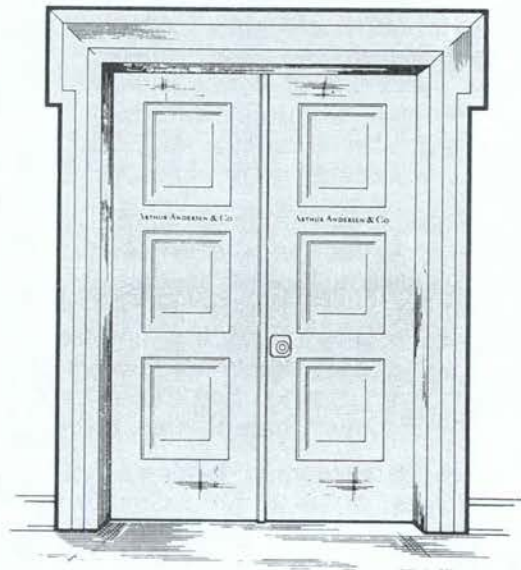


# SOUND FINANCIAL REPORTING IN THE PUBLIC SECTOR

***A PREREQUISITE TO FISCAL RESPONSIBILITY***



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**ARTHUR ANDERSEN & Co.**

## PREFACE

In our democratic society, all citizens, groups and organizations need to speak out on issues which they consider important to maintain the effectiveness of our political and economic system. If this country is to maintain effective checks and balances in our political system, public officials must be held accountable for the financial affairs of the activities in the government for which they are responsible. To achieve accountability, effective accounting controls and sound financial reporting are essential.

We are not experts in politics, international relations or economics—we are, however, experts in financial reporting, accounting controls and financial systems. Because of our concerns over current financial problems in certain governmental units, many of which problems are accelerating because of the recent recession, inflation and other serious developments, we inquired about the accounting controls and financial reporting of the United States Government. Certain interesting and surprising observations resulted from this inquiry.

In order to encourage public discussion on the need for sound accounting controls and financial reporting in all units within the public sector, we are publishing a summary of our findings, conclusions and recommendations. For illustrative purposes, a set of consolidated financial statements for the United States Government was prepared on the accrual basis using the reporting format followed in the private sector. This booklet presents the results of that effort. Detailed documentation of the sources used and the derivation of the amounts reflected in the accompanying financial statements is available upon request.

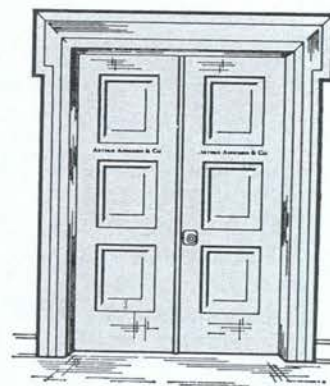
Our discoveries in this effort, combined with our experience with financial reporting, caused us to raise a number of questions, some of which are set forth herein. We do not present answers to these questions because many of them involve economic or political issues. However, certain of these questions are those which Government officials and leaders in the financial community will face in the next few years. Many of the same questions, issues and concerns are applicable to cities and states as well as to other nations and their governmental units.

During this inquiry we contacted numerous departments, agencies and other units in the Government. We want to acknowledge the significant enthusiasm with which our project was received, the serious interest on the part of Government employees with whom we discussed the financial data needed to complete our project and the sincere desire each of them had to be helpful to us. Without this cooperation, this project could not have been completed.

ARTHUR ANDERSEN & CO.

September 10, 1975.

