkeeping and Warrants was created by Act of Congress approved July 31, 1894^{1/}, as amended, which provides:

"There shall be in the Bureau of Accounts of the Fiscal Service, Treasury Department, a division of bookkeeping and warrants. Upon the books of this division shall be kept all accounts of receipts and expenditures of public money except those relating to the postal revenues and expenditures therefrom. It shall be the duty of the Secretary of the Treasury to make appropriate rules and regulations for carrying out the provisions of this section." (Underscoring supplied)

In its archives are the original manuscript accounts kept by General George Washington, in his own handwriting, covering his financial transactions as Commander-in-Chief of the military forces during the Revolutionary War. Of equal interest are the accounts of Robert Morris, first Superintendent of Finance, during the period 1781 to 1784. The first Treasury circular of instructions in the original handwriting of Alexander Hamilton is another document which fires the patriotism of every real American privileged to see it. The history of the United States as a nation and the accounts of the Federal Treasury come down the years together. To most persons accounting is a dry and uninteresting subject, but the sensation which comes to one as he thumbs through the official accounts connected with important events of history is indeed difficult to describe.

^{1/} U. S. C. Title 5, sec. 255.

Inauguration of double-entry bookkeeping system

Until 1907, the books in the Division of Bookkeeping and Warrants were kept on a simple single-entry basis. In 1907 Congress appropriated \$5,000 for the installation of a double-entry system of bookkeeping.

The new double-entry system of bookkeeping provided greater proof of accuracy of the accounts and a more consistent and proper disposition of the items entered therein. A few of the more important special features were:

A combination detailed ledger of appropriations and expenditures, provision being made for showing a complete history of each appropriation and its disposition. The accounts were devised to show the progressive steps of the use of each appropriation, as follows:

1. Disbursements upon certificates of the auditor calling for the issuance of a settlement warrant and the concurrent charges to (a) appropriation and (b) expenditure accounts;
2. Advances of funds to disbursing officers on accountable warrants, providing concurrent charges against (a) appropriations, and (b) disbursing officers;
3. Expenditures made by disbursing officers showing (a) charges against expenditure accounts, and (b) corresponding credits to disbursing officers' accounts;
4. Cumulative audited expenditures; and,
5. Current balances, respectively, to (a) the credit of the appropriation accounts, and (b) to the debit of the accounts of the disbursing officers from whom an accounting was to be secured.

The next feature worthy of special mention was the form of the registers providing for tracing each warrant issued, from the

first to the final stage of accounting. The registers showed (a) the date and number of each warrant; (b) the certificate on which it was taken up in the audit; and (c) the outstanding warrants not taken up in auditors' certificates.

Still another feature was the ruling of the personal ledgers providing for (a) initial, and (b) final entries, respectively, the purposes of which were to indicate --

First, the status of the account as a result of debits and credits for advances made and money deposited in the Treasury, and

Second, the status of the account as settled by the auditor.

This afforded the Secretary of the Treasury the means of checking the work of the auditors in disposing of items in accounts settled by them and to call attention to errors and omissions of amounts or of wrongful debits or credits, in order that such errors might be promptly adjusted.

The Division of Bookkeeping and Warrants has three important statutory functions, all of which date back to the beginning of the Government:

First, to issue the warrants acknowledging the receipt of money into the public Treasury and authorizing the withdrawal of money therefrom;

Second, to keep the public accounts relating to the revenues, appropriations, and expenditures of all departments and establishments of the Government.^{1/}

^{1/} The Treasury's accounts relating to the Post Office Department represent only the postal surplus or postal deficit. The Secretary of the Treasury issues a warrant to the Post Office Department on the general treasury to cover postal deficits.

Third, to prepare an annual report to the Congress relating to revenues, appropriations, and expenditures of the Government (ch. 24).

The Treasury's control of receipts and issues is exercised through the medium of documents called "warrants." Section 147 of Title 31 of the United States Code reads:

"The Treasurer shall receive and keep the moneys of the United States, and disburse the same upon warrants drawn by the Secretary of the Treasury, countersigned in the General Accounting Office, and not otherwise. He shall take receipts for all moneys paid by him, and shall give receipts for all moneys received by him; and all receipts for moneys received by him shall be indorsed upon warrants signed by the Secretary of the Treasury, without which warrant, so signed, no acknowledgment for money received into the public Treasury shall be valid."

The legality of all warrants issued by the Treasury is attested by countersignature of the Comptroller General of the United States (ch. 25).

It should be mentioned that the Treasurer of the United States (ch. 9) receives certain special deposits which are not covered into the Treasury on a warrant, e.g., unemployment trust funds belonging to the States (ch. 15); or where the Treasurer acts merely as a banker for or custodian of funds of Government corporations.

In order to furnish a bird's-eye-view of the system, an accounting flow chart is reproduced here.^{1/}

Before consideration of the chart, it should be mentioned that Treasury warrants are issued for six general purposes:

^{1/} Accounting procedures of the U. S. Government, by E. F. Bartelt, reproduced by courtesy of the Public Administration Service, Chicago, Illinois.

1. To cover (acknowledge) receipts into the Treasury.
2. To set up appropriation accounts.
3. To advance funds to disbursing officers.
4. To pay direct settlements of the General Accounting Office.
5. To transfer funds from one appropriation (or revenue) account to another.
6. To clear from the books unexpended balances of appropriations which have lapsed by limitation of law.

General description of chart

Attention is called to the general layout of the chart.

At the center is a photographic reproduction of the Treasury Building, where the warrants are drawn and where the central accounts of the Government are maintained in the Division of Bookkeeping and Warrants. Immediately above is pictured the General Accounting Office, where all Treasury warrants are countersigned and where the audit and settlement of the public accounts are conducted.

The block at the left-hand side of the Treasury Building represents the Receipts Section of the Division of Bookkeeping and Warrants, which issues the warrants covering money into the Treasury.

The block at the right represents the Appropriation and **Accounting** Section, which maintains the appropriation accounts and issues the warrants authorizing the payment of money from the Treasury, i.e., advances to disbursing officers or payments by the Treasurer of settlements made by the General Accounting Office.

At the bottom of the chart appear the general ledger entries reflecting the results of the work of these respective sections.

Attention is called to the capital letters "A to K" immediately above the blocks representing the general ledger entries relating to the various classes of documents. For instance, in the lower left-hand corner of the chart will be observed the letter "A" immediately above the block marked "Certificates of Deposit Received."

In the upper left-hand corner of the chart is the letter "A" immediately below "Collecting Officers." This method of presentation enables the tracing of the money and accounting documents from the time the collection is made by the Government's collector, through the various stages, down into the general ledger of the central accounts of the Government.

In further general explanation of the chart it will be observed that the various steps involved in the accounting routine are numbered in sequence beginning with the numeral 1, in the upper left-hand corner, showing the deposit of money in a Federal Reserve Bank or other designated Government depository.

Receipts

We will begin with the receipts. Numeral 1 in the upper left-hand corner shows remittances being sent by collectors of revenue to Federal Reserve Banks. When the bank receives such remittances it credits the account of the Treasurer of the United States and issues a certificate of deposit. At the close of each day's business, the original certificates of deposit (together with paid

checks, coupons, etc.) are sent to the Treasurer of the United States at Washington, numeral 2, accompanied by a transcript of the Treasurer's account showing all debits and credits.

After the certificates are examined in the Treasurer's Office and checked against the bank's transcript, the Treasurer charges the bank and credits his revenue account. The original certificates are then sent to the Division of Bookkeeping and Warrants, as indicated by numeral 3. Here they go to a control desk where they are checked, classified, and posted to an Uncovered Moneys controlling account.

It will be observed by reference to the general ledger block, indicated by the letter A, that the amount of certificates of deposit received is debited in the account "Treasurer, U. S.," and a corresponding credit is entered in an account called "Uncovered Moneys."

From the uncovered moneys control desk the certificates, numeral 4, are sent to the Deposit Covering Clerks at numeral 5. At the present time there are about 40 of such clerks, working in 14 groups, to each of which is assigned a certain class of deposits. For example, one group is responsible for Internal Revenue; another for Customs; another for War Department deposits; another for Navy; and so on.

Covering-in Process

In the covering of money into the Treasury, the Department uses bookkeeping machines. At the time the warrant is written there are posted by carbon process several different records, all ruled exactly alike, with the following columnar headings:

1. Warrant
 - (a) Number
 - (b) Date
2. Depositor (name)
3. Account Symbol
4. Account Title
5. Department
6. Covered into United States Treasury
 - (a) Revenues (amount)
 - (b) Repayments to Appropriations (amount)
7. Amount Counter Entered
8. Certificate of Deposit
 - (a) Date
 - (b) Number
 - (c) Amount

First, there is a Depositor's Register on which are posted all deposits relating to a particular depositor. This register is made in triplicate. At the end of the month two copies are sent to the General Accounting Office for auditing purposes. The other remains in the permanent files of the Treasury.

Second, there is prepared by carbon process in the same operation, a Revenue or Repayment to Appropriation Register (as the case may be) upon which is posted all deposits relating to a particular revenue or appropriation account. This record is prepared in duplicate. At the end of the month one copy is sent to the General Accounting Office for auditing purposes and the other is retained in the permanent files of the Treasury.

Third, also prepared in the same operation is a Departmental Deposit List, which is sent currently to the operating agency concerned in order that it may be immediately informed concerning the deposits covered into the Treasury relating to its activities.

The Depositors' Register furnished the General Accounting Office is checked against monthly accounts current rendered to that office by accountable collecting and disbursing officers. The Departmental Deposit List is checked by the executive department or operating agency against triplicate copies of certificates of deposit. Covering Warrants are also checked against collection schedules transmitted to the General Accounting Office by administrative agencies. There is thus provided a double check upon the covering of money into the Treasury.

Covering Warrant

Numeral 6 shows the preparation of covering warrants. Below this block is the letter "B," and by reference to the related letter "B" in connection with the general ledger journal entries it will be noted that the "Uncovered Monies" account is charged for the amount of the covering warrants issued, and a credit is entered in one or more of the following three accounts: Revenues, Expenditures, or Public Debt, depending on the character of the deposit. The Expenditures account is credited when the deposit represents a refund to an appropriation. In such case there is a dual entry charging the available funds account (to which reference will later be made)^{1/} and crediting the appropriations controlling account.

^{1/} This is only a "record" account, being contra to appropriations. It has no relation to available cash.

Numeral 7 shows covering warrants being posted to the Uncovered Moneys account maintained at the control desk in the Receipts Section, and numeral 8 shows the control desk rendering certain monthly statements of coverings to the Treasurer of the United States for use in connection with the Daily Statement of the United States Treasury (ch. 24).

Numeral 9 shows the various records which are prepared in connection with the covering warrant and which have already been described. As previously mentioned, the form of the covering warrant (3), the departmental list (10), the depositors' register (11), the repayments to appropriation register (12), and the revenue ledger (13) are all ruled exactly alike.

We will now observe how these records tie into other records. By reference to numeral 14 at the left top of the chart, it will be observed that a copy of the certificate of deposit issued by the collecting officer in the field is sent to his superior officer in Washington, called the "administrative officer" (ch. 10, 11, 19).

By reference to numeral 15 it will be noted that the Departmental Deposit List issued by the Treasury is also sent to the same office. This step serves two purposes. First, it informs the administrative department or agency concerned of the formal covering of money into the Treasury; and second, it operates as a check by the administrative office upon both the collecting office and the Treasury. Now by reference to numeral 16 (at the center of the Treasury building), it will be observed that copies of the deposit

register (11), the repayments to appropriation register (12), and the revenue ledger (13) are sent to the General Accounting Office. It will also be observed that collection schedules (numeral 17 at top center) are sent to the General Accounting Office by the collecting officer, thus providing an additional check upon the covering of money into the Treasury. ^{1/}

The "Repayments to Appropriation Register" (12) is totaled for each appropriation account and is sent to the Appropriation and Accounting Section of the Division of Bookkeeping and Warrants, where the items are posted to the proper appropriation accounts in the appropriation ledgers.

General, special, and trust accounts

The accounts in the revenue ledger (13) consist of general accounts (18), special accounts (19), and trust accounts (20).

Although the Federal Government has, in the popular sense, three different funds - general, special, and trust - actually all moneys are deposited in a single fund known as the General Fund (ch. 9). Within the General Fund, however, are general, special, and trust accounts.

The general accounts represent moneys which are not dedicated by the Congress for specific uses in advance of their collection. They consist principally of income taxes, duties on imports, miscellaneous internal revenue, and collections from miscellaneous sources

^{1/} When collections are made by administrative officers and turned over to accountable collecting or disbursing officers for deposit, the collection schedules are transmitted to the General Accounting Office by administrative officers.

such as fees, fines, penalties, forfeitures, sales of Government property, and so forth.

Special accounts (commonly referred to as special funds) represent moneys which the Congress appropriates for specified uses in advance of their collection. Strictly speaking, they are permanent appropriations, the amount of the collections being in the nature of a "yardstick" for determining the amount authorized to be expended.

The term "trust accounts," of course, is self-explanatory. These accounts include various retirement funds, Indian tribal funds and many others.

On the basis of the receipts in special accounts (19) and trust accounts (20), there is prepared an appropriation warrant (22) for the purpose of establishing the related appropriation accounts and making the money available for authorized uses. Such warrants, after being countersigned in the General Accounting Office, are posted to the detailed appropriation accounts in the appropriation ledgers as indicated on the chart.

Receipts from the sale of public debt obligations are indicated by the numeral 21. They are commingled in the General Fund with other receipts and may be used only to meet authorized expenditures pursuant to appropriations made by Congress. A separate public debt account is maintained for each security issue, showing with respect to each such issue the amount issued (receipts), the amount retired (expenditures), and the amount outstanding.

Appropriations and expenditures

Under the Constitution no money may be drawn from the Treasury except pursuant to an appropriation made by law. Accordingly, the accounting relating to the expenditure of money begins with the appropriation of money by the Congress at "D" in the upper right-hand corner of the chart:

Appropriations are of four general types, (1) annual, (2) permanent indefinite, (3) permanent specific, and (4) continuous.