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## OVERALL SUMMARY

- In the past 40 years, the government or public sector of our economy has been steadily growing from less than 10% of our Gross National Product to about 33% in 1974. If government credit, tax expenditures and "off budget" items were included, total government expenditures would probably exceed 40%. Within a few years, the combined budgets (Federal, state and local) may exceed \$1 trillion. With a public sector this large, its operations have a major impact on the economy. This impact could be positive if properly planned. However, it could also accelerate economic problems if not properly coordinated.
- Several large cities, states and other governmental units appear to be in serious financial difficulties. These problems may produce a devastating financial crisis unless timely corrective action is forthcoming. All too often, the financial statements of governmental units have proven to be less than adequate for providing basic financial information. Decision-makers, investors and the public have been misled by not being alerted to the problems which were developing. When difficulty occurred, they were confused and frustrated in their attempts to deal with the emerging financial crises.
- Knowledge of current deficits and surpluses is important for the annual evaluations of our financial affairs. To be meaningful, these amounts should include all costs whether paid or accrued. Furthermore, the total accumulated deficit is crucial because this is the amount of future taxes required to pay present liabilities. To the extent that this amount exceeds the amounts that can reasonably be expected of future taxpayers, a potential for crisis develops. The crisis could become real if taxpayers are no longer willing to pay for the current costs of government or if investors become concerned that governmental units may default on their obligations.
- In the private sector, proper accounting controls and sound financial reporting on an accrual basis are basic prerequisites to fiscal responsibility and a meaningful understanding of a unit's financial condition. If we are to have the same degree of accountability in the public sector, similar controls should be exercised over governmental affairs and meaningful financial reporting should be implemented.
- As a result of our inquiry and our conviction that sound financial reporting is required to inform both shareholders in the private sector and the electorate in the public sector of the economic results for their specific groups, we have arrived at the following conclusions:
  - The United States Government should provide annual consolidated financial statements on an accrual basis including all entities in the Government and all programs which may require future taxes for present liabilities.
  - Cities, states and other political subdivisions should be required to publish similar statements annually and in connection with sales of securities to the public.



## OBSERVATIONS

### Concerning Current United States Government Accounting and Financial Reporting

- The Federal Government does not have a central accounting department. The Treasury Department consolidates and reports the status of funds and certain other accounting statistics. These summaries are not on a full accrual basis and are incomplete. The General Accounting Office, as the auditing arm of the Congress, approves the conceptual design of accounting systems for various departments or agencies. The Office of Management and Budget has responsibility for budget policy and procedures. The General Services Administration evaluates and recommends improvements to financial management systems. The Joint Financial Management Improvement Program, representing the above organizations, has as its objective the improvement of financial management practices.
- Governmental accounting is designed to facilitate control over expenditures by limiting the amounts which each Governmental entity can spend. It is essentially a cash-basis system and is generally not designed to summarize and report on operating results. The underlying arrangements and systems necessary to assemble financial reports are as important as the reports themselves. The final product is useful and reliable only to the extent that the data is complete, accurate and functional.
- The Government produces an enormous amount of financial data and a wide variety of financial reports. However, such information is often duplicative and is not accumulated in one place or consolidated into reports or statements which permit an assessment of the overall financial condition or operating results of the entire Government.
- Both Hoover Commissions recommended accrual accounting, and this led to the passage of Public Law 84-863. This law, supplemented by related Treasury Regulations, specifies that Government agencies must prepare business-type, accrual-basis financial reports. These laws and regulations have been in existence since 1956 but have been only partially implemented.
- There are no related requirements for the reports to be summarized, consolidated or disseminated to the public. Through nearly 200 years, the United States has been trying to develop and strengthen the constitutional checks and balances and has attempted to incorporate into this structure the concept of accountability. A missing link is a unified and comprehensive report of the financial results of the Government's operations.

## QUESTIONS

### Related to Governmental Financial Reporting

An accrual accounting system which produces sound and consistent financial reports is essential to the concepts of financial responsibility in the private sector of the economy. Absence of a comparable system in the public sector raises numerous questions concerning the financial status of the Government. Some of these questions are set forth below.