Annual-appropriations, provided in the several departmental supply bills, are voted each year by Congress. They are in considerable detail and specific as to amounts. They may be obligated only during the fiscal year for which made, but the unexpended balances remain on the books of the Treasury for two additional years to meet outstanding obligations.

Permanent appropriations, on the other hand, are available year after year without annual action of Congress. They may be either definite or indefinite as to amount. An example of the latter is the permanent-indefinite appropriation for payment of interest on the public debt which gives the Secretary of the Treasury continuing authority to pay interest as it falls due.

A permanent specific appropriation is one where the Congress appropriates a specific amount more or less permanently for a number of years. For example, Congress may make a limited appropriation, say, of a million dollars a year for each of five years. In such a case the Treasury would set up an appropriation account of a million dollars at the beginning of each fiscal year

for the five years without annual action by Congress. Or, it may appropriate a specific amount permanently without limitation as to time.

Then, again, Congress may make an appropriation in a specific amount to be available until expended. These are called continuous or "no-year" appropriations, e.g., construction of public buildings. They do not lapse at the end of the fiscal year.

In a limited number of cases (such as good roads and public buildings) Congress authorizes the entering into of contracts to be paid from future appropriations.

Considering the fact that there are over 7,200 appropriation accounts on the books, and bearing in mind also that Congress frequently enacts legislation affecting accounts already on the books, it will be seen that the Treasury accountants and bookkeepers must not only keep abreast of appropriation legislation but must keep alert to the possible effect of other new legislation on existing appropriation accounts.

After an appropriation act has been approved by the President, the original is sent to the State Department for custody and safekeeping.

The State Department furnishes the Treasury Department with a certified copy of each appropriation act at numeral 23 (right center of the chart).

Appropriation warrant

On the basis of the act, an appropriation warrant is prepared in the Division of Bookkeeping and Warrants upon which is listed the amount to be credited to each appropriation account. After the warrant is examined and countersigned by the Comptroller General of the United States it is posted to the detailed appropriation accounts in the Treasury Division of Bookkeeping and Warrants at numeral 24.

A certified copy of the appropriation warrant is sent by the Division of Bookkeeping and Warrants to each administrative (i.e., operating) agency (ch. 18) to which the appropriations are made. This is an official notice from the Treasury that the funds are available for obligation and requisition, numeral 25, and is used as the medium for posting the appropriation accounts in the administrative agency.

Appropriation transfer warrants

Frequently the Congress authorizes the transfer of unexpended balances from one appropriation account to another. Numerals 26 and 27 show the issuance and posting of appropriation transfer warrants.

Surplus fund warrants

We now come to what are known as surplus fund warrants.

Pursuant to the Act of June 20, 1874, the Treasury clears from its books, as of the last day of each fiscal year, the unexpended balances of all annual appropriations that have

remained on the books for two full fiscal years after the close of the year for which the appropriations were made. This is known as carrying money to the "Surplus fund of the Treasury." The term "surplus fund" is somewhat misleading since it does not represent surplus money as the term would ordinarily imply in accounting terminology.

Appropriations when made by Congress and set up on the books of the Treasury Department do not represent income or cash set aside in the Treasury for the purposes specified in the appropriation acts. They are only record accounts and merely represent the limit to which administrative offices may obligate Government funds for specified purposes. They are predicated largely on anticipated tax collections and other receipts. It follows, therefore, that when appropriations, or unexpended balances of appropriations, are carried to what in the law is termed the "Surplus fund of the Treasury" it involves simply a matter of writing such appropriations off the books without increasing the cash in the Treasury or affecting it in any manner.

The total amount of appropriation warrants is posted monthly in the general ledger as a debit to "Available Funds" ^{1/} and a credit to an account called "Appropriations," which controls the detailed accounts in the various appropriation ledgers. In the posting of surplus fund warrants such entries are reversed.

^{1/} This is only a record account (i.e., contra to appropriations) and has no relation to available cash.

Numerals 28 and 29 show the posting of surplus-fund warrants to the detailed appropriation ledgers.

Payment of Government obligations

The payment of the Government's bills is accomplished in two ways:

First, by bonded disbursing officers who draw checks on the Treasurer of the United States against funds placed to their credit on accountable warrants, and

Second, by the Treasurer of the United States who draws checks in favor of claimants on authority of settlement warrants.

Federal Reserve Banks are authorized to pay matured or called bearer obligations and matured interest coupons upon presentation and to charge the Treasurer's account for the amount so paid. The payment of interest on registered bonds is accomplished through checks drawn by the Division of Loans and Currency on the Treasurer of the United States. Registered bonds are redeemed by checks drawn by the Treasurer of the United States. At the end of each month the Treasurer submits to the Secretary of the Treasury a requisition for a warrant to cover the payments. The redemptions of matured or called bearer obligations and matured interest coupons are the only cases wherein payments precede the issuance of an authorizing warrant.

Accountable Warrants (Advances of funds to disbursing officers)

Virtually all of the current bills of the Government are paid by bonded disbursing officers to whom funds are advanced by the Secretary of the Treasury on accountable warrants.^{1/} Such funds,

^{1/} Accountable warrants do not draw money from the Treasury but merely represent authorizations for disbursing officers to draw checks on the Treasurer in payment of Government obligations.

however, must remain in checking accounts with the Treasurer of the United States until disbursed, unless the Secretary of the Treasury specifically authorizes the disbursing officer to pay bills in cash as a result of local conditions.^{1/} In such cases the Secretary of the Treasury fixes the amount of cash which the disbursing officer may have on hand at any one time. Such cash, of course, is carried at the disbursing officer's own personal risk.

The procedure relating to the advance of money to disbursing officers (ch. 12) begins with the preparation of a requisition for funds by the administrative office (ch. 18) to which the appropriation is made. This is indicated by the letter "E" in the upper center of the chart. This requisition is drawn in favor of the disbursing officer to whom the advance is to be made, and shows the amount which he may disburse under each separate item of appropriation. Funds advanced to a disbursing officer under one appropriation are not available for expenditure by him under another.

The requisition for disbursing funds is first sent to the General Accounting Office, numeral 30, for approval. If the officer is not delinquent in the rendition of his accounts and if they are in satisfactory condition, the General Accounting Office approves the requisition and sends it to the Treasury Department, Division of Bookkeeping and Warrants at numeral 31.

After the requisition has been recorded at a central requisition desk it is sent to the proper bookkeeper for the drawing of an accountable warrant, numeral 32. This warrant, as is true of all

^{1/} Treasury Department Circular 195

other warrants, is sent to the General Accounting Office for counter-signature. It is -

1. Charged against the detailed appropriation accounts of the Division of Bookkeeping and Warrants, numeral 33; and
2. Credited to the disbursing officer's checking account on the books of the Treasurer at numeral 34.^{1/}

The general ledger entries relating to such warrants are indicated at the bottom of the chart under letter "E." Advances under appropriations other than public debt are charged as "Expenditures"^{2/} in the general ledger and credited to an account called "Disbursing Officers' Credits."

Public debt warrants are charged against the "Public Debt" account and credited to an account entitled "Treasurer, U. S." A dual entry is made charging "Appropriations" and crediting "Available Funds"^{3/} for the combined total of all accountable warrants.

Settlement Warrants

Approximately 31,300 claims involving \$582,044,390.99 were paid during the fiscal year 1942, on direct settlements of the General Accounting Office (ch. 25). Approximately 45 millions of these settlements are sent to disbursing officers for payment from funds advanced to them on accountable warrants. The other

^{1/} The warrant is also charged against the disbursing officer on the records of the General Accounting Office, and so remains until the officer has fully accounted for the money contained therein.

^{2/} Account used only for bookkeeping purposes. It has already been explained that warrants do not reflect current expenditures, and are not so used.

^{3/} Only record account; has no relation to cash.

537 millions are sent to the Secretary of the Treasury for payment by the Treasurer on settlement warrants.

Settlement warrants are based upon certificates of settlement issued by the Comptroller General. On the basis of these settlement warrants the Treasurer issues checks directly to claimants.

The delivery of the certificates to the Secretary of the Treasury is indicated by the numeral 35, which will be seen on the chart at the top center of the Treasury building.

Settlement warrants are used only for the payment of claims settled by the Comptroller General. However, under the Budget and Accounting Act, the Comptroller General may send his certificates of settlement to disbursing officers for payment. Should the latter practice be followed universally the settlement warrant would entirely disappear.

Whether paid by disbursing officers from advances on accountable warrants or by the Treasurer on settlement warrants, the certificates show only the name of the payee, the appropriation to be charged, a brief description of the claim, and the amount approved for payment. Under the original Treasury system of checks and balances the Secretary of the Treasury had the right at any time to call for the evidence on which a claim was settled and for which the Secretary was requested to issue a Treasury warrant. The Secretary could then refer such evidence for review of the Treasury Comptroller who had no part in the original settlement.

The issuance and posting of settlement warrants to the detailed appropriation ledger of the Division of Bookkeeping and Warrants is indicated by the numeral 36. The posting of the totals to the general ledger is indicated at the bottom of the chart.

The total amount of the warrants is charged in the general ledger against the "Expenditures" account and a corresponding credit is entered in an account called "Outstanding Warrants." A dual entry is made charging "Appropriations" and crediting "Available Funds."

Transfer-counter warrants

Adjustments between appropriation accounts for expenditures previously made are effected through warrants known as transfer and counter warrants. These warrants are in the nature of journal entries debiting one appropriation account and crediting another. This is indicated by the numeral 37. These warrants (G) are to be distinguished from appropriation transfer warrants (H). As stated, transfer-counter warrants cover adjustments of appropriation accounts after expenditures have been made, whereas appropriation-transfer warrants are issued for the purpose of transferring money from one appropriation account to another in advance of expenditure, in cases where the Congress authorizes interappropriation transfers.

Except in the cases of the Army, the Navy, and Foreign Service officers of the State Department, advances to disbursing officers are made under specific appropriations and all expenditures must be accounted for accordingly. Army, Navy, and Foreign Service officers are authorized to requisition their funds under what are known as a "general account of advances." That is, the requisition and the warrant need not specify the appropriations under which the expenditures are to be made. The warrants are charged on the books of the Division of Bookkeeping and Warrants to the appropriate "general account of advances," and on the basis of expenditures reported in accounts subsequently rendered by the disbursing officers,

the amounts expended are charged against applicable appropriations and a corresponding credit is entered in the related general account of advances. These adjustments are made through the medium of transfer-counter warrants.

Payment of checks by Treasurer

In the lower right-hand corner of the chart it will be observed that disbursing officers' checks paid by the Treasurer of the United States are charged against the account called "Disbursing Officers' Credits," and a corresponding credit is entered in the account "Treasurer, U. S." Paid settlement warrants are charged in the general ledger against the "Outstanding Warrants" account and a corresponding credit is entered in the account "Treasurer, U. S."

Summation

It may be advisable to summarize the purposes which are served by the procedure outlined.

First, the requirement that the receipt of money into the public Treasury shall be acknowledged on warrants issued by the Secretary of the Treasury and countersigned by the Comptroller General, provides the legal basis for accounting for the revenue received by public officers.

Second, the requirement that the Treasurer of the United States shall disburse the money only on warrants issued by the Secretary of the Treasury and countersigned by the Comptroller General, provides the basis for compliance with the Constitutional provision that no money shall be drawn from the Treasury except in consequence of an appropriation made by law, surely a wise precaution.

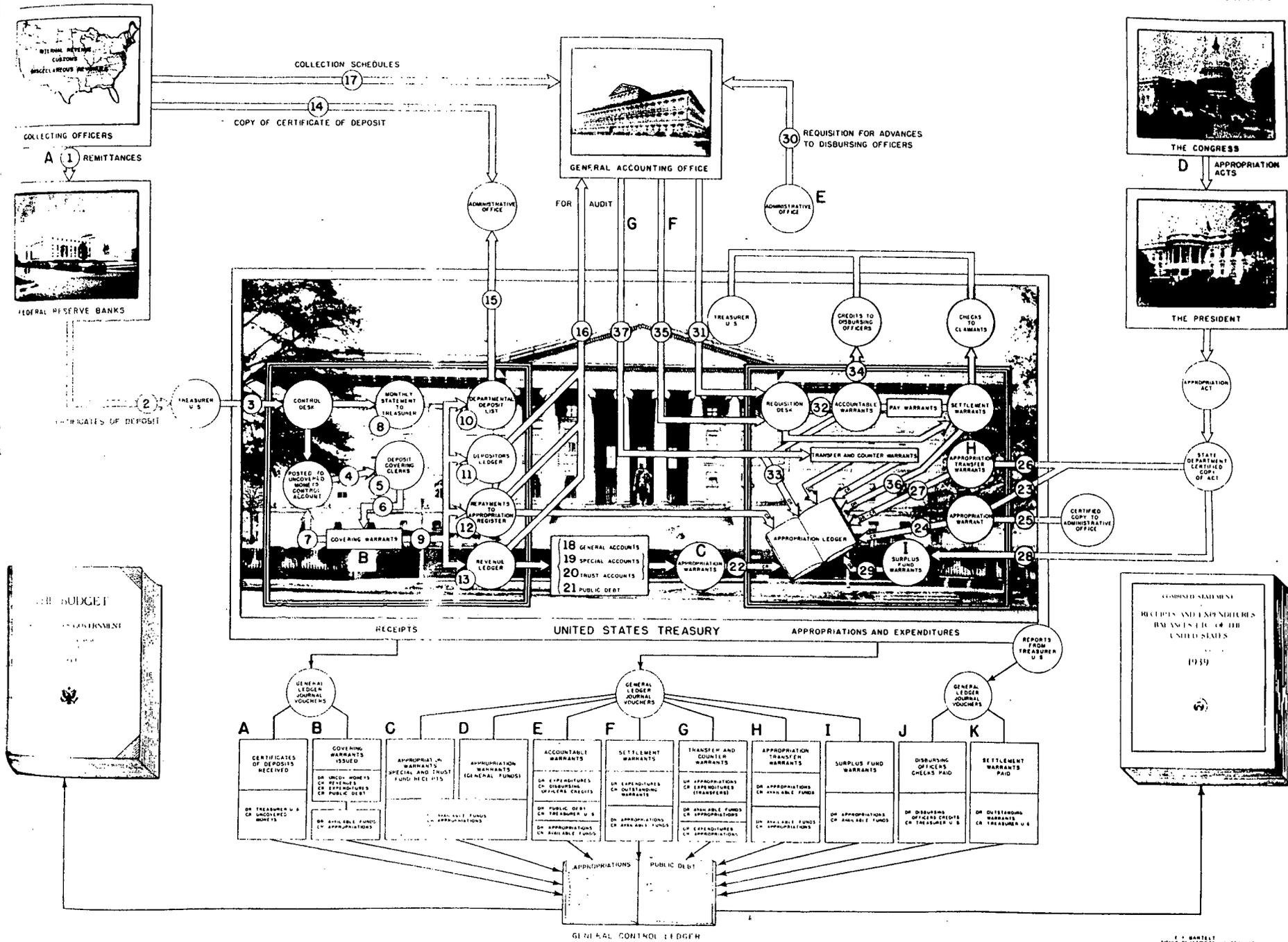
Third, there is provided a centralized record of money covered into the Treasury and subsequently withdrawn therefrom.