- Would an integrated financial reporting system and the related information be useful to the Legislative and the Executive Branches in understanding the financial impacts of their decisions on present and future generations?
- Many of the elected or appointed officials responsible for Government decisions are frequently in their positions for relatively short periods of time. Without adequate financial reports, can elected or appointed officials comprehend the complexities with regard to their financial decisions?
- Would adequate financial information assist the electorate in understanding the governmental process and evaluating the performance of their elected representatives, thus improving fiscal accountability by such elected representatives? Would such financial information help the electorate develop views on priorities to select among various alternatives?
- Would appropriate accounting controls and financial reporting reduce the costs of Government by helping the public realize the total costs of decisions that are made, the cumulative impact on present and future taxes and the priorities under which such costs have been incurred?
- Can Government have effective long-range planning without adequate financial reporting as a base point to develop such plans?
- Can Government properly measure the costs, efficiency, productivity and impact of its programs and develop costs for the services it provides without using accrual accounting which includes all costs?
- Would improved financial control and accountability over transfer payments and major Government assistance programs, such as welfare, food stamps, unemployment, medicare and student loans, assist Government officials to better estimate and plan for these needs in order to provide proper stewardship over Governmental funds?
- Could improved "early warning" systems (especially where costs start to increase significantly) be developed if adequate financial information on major programs were available?



## **ILLUSTRATIVE CONSOLIDATED FINANCIAL STATEMENTS**

### **UNITED STATES GOVERNMENT**

**June 30, 1974 and 1973**

For purposes of illustration, we have collected financial information currently available in several publications of the United States Government and have used this information as a basis for preparing consolidated financial statements of the United States Government in conventional format as of June 30, 1974 and 1973, and for the years then ended.

The amounts reflected in the following illustrative financial statements and notes thereto have not been audited by Arthur Andersen & Co., and accordingly, we do not express an opinion on them. Even though these financial statements may not be complete and accurate in all respects, they do provide the necessary background for discussion of some of the issues involved.

**UNITED STATES GOVERNMENT**  
**ILLUSTRATIVE CONSOLIDATED BALANCE SHEET**  
(Unaudited) (Notes 1 and 2)  
**JUNE 30, 1974 AND 1973**

**ASSETS**

	Millions	
	1974	1973
CASH AND CASH EQUIVALENTS .....	\$ 18,127	\$ 22,797
GOLD, at official rate (Note 3) .....	11,567	10,410
RECEIVABLES (net of allowances):		
Accounts .....	5,490	4,859
Taxes (Note 4) .....	14,960	12,844
Loans (Note 5) .....	65,836	62,985
	86,286	80,688
INVENTORIES, at cost (Note 6):		
Military and strategic system supplies .....	28,019	25,173
Stockpiled materials and commodities .....	11,526	12,693
Other materials and supplies .....	11,026	12,012
	50,571	49,878
PROPERTY AND EQUIPMENT, at cost:		
Land (Note 7) .....	6,686	6,415
Buildings, structures and facilities (Note 8) .....	88,649	86,129
Strategic and tactical military assets (Note 9) .....	119,913	117,670
Nonmilitary equipment (Note 9) .....	39,708	37,377
Construction in progress .....	19,400	17,169
Other .....	2,118	1,848
	276,474	266,608
Less—Accumulated depreciation (Note 10) .....	129,000	122,000
	147,474	144,608
DEFERRED CHARGES AND OTHER ASSETS .....	15,297	15,369
	<u>\$329,322</u>	<u>\$323,750</u>