Fourth, it provides the basis for compliance with section 15 of the Act of July 31, 1894, which requires the Secretary of the Treasury annually to lay before Congress a combined statement of the receipts and expenditures of the Government, classifying the receipts wherever practicable, by districts, States and ports of collection, and the expenditures under each separate head of appropriation (ch. 24).

Fifth, it provides information relating to the actual receipts and expenditures of the Government which are included in the President's annual budget and compared with the estimates for the current fiscal year and also the ensuing year.

TREASURY CONTROL OF RECEIPTS AND ISSUES

CHART 2



THE GENERAL ACCOUNTING OFFICE

ORGANIZATION

The General Accounting Office is the auditing branch of the United States Government. It was created by the Budget and Accounting Act of 1921, which consolidated in an independent establishment of the Government the functions which theretofore had been performed by the Comptroller of the Treasury and the six Auditors of the Treasury Department.

At the head of the General Accounting Office is the Comptroller General of the United States. He is appointed for a term of fifteen years, and is not eligible for reappointment. He performs his functions without direction from any other officer of the Government and makes an annual report to the Congress.

Independent of the executive branch of the Government, the General Accounting Office is organized as follows:

1. Office of Comptroller General
 - (a) Office of General Counsel
 - (b) Office of Director of Personnel
 - (c) Office of Chief Clerk
2. Audit Division
3. Accounting and Bookkeeping Division
4. Claims Division
5. Postal Accounts Division
6. Office of Investigations
7. Reconciliation and Clearance Division

The office of the General Counsel performs the legal work of the office, prepares advance decisions regarding the availability of appropriations for specified purposes, and reviews warrants issued by the Secretary of the Treasury for the setting up of appropriation accounts.

The work of the Office of Director of Personnel and the Office of Chief Clerk is apparent from the titles.

The Audit Division conducts a detailed audit of the accounts current and supporting papers rendered by accountable disbursing officers and collecting officers of the Government, the Treasurer of the United States, and the Bureau of the Mint. Most of the audit work is centralized at the seat of Government, in Washington, D. C. although recently a number of field offices have been established for the purpose of auditing contractors' accounts and records relating to cost-plus-a-fixed-fee war contracts. Postal accounts are audited in a separate division.

The Accounting and Bookkeeping Division maintains the accounting controls relating to appropriations, expenditures, and receipts; reviews the warrants issued by the Treasury Department; and prepares the certificates of settlement relating to accounts and claims.

The Claims Division examines claims and demands against the United States which are submitted to the General Accounting Office for settlement.

The Postal Accounts Division audits the revenue and expenditure accounts relating to the Postal Service.

The Office of Investigations makes investigations in Washington and the field concerning the receipt, safekeeping, and application of public funds; it examines the records of the various agencies; and develops for approval of the Comptroller General the forms, systems, and procedures for administrative appropriation and fund accounting in the several departments.

The Reconciliation and Clearance Division handles the reconciliation of disbursing officers' checking accounts, and certifies to the Treasury Department the checks which have been outstanding for more than one full fiscal year.

A brief history of the creation of the General Accounting Office might be useful as a guide in the consideration of the principles on which the organization was set up by the Congress. Although there may be some differences of opinion as to the constitutional status of the General Accounting Office, i. e., whether it is part of the Legislative Branch or the Executive Branch of the Government,^{1/} three things are clear as to the intent of the Congress:

1. That there was to be provided an independent audit of the Government's accounts;
2. That the decisions of the Comptroller General concerning the use of public money are conclusive and not subject to review by any other officer in the Executive Branch of the Government; and
3. That the General Accounting Office is independent of the other executive departments and establishments of the Government, and that the Comptroller General shall perform his duties without direction from any other officer.

^{1/} Its appropriations are contained in the Executive and Independent Offices Appropriation Bill rather than the Legislative Appropriation Bill.

FUNCTIONS^{1/}

The functions of the General Accounting Office consist of:

1. The countersigning of warrants issued by the Secretary of the Treasury;
2. The rendition of advance decisions concerning the legality of proposed expenditures;
3. The settlement of claims for or against the United States;
4. The audit and settlement of the personal accounts of collecting and disbursing officers;
5. The recovery of debts due the United States;
6. The investigation of matters relating to the receipt, disbursement, and application of public funds;
7. The prescribing of forms, systems and procedures for (a) administrative appropriation and fund accounting in the several departments and establishments, and (b) for the administrative examination of accounts and claims; and
8. The making of reports to (a) the President when requested by him, and (b) to the Congress at the beginning of each regular session, concerning the work of the General Accounting Office.

These functions will be described in this chapter.

Countersignature of Treasury warrants.—As we have seen in chapter 8, warrants are issued by the Secretary of the Treasury authorizing (a) the setting up of appropriation accounts based upon acts of Congress, (b) the transfer of disbursing credits from such appropriation accounts to checking accounts of disbursing officers

^{1/} U. S. Code, title 31, sections 76, 74, 71, 496, 93, 53, 49, 53.

on the books of the Treasurer of the United States, and (c) the payment of money by the Treasurer of the United States upon direct settlements of the General Accounting Office. All warrants, when warranted by law, are countersigned by the Comptroller General; such countersignature being an attestation of the legality of the warrants. The attestation of the legality of warrants is to be distinguished from the approval of proposed expenditures in advance decisions, the settlement of accounts and claims, and also the preaudit of vouchers by the General Accounting Office.

Rendition of advance decisions.--Advance decisions are rendered by the Comptroller General only upon the request of the head of a department or establishment, a bonded certifying officer,^{1/} or a disbursing officer, in cases where there is doubt as to the legality of a proposed expenditure. Such decisions are binding upon the General Accounting Office in the subsequent audit and settlement of disbursing officer's accounts.

Settlement of claims.--If a person believes he has a claim against the Government which he is unable to get approved for payment by one of the executive departments or establishments, he may submit it to the General Accounting Office for settlement. If the General Accounting Office believes the claimant is entitled to payment and if there is an appropriation available therefor, it issues a certificate of settlement in favor of the claimant.

^{1/} A certifying officer is a person authorized to certify the vouchers to a disbursing officer for payment.