## LIABILITIES AND DEFICIT

	Millions	
	1974	1973
FEDERAL DEBT (Note 11):		
Gross debt outstanding .....	\$ 486,247	\$ 468,426
Less—Intragovernmental holdings—		
Trust funds .....	(129,745)	(114,852)
Federal Reserve .....	(80,649)	(75,182)
Other .....	(10,449)	(10,529)
Debt outstanding with the public .....	265,404	267,863
Less—Unamortized discount .....	2,506	2,243
	<u>262,898</u>	<u>265,620</u>
FEDERAL RESERVE LIABILITIES:		
Federal Reserve Notes outstanding .....	64,263	58,754
Deposits of member banks .....	26,760	25,506
Other .....	2,286	1,725
	<u>93,309</u>	<u>85,985</u>
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES:		
Accounts payable .....	32,491	30,757
Accrued interest, annual leave and other .....	11,187	11,819
Deferred revenue .....	6,734	6,565
	<u>50,412</u>	<u>49,141</u>
OTHER LIABILITIES .....	18,991	19,836
RETIREMENT AND DISABILITY BENEFITS (Note 12):		
Civil Service .....	108,000	97,000
Military .....	80,380	70,950
Veterans .....	110,980	110,850
	<u>299,360</u>	<u>278,800</u>
ACCRUED SOCIAL SECURITY (Note 13) .....	416,020	340,930
CONTINGENCIES (Note 14)		
Total liabilities .....	1,140,990	1,040,312
LESS—ACCUMULATED DEFICIT .....	811,668	716,562
	<u>\$ 329,322</u>	<u>\$ 323,750</u>

The accompanying notes are an integral part of this balance sheet.

**UNITED STATES GOVERNMENT**  
**ILLUSTRATIVE CONSOLIDATED STATEMENT OF**  
**REVENUES AND EXPENSES**

(Unaudited) (Notes 1 and 2)

FOR THE YEARS ENDED JUNE 30, 1974 AND 1973

	Millions	
	1974	1973
REVENUES:		
Individual income taxes .....	\$118,952	\$103,246
Social Security and unemployment taxes and retirement contributions .....	76,780	64,541
Corporate income taxes .....	40,736	37,588
Excise taxes .....	16,844	16,260
Estate and gift taxes .....	5,035	4,917
Outer continental shelf rents and royalties .....	6,748	3,956
Other (Note 3) .....	6,539	4,970
Total revenues .....	<u>271,634</u>	<u>235,478</u>
EXPENSES (including transfer payments):		
National defense—		
Military personnel .....	23,728	23,246
Operations and maintenance .....	27,698	24,980
Research and development .....	8,582	8,157
Depreciation (Note 10) .....	11,100	10,800
Other .....	1,371	3,091
	<u>72,479</u>	<u>70,274</u>
Other operating expenses, including depreciation of \$2,100 million in 1974 and \$2,000 million in 1973 (Note 10) .....	41,982	36,328
Grants-in-aid, primarily to state and local governments .....	41,500	40,400
Transfer payments to individuals—		
Income security, including retirement, unemployment and Social Security payments made .....	69,381	60,373
Health care .....	11,300	9,000
Veterans' benefits and services .....	10,400	9,700
Other .....	6,900	4,800
	<u>97,981</u>	<u>83,873</u>
Noncash provision for retirement and disability benefits—		
Social Security (Note 13) .....	75,090	63,670
Other (Note 12) .....	20,560	13,360
	<u>95,650</u>	<u>77,030</u>
Interest expense (net of interest income) .....	17,148	14,146
Total expenses .....	<u>366,740</u>	<u>322,051</u>
EXCESS OF EXPENSES OVER REVENUES (Note 15) .....	<u>\$ 95,106</u>	<u>\$ 86,573</u>

The accompanying notes are an integral part of this statement.



**UNITED STATES GOVERNMENT**  
**ILLUSTRATIVE CONSOLIDATED STATEMENT OF**  
**CHANGES IN CASH AND CASH EQUIVALENTS**  
**(Unaudited) (Notes 1 and 2)**  
**FOR THE YEAR ENDED JUNE 30, 1974**

		<u>Millions</u>
<b>SOURCES OF CASH:</b>		
Excess of expenses over revenues .....		\$(95,106)
Add (deduct) items not affecting cash—		
Depreciation (Note 10) .....		13,200
Noncash provision for retirement and disability benefit expense (Notes 12 and 13) .....		95,650
Revenue attributable to change in gold valuation (Note 3) .....		(1,157)
Increase in accrued corporate income taxes receivable .....		(2,116)
Effect of other accrual adjustments (net) .....		( 151)
Cash provided by operations .....		10,320
Increase in Federal Reserve liabilities .....		7,324
Total sources of cash .....		<u>17,644</u>
<b>USES OF CASH:</b>		
Decrease in net Federal debt—		
Increase in gross debt outstanding .....	\$17,821	
Less—Increase in intragovernmental holdings:		
Trust funds .....	14,893	
Federal Reserve .....	5,467	
Other .....	(80)	
	<u>20,280</u>	
Decrease in debt outstanding with the public .....	2,459	
Increase in unamortized debt discount .....	263	2,722
Additions to property and equipment .....		16,066
Increase in loans receivable .....		2,851
Net change in other assets and liabilities .....		675
Total uses of cash .....		<u>22,314</u>
DECREASE IN CASH .....		(4,670)
CASH AT BEGINNING OF YEAR .....		<u>22,797</u>
CASH AT END OF YEAR .....		<u>\$ 18,127</u>

The accompanying notes are an integral part of this statement.

**UNITED STATES GOVERNMENT**  
**Notes to Illustrative Consolidated Financial Statements**  
**(Unaudited)**  
**June 30, 1974 and 1973**

**1. SOURCES OF DATA**

The United States Government does not have a centralized accounting system which would furnish data necessary for the preparation of consolidated financial statements on an accrual basis. The asset and liability amounts included herein were obtained from several sources within the Government. For some agencies, numbers purporting to reflect the same items were available from more than one source and differed as to amount. In such instances, the sources which appeared to be the most reliable were used.

**2. PRINCIPLES OF CONSOLIDATION**

The accompanying financial statements include the accounts of all significant agencies and funds included in the Unified Budget of the United States Government, plus those of the traditional "off budget" agencies and the Federal Reserve System. Government-sponsored enterprises such as Federal Land Banks have been excluded because they are privately owned. Amounts reflected are as of June 30, 1974 and 1973, except for the Federal Reserve System, which reports on a calendar-year basis and for which December 31, 1973 and 1972, amounts were used. Intra-governmental assets, liabilities and revenue/expense items of significance have been eliminated in consolidation.

The Federal Reserve System (which operates independently from the Executive and Legislative branches of the Government) has been included in the accompanying financial statements because of the interrelationships between the Federal Reserve System and the Treasury.

- a. A large portion of the Federal debt is held by Federal Reserve banks.
- b. Virtually all of the gold has been "pledged" to the Federal Reserve banks in return for Treasury demand deposits.
- c. The net income of the Federal Reserve System is transferred annually to the Treasury.
- d. In the event of liquidation, after capital contributed by member banks is returned, residuals of Federal Reserve banks would be transferred to the Treasury.

The effect of including the Federal Reserve System in the consolidated balance sheet as of June 30, 1974, is summarized below.

	<u>Millions</u>
Increase total assets .....	\$ 3,089
Reduce Federal debt .....	\$(80,649)
Eliminate gold certificate liability .....	(11,460)
Add Federal Reserve Notes .....	64,263
Add deposits of member banks .....	26,760
Increase other liability accounts .....	2,286
	<u>1,200</u>
Reduce deficit .....	1,889
	<u>\$ 3,089</u>



Government trust funds have been included in the accompanying consolidated financial statements. This reporting has been adopted because the trust funds are included in the Unified Budget and because the assets in such funds are almost exclusively Federal debt securities. In substance, the Government trust funds serve as segregated accounts for specific purposes rather than as trusts.

### 3. GOLD

Gold has been recorded at the official rate established by Congress (\$42.22 per ounce at June 30, 1974, and \$38.00 per ounce at June 30, 1973). Although the free market rate for gold is currently much higher, a different rate was not used because (1) the official rate is the basis upon which the Treasury uses the gold as security to increase its demand deposits with the Federal Reserve (most of the gold has been utilized in this way) and (2) it is not possible to determine what effect sales of the Treasury's gold would have on the free market price and, therefore, what alternative value would be appropriate. If the free market rate as of June 30, 1974, of \$144.50 per ounce had been used, the aggregate carrying value of gold would have been \$39,586 million.