This certificate may be sent either to the Secretary of the Treasury for payment by the Treasurer of the United States on a settlement warrant, or it may be sent to a Government disbursing officer for payment by check drawn on the Treasurer of the United States.^{1/}

~~Audit and settlement of personal accounts of collecting and disbursing officers.~~ At the end of each month (or quarter) each collecting and disbursing officer must prepare an account current, showing the amounts which he has received, transferred, paid out, or deposited in the Treasury.^{2/}

The disbursements are supported by vouchers certified by responsible administrative officers attached to the various operating units of the Government. Before being sent to the General Accounting Office for audit and settlement, the accounts current, with supporting vouchers and papers must be sent to the administrative agency at Washington, D. C., (ch. 18) for an "administrative examination."^{3/} The administrative agency examines the accounts and forwards them to the General Accounting Office for audit and settlement, with a statement of exceptions which it has taken to any items in the account.

If the General Accounting Office takes exception to any item in the account, it notifies the accountable officer. Most of such exceptions are cleared through the furnishing of additional information. In the event the officer is unable

^{1/} U. S. Code title 31, Section 47.

^{2/} Forms of accounts current are included in Chapters 10 and 12, relating to the Bureau of Internal Revenue and the Division of Disbursement, respectively.

^{3/} U. S. Code title 31, Section 82.

to satisfy the General Accounting Office as to the legality of the expenditure, it is "disallowed;" in which case the accountable officer must recover the money, make reimbursement out of his own personal funds, or procure relief from Congress. If the Government is unable to recover from the claimant or the accountable officer,^{1/} it may sue on the officer's bond.

Recovery of debts due the United States.--If an executive department should be unable to collect an old debt, it would report the matter to the General Accounting Office where the case would be placed on a debtor's list. If the General Accounting Office is unable to effect collection, in cash, it might, at a later date if circumstances permit, effect recovery of the amount due the Government by **set-off** against another claim; or an executive department or establishment might send a claim to the General Accounting Office for settlement with a recommendation of **set-off**.^{2/}

Investigation of receipts, disbursements, and application of public funds.--Under section 312 of the Budget and Accounting Act, the Comptroller General is required to investigate at the seat of Government or elsewhere all matters relating to the receipt, disbursement and application of public funds. Under section 313 of the same act, he is authorized to examine the records of any agency of the Government as defined in the Budget and Accounting Act. These duties are performed by the Office of Chief of Investigations.

^{1/} The accountable officer in this case may be either the disbursing officer or the certifying officer, depending upon the nature of the error and the circumstances surrounding the case. See Public Law No. 389, December 29, 1941, and Public Law No. 528, April 28, 1942.

^{2/} The Secretary of the Treasury has authority to accept offers in compromise in connection with the settlement of indebtedness due the United States (U.S. Code title 31, Section 194 (1934 Edition)).

Prescribing of forms, systems and procedures, administrative appropriation and fund accounting.--Under section 309 of the Budget and Accounting Act, the Comptroller General is authorized to prescribe the procedures for administrative appropriation and fund accounting in the several departments and establishments (ch. 18).^{1/}

Administrative examination of accounts and claims.--Under the same section the Comptroller General is authorized to prescribe the procedure for the administrative examination of accounts and claims.^{1/}

Reports to the President and the Congress.--Under section 312 of the Budget and Accounting Act^{2/} the Comptroller General is required to make to the President, when requested by him, and to the Congress at the beginning of each regular session, a report in writing of the work in the General Accounting Office. The law requires that such report shall contain such recommendations concerning, (a) legislation deemed necessary to facilitate the prompt and accurate rendition and settlement of accounts, and (b) such other matters relating to the receipt, disbursement, and application of public funds as the Comptroller General may think advisable. In such regular report, or in special reports at any time when Congress is in session, it is the Comptroller General's duty to make recommendations looking to greater economy or efficiency in public expenditures. Further, the Comptroller General is required to specially report to Congress every expenditure or contract made by any department or establishment in violation of law.

^{1/} U. S. Code title 31, section 49.

^{2/} U. S. Code title 31, section 53.

AUDIT AND SETTLEMENT OF ACCOUNTS

The principal functions of the General Accounting Office relate to the audit and settlement of the public accounts. Many of the other duties of the office may be said to be incidental to this major function. In his annual report for the fiscal year ended June 30, 1939,^{1/} the Comptroller General defined the term "audit" as follows:

"The term 'audit' as defined by Webster means, 'a formal or official examination and verification of accounts, vouchers, and other records.' Broadly speaking, it may be said, that generally the purposes for which accounts and records are audited are as follows: (a) General verification of accounts to determine propriety of expenditures and fiduciary integrity of those in charge; (b) to determine whether a proper accounting has been made of all funds; (c) to determine costs, inventories, and other specific matters for various special purposes; (d) to detect errors in the accounts; (e) to detect fraud; (f) to determine extent of fraud already detected; (g) to deter fraud by the moral effect of audit upon accountable employees."

The Comptroller General then remarked, "Based on the responsibility vested in the General Accounting Office to prescribe the forms of vouchers, collateral papers, accounts and systems of keeping and reporting, to countersign warrants, and to settle and adjust claims and accounts, the system of audit of public accounts assumes even a broader scope."

Classes of accounts audited

The audit covers the personal accounts of the following classes of officers: (1) collectors of customs, (2) collectors of internal revenue, (3) disbursing officers, (4) Treasurer of the

^{1/} This report, while not setting forth auditing procedures, furnishes the best official statement covering the audit of accounts and the settlement of claims.

United States, (5) superintendents of the various mints, assay offices, and bullion depositories, (6) court officials, and (7) postmasters.

Nature of the audit

The audit is conducted largely on a cash basis, the purpose being to see (1) that all moneys to which the Government is entitled are received into the public Treasury, and (2) that all expenditures are pursuant to law.

The responsibility of seeing that the Government receives all the revenue to which it is entitled is principally in the Treasury Department. The Income Tax Unit^{1/} of the Bureau of Internal Revenue (ch. 10), for instance, audits the income tax returns filed by corporations and individuals; and revenue agents audit certain tax returns, books and records of taxpayers, and the assessment lists of the collectors. Comptrollers of Customs (ch. 11) make a detailed audit of duties assessed on imports of merchandise. The General Accounting Office, on the other hand, audits the personal accounts of the collectors to see that all moneys received by them are deposited in the Treasury.

On the expenditure side, there are two audits: first, the examination of vouchers and payrolls by administrative officers (ch. 18) before payment; and second, the independent audit by the General Accounting Office, after payment.

A number of the administrative agencies (ch. 18) maintain their own staffs of trained auditors and inspectors, both in

^{1/} Tax returns for net incomes over \$5,000; returns for incomes under \$5,000 are audited in the collector's offices.

Washington and the field, to see that approved programs are carried out, and that legal and administrative requirements are observed. In cases of grants to states, for instance, auditors are stationed in the field to determine whether expenditures are made in accordance with terms of agreements. In such cases, the General Accounting Office passes only upon the lump-sum payments to the states. Similarly, in the case of benefit payments by the Veterans Administration and the Social Security Board, the General Accounting Office is ordinarily not in possession of all the facts upon which to determine whether an individual is eligible to receive a pension or benefit payment. Manifestly, an independent examination of the accounts and records of each case would be a tremendous task. Since the General Accounting Office must rely upon evidence submitted with accountable officers' accounts current, its audit may be said to supplement the administrative audit.