The effect of the change in the official rate for gold between June 30, 1973, and June 30, 1974, is reflected as revenue of the Government in the accompanying consolidated statement of revenues and expenses because such a valuation increase allows the Treasury to increase its cash balances.

### 4. TAXES RECEIVABLE

The total for taxes receivable includes \$5.0 billion (net) for delinquent taxes owed and \$10.0 billion of accrued corporate income taxes receivable as of June 30, 1974; the comparable amounts as of June 30, 1973, were \$5.1 billion and \$7.7 billion, respectively. No accrual has been made for individual income taxes because of the payroll withholding system. Also, assessed tax deficiencies pending settlement have not been included in receivables because the ultimate settlement value is indeterminable.

### 5. LOANS RECEIVABLE

Interest rates and loan repayment terms vary considerably for outstanding loans, with rates ranging from zero to 12.0% and terms from as short as 90 days to well over 40 years. The longer terms and lower rates generally apply to loans to foreign governments. Outstanding balances and allowances for losses have been recorded as reported by the various lending agencies. No attempt has been made to evaluate collectibility or the adequacy of the allowances for losses. Loans outstanding are summarized below by major classification of borrower.

Classification	Millions	
	1974	1973
Business entities . . . . .	\$20,434	\$17,200
Students, farmers and other individuals . . .	22,502	21,264
Foreign . . . . .	19,794	21,588
State and local governments . . . . .	2,123	1,838
Other . . . . .	2,513	2,251
	67,366	64,141
Less—Allowances for losses . . . . .	1,530	1,156
	<u>\$65,836</u>	<u>\$62,985</u>

## 6. INVENTORIES

Inventories include nondepreciable personal property and are generally stated at cost. The major components of inventory are summarized below.

<u>Classification</u>	<u>Millions</u>	
	<u>1974</u>	<u>1973</u>
Military and strategic system supplies—		
Ammunition . . . . .	\$ 9,387	\$ 6,944
Materials related to missile, air and weapons systems . . . . .	11,293	11,167
Repair parts for weapons and vehicles	2,545	2,425
Excess materials awaiting disposition	2,354	2,862
Miscellaneous . . . . .	2,440	1,775
	<u>28,019</u>	<u>25,173</u>
Stockpiled materials and commodities—		
Nuclear materials . . . . .	6,599	6,611
Metals and like materials . . . . .	4,417	5,595
Helium . . . . .	510	487
	<u>11,526</u>	<u>12,693</u>
Other materials and supplies—		
Electric, industrial and petroleum supplies . . . . .	4,094	4,141
Clothing, subsistence and general supplies . . . . .	1,936	1,799
Excess materials awaiting disposition	2,190	2,333
Miscellaneous . . . . .	524	1,395
Subtotal—Department of Defense . . . . .	8,744	9,668
Agencies other than Department of Defense . . . . .	2,282	2,344
	<u>11,026</u>	<u>12,012</u>
	<u>\$50,571</u>	<u>\$49,878</u>

The inventory accounts do not include the weapons stockpile of the Atomic Energy Commission, since the extent of this inventory is classified information.



## 7. LAND

Land owned by the Government as of June 30, 1974, is summarized below by predominant usage.