In chapters 10 and 11, it was pointed out that the principal sources of receipts are those received from internal revenue and customs duties.^{1/} It was also mentioned that collectors of customs and collectors of internal revenue render monthly accounts to the General Accounting Office for audit and settlement. Before the accounts are transmitted to the General Accounting Office they must, by law, receive an "administrative examination" in Washington. A form of revenue account current has already been outlined in chapter 10, and will not be repeated here.

^{1/} For receipts from miscellaneous sources, see chapter 19.

Accounts of Disbursing Officers

In auditing the disbursements of the Government there are a number of important considerations - (1) that no money may be withdrawn from the Treasury except pursuant to an appropriation made by law, (2) that the particular item of expenditure is authorized by law, (3) that regulatory laws prescribing procedures for in-
~~creasing~~^{curring} obligations and making expenditures have been complied with, (4) that administrative regulations and provisions of executive orders, when applicable, are observed, (5) that the prices and the computations in the vouchers and invoices are correct, and (6) that the articles or services paid for have been received or rendered.

The first condition is met by verification of the warrant issued by the Treasury Department in setting up the appropriation account (ch. 8) with the Act of Congress appropriating the money.

The second involves a verification of the detailed vouchers and invoices with the language of the appropriation law under which the expenditure has been made. As will be explained later, there are many statutes prohibiting the use of public money for specified purposes, unless specifically authorized ^{by} Congress in the appropriation laws.

The third relates to procedural laws such as Section 3709 of the Revised Statutes requiring advertising and competitive bidding in connection with contracts for purchases and construction.

The fourth refers to cases where expenditures are subject to regulation of the President or the heads of departments, bureaus, or offices. An example is found in the emergency relief appropriation act wherein it was provided that the administrative head of the

agency concerned was authorized to prescribe wage rates to be paid to persons employed on projects in the various states.

The fifth is self-explanatory.

As to the sixth condition, the General Accounting Office must rely largely on the certificate appearing in the voucher which reads:^{1/}

"I certify that the above bill is correct and just; that payment therefor has not been received; and that except as otherwise noted all of the articles, materials, and supplies furnished under purchase order No. _____, if unmanufactured articles, materials, and supplies, have been mined or produced in the United States, and if manufactured articles, materials, and supplies, they have been manufactured in the United States substantially all from articles, materials, or supplies mined, produced or manufactured, as the case may be, in the United States; and that state or local sales taxes are not included in the amounts billed."

Aside from interest on the public debt, virtually all disbursements of the Government are made by bonded disbursing officers from advances of funds made by the Secretary of the Treasury. These advances are made through the medium of accountable warrants issued by the Secretary of the Treasury and countersigned by the Comptroller General of the United States.

The amounts of these warrants are charged upon the books of the General Accounting Office in the personal accounts of the disbursing officers. The accounts of the disbursing officers remain charged for these warrants until they have submitted proper vouchers to the General Accounting Office evidencing authorized

^{1/} Inspection and receiving reports are retained in the file of the administrative agencies.

disbursements or have returned the unexpended balances to the appropriation accounts from which the moneys were advanced.

After the warrants have been countersigned in the General Accounting Office, they are delivered to the Treasurer of the United States, who credits the amounts in the checking accounts of the disbursing officers.

The audit is conducted through the rendition of accounts current to the General Accounting Office, these accounts current being supported by the detailed vouchers evidencing the payments.

Title 31, Section 496, of the United States Code provides:

"Except as otherwise provided, every officer or agent of the United States who receives public money which he is not authorized to retain as salary, pay, or emolument, shall render his accounts monthly. Such accounts, with the vouchers necessary to the correct and prompt settlement thereof, shall be sent by mail, or otherwise, to the bureau to which they pertain, within 10 days after the expiration of each successive month, and, after examination there, shall be passed to the General Accounting Office for settlement. * * *"

The form of the account current is outlined in chapter 12, dealing with the Division of Disbursement.

The audit of a disbursing officer's account involves, first, a verification of all the funds which come into his possession, second, the disposition of part or all of such funds; and third, the undisbursed balance.

A disbursing officer receives funds from three sources:

(1) advances from appropriation accounts on the books of the Treasury (ch. 8), (2) remittances received from administrative agencies (ch. 19), and (3) transfers of disbursing funds from other

disbursing officers. These three classes of items constitute the disbursing officer's accountability. He discharges this accountability in four ways: (1) by producing evidence of authorized disbursements, (2) by transfers of funds to other disbursing officers, (3) by return of unexpended balances to the appropriation accounts from which advanced, and (4) by the deposit of the remittances received from administrative agencies, either as miscellaneous receipts or to the credit of applicable appropriations.

The following table shows the principal items on an account current.

	Total	Distribution by appropriation			
		Appn. (1)	Appn. (2)	Appn. (3)	Appn. (4)
<u>DEBITS</u>					
Balance due United States from previous account current.....	\$10,000,000				
Advances during month - accountable warrants....	500,000,000				
Collections received from administrative agencies.....	1,000,000				
Transfers of funds from other disbursing officers.....	500,000				
Total to be accounted for.....	<u>511,500,000</u>				
<u>CREDITS</u>					
Disbursements (supported by vouchers).....	450,000,000				
Deposits in Treasury:					
To appropriations.....	25,000,000				
To miscellaneous receipts.....	1,000,000				
Transfers to other disbursing officers.....	400,000				
Subtotal.....	476,400,000				
Balance due the United States at end of month..	<u>35,100,000</u>				
	<u>511,500,000</u>				

It is to be noted that a separate account must be maintained for each appropriation. In this connection it is to be remembered that money advanced from one appropriation account is not available for disbursement under another.^{1/}

Verification of Treasury advances.--The verification of advances from the Treasury is relatively simple since each advance made to a disbursing officer on an accountable warrant is recorded in the personal account of the disbursing officer on the books of the General Accounting Office.^{2/} The amounts reported in the disbursing officer's account current are checked against this record.

Verification of cash receipts.--Moneys collected by administrative agencies (ch. 19) are remitted to accountable disbursing officers for deposit in the Treasury, such deposits being made with Federal Reserve Banks or other designated depositories for credit in the Treasurer's account (ch. 9). These moneys may temporarily be deposited by the disbursing officer for "official" credit in his checking account with the Treasurer. In such cases the disbursing officer remains accountable, the amount in his checking account with the Treasurer being part of the disbursing officer's cash balance. When the money is cleared out of the checking account and "covered" into the Treasury by warrant (ch. 8) the disbursing officer's cash balance is reduced and he is given "personal" credit in his account on the books of the General Accounting Office. Cash collections taken up by the disbursing officer in his account current are verified

^{1/} Exceptions: In the cases of the War, Navy, and State Departments, advances are made under general accounts of advances, adjustments being made between such accounts and appropriation accounts after the disbursements are made.

^{2/} U. S. Code Title 31, Sec. 44.

by the General Accounting Office against (1) collection schedules received from administrative agencies, and (2) covering warrants issued by the Secretary of the Treasury (ch. 8).

Verification of funds transferred from other officers.--

Funds are frequently transferred from one disbursing officer to another, generally his successor.^{1/} Such transfers may be either in the form of cash or a disbursing credit in the checking account with the Treasurer of the United States. The officer making the transfer takes credit therefor, the amount being verified by the General Accounting Office against transfer schedules and signed receipts. Thereupon, a charge is made in the personal account of the receiving officer, this charge being subsequently checked against the officer's account current upon its receipt for audit and settlement.

Verification of disbursements.--The principal item for verification is, of course, disbursements. This involves a detailed audit under which each voucher is given painstaking scrutiny as to availability of appropriation for the particular item of disbursement, mathematical accuracy, signatures of authorized approving officers, compliance with laws and regulations, etc. Section 3678 of the Revised Statutes^{2/} provides that "except as otherwise provided by law, sums appropriated for the various branches of expenditure in the public service shall be applied solely to the

^{1/} In the case of the Division of Disbursement, Treasury Department, all Treasury advances are initially made to the Chief Disbursing Officer, who transfers funds to his regional assistants as required.

^{2/} U. S. Code Title 31, Sec. 628.

objects for which they are respectively made, and for no others." An important phase of the audit is to see that this statute is carefully observed. There are also many other statutes, both mandatory and prohibitory, which must be observed. Section 3709 of the Revised Statutes,^{1/} for instance, requires public advertising (except in emergencies) and awards of contracts to the lowest responsible bidder; Section 3828 of the Revised Statutes^{2/} prohibits newspaper advertising without advance written authorization of the head of the department. Other statutes prohibit the purchase of passenger-carrying vehicles unless specifically authorized; purchase of law books, books of reference, or periodicals unless specifically authorized; purchase of envelopes except under contracts made by the Postmaster General; purchase of glue and ink except from the Public Printer; purchase of land unless specifically authorized by law; purchase of newspapers in excess of \$100 in any one year; purchase of paper except on requisition from the Public Printer; printing and binding except at the Government Printing Office; rent in the District of Columbia unless specially authorized; or telephone service in private quarters. These are only a few of the many prohibitory laws on the statute books relating to the use of appropriations. Many questions arise in connection with civilian pay rolls, military pay and allowances, pensions and benefit payments, travel, and so forth. Auditors in the General Accounting Office must be alert to all these statutory requirements and restrictions and when examination of vouchers discloses failure

1/ U. S. Code Title 41, Sec. 5.

2/ U. S. Code Title 44, Sec. 324.

to comply, an "exception" is taken and the disbursing officer is not allowed credit for the disbursement unless or until the transaction has been satisfactorily explained.

All contracts are filed in the General Accounting Office pursuant to provisions of Section 3743, Revised Statutes. They are examined to determine whether they are authorized by law and contain stipulations prescribed by law and regulation. In the subsequent audit of disbursements in the disbursing officer's account it must be determined whether the payments are in accordance with the contract terms; if liquidated damages are involved, whether there has been an extension of time for performance, and whether the amount of liquidated damages, if any, have been correctly computed. Vouchers covering provisions of supplies and equipment are verified against the contracts to determine whether the provisions of the contract have been met and that payment is in accordance with its terms.

Before the accounts are forwarded to the General Accounting Office for final audit and settlement the law requires that the administrative agency concerned (ch. 18) must make an "administrative examination," calling the attention of the General Accounting Office to any items in the account to which exception is taken.

Formerly, disbursing officers were held accountable under their bonds for all items to which exception was taken in the audit, although the payment may have been made without fault or negligence on their part. Congress corrected this condition in the Act of

December 29, 1941,^{1/} when it provided for the bonding of certifying officers, making them accountable for the improper certification of vouchers.

Verification of deposits.--As we have seen there are two general classes of deposits, (1) those made for credit of the checking account of the disbursing officers, known as "official credit," and (2) those made for covering into the Treasury, known as "personal credit" deposits. The only deposits for which the disbursing officer takes credit in the account rendered to the General Accounting Office are the latter, those for covering into the Treasury. The reason for this is that once money is covered into the Treasury the disbursing officer ceases to have jurisdiction or control over it, whereas the money to his "official credit" in checking accounts is part of his balance due the United States.

Deposits for "personal credit" fall under two general classifications, (1) those for covering into the Treasury as miscellaneous receipts, and (2) those for credit to appropriations. These deposits are checked by the General Accounting Office against the covering warrants issued by the Secretary of the Treasury and countersigned by the Comptroller General of the United States (ch. 8). The audit covers not only the verification of the amount of the deposit, but also the crediting of the money to the proper account.

Verification of balance due the United States.--The balance due the United States represents the difference between the totals of debits and credits on the face of the account current.
^{1/} Public Law No. 528, April 28, 1942, made further provision in this regard, relieving disbursing officers of responsibility for mathematical computations on vouchers.

As shown in chapter 12, an analysis of this balance is shown on the reverse of the account. This balance consists of the following items: balances in checking accounts with the Treasurer of the United States, cash on hand, money in the possession of agent cashiers, advances to travelers, and deposits in transit.

With respect to the first item, the Treasurer sends to the General Accounting Office a transcript of the disbursing officer's checking account, together with the paid checks. The General Accounting Office reconciles this account in accordance with the same general principles followed in reconciling any bank account.

The items cash on hand, money in hands of agent cashiers, travel advances, etc., are spot checked, from time to time, by field investigators. Also, arrangements are made for periodic independent verifications and certifications of such items by administrative employees not responsible for possession of the funds.

In addition to the original vouchers evidencing the disbursements, the disbursing officer's account current is accompanied by numerous schedules, as follows: (1) Disbursement, (2) Collection, (3) Adjustments, (4) Transfers and Refunds, (5) Retirement and Disability Fund Credits, (6) Voucher Deductions, (7) Advances to Agent Cashiers, (8) Advances to Travelers, (9) Uncollectible Checks, (10) Cancelled Checks, (11) Voided Checks, and (12) Treasury Deposits. These schedules are verified against the amounts included in the account current and related documents.

The administrative examination

As previously mentioned, the account current of the accountable disbursing officer, with the supporting documents, is first sent to the administrative agency in Washington, D. C., (ch. 18) for what is known as an "administrative examination."^{1/} The administrative agency examines the account, approves it, and forwards it to the General Accounting Office for final audit and settlement, with a statement of exceptions which it has taken to any items in the account. Under Section 309 of the Budget and Accounting Act the Comptroller General is authorized to prescribe the procedure for the administrative examination.^{2/} However, the scope of the administrative examination varies considerably with the different administrative agencies.

Accounts of the Treasurer of the United States

As was noted in chapter 9, the Treasurer of the United States submits five separate accounts current to the General Accounting Office for audit and settlement.

General Account of the Treasurer of the United States.--

This account relates to receipts and disbursements of the Treasurer, based upon warrants issued by the Secretary of the Treasury and countersigned by the Comptroller General of the United States. From the point of view of audit, the account in its present form is subject to serious limitations since it does not reflect actual receipts and disbursements, but rather the warrants covering

^{1/} U. S. Code Title 31, Sec. 82.

^{2/} U. S. Code Title 31, Sec. 49.