<u>Usage</u>	<u>Acres (Millions)</u>	<u>Cost (Millions)</u>
Forest and wildlife .....	503.2	\$ 497
Grazing .....	163.5	26
Parks and historic sites .....	25.1	477
Alaska oil and gas reserves .....	23.0	—
Military (except airfields) .....	18.1	314
Flood control and navigation .....	8.0	3,256
Reclamation and irrigation .....	7.0	305
Industrial .....	2.9	204
Airfields .....	2.3	203
Power development and distribution .....	1.5	272
Other .....	5.9	979
	<u>760.5</u>	<u>6,533</u>
Outside United States .....	.6	153
	<u>761.1</u>	<u>\$6,686</u>

The outer continental shelf and other offshore land are not included above. The Government owns approximately 33.5% of the total acreage of the United States, or 761 million acres (of which 352 million acres are located in Alaska). This total includes 704 million acres of public domain land (land vested in the United States by virtue of its sovereignty). Cost represents cost to the Government, except that the cost of land acquired through donation, exchange, devise, forfeiture or judicial process is estimated at amounts the Government would have had to pay for the properties if purchased at the date of acquisition by the Government. Public domain land is included at no cost.

A committee of the House of Representatives reported as of June 30, 1972, that the estimated current value of the 704 million acres of public domain land was approximately \$29.9 billion. No similar reports are available estimating current values for other land, mineral resources or the outer continental shelf.

## 8. BUILDINGS, STRUCTURES AND FACILITIES

This category includes all real property owned by the Government except land. Approximately \$36 billion of the total at June 30, 1974, and \$35 billion at June 30, 1973, reflects the acquisition cost of buildings, whereas the balance includes the costs of acquiring or erecting dams, utility systems, monuments, roads and bridges. The following table summarizes the buildings, structures and facilities reported.

<u>Agency or Department</u>	<u>Millions</u>	
	<u>1974</u>	<u>1973</u>
Air Force .....	\$16,738	\$16,859
Army—		
Corps of Engineers .....	14,309	13,752
Other .....	12,105	11,898
Navy .....	12,168	11,839
Interior .....	9,018	8,885
Tennessee Valley Authority .....	4,769	4,490
Atomic Energy Commission .....	4,171	4,061
Agriculture .....	3,035	2,914
NASA .....	2,471	2,475
General Services Administration .....	2,373	2,315
Other .....	7,492	6,641
	<u>\$88,649</u>	<u>\$86,129</u>

## 9. DEPRECIABLE PERSONAL PROPERTY

Depreciable personal property has been divided into two categories to split out that portion which relates solely to defense of the nation from that which may have nonmilitary applications. The assets are recorded at acquisition cost and include only those which are currently in use or in usable condition. The major components of each category are summarized below.

<u>Classification</u>	<u>Millions</u>	
	<u>1974</u>	<u>1973</u>
Strategic and tactical military assets—		
Aircraft and related equipment . . .	\$ 51,032	\$ 49,891
Ships and service craft . . . . .	36,268	36,081
Combat and tactical vehicles . . . .	16,923	18,324
Missiles and related equipment . . .	9,746	9,255
Weapons . . . . .	1,091	509
Other (primarily ground support) . .	4,853	3,610
	<u>\$119,913</u>	<u>\$117,670</u>

<u>Classification</u>	<u>Millions</u>	
	<u>1974</u>	<u>1973</u>
Nonmilitary equipment—Department of Defense—		
Industrial plant equipment . . . . .	\$14,028	\$13,833
Communication and electronics . . .	4,123	3,997
Vehicles . . . . .	2,149	2,168
Other . . . . .	1,435	459
	<u>21,735</u>	<u>20,457</u>
Atomic Energy Commission . . . . .	5,814	5,548
Maritime Administration . . . . .	1,538	1,729
Tennessee Valley Authority . . . . .	1,348	1,206
U. S. Postal Service . . . . .	1,158	984
Other agencies . . . . .	8,115	7,453
	<u>\$39,708</u>	<u>\$37,377</u>

## 10. DEPRECIATION

Most Government agencies do not depreciate property and equipment. Accumulated depreciation as of June 30, 1974 and 1973, for such agencies was estimated based on available information; reported amounts were used for those agencies (e.g., AEC and TVA) which do depreciate property and equipment. The methods used to arrive at accumulated depreciation for the major categories of property and equipment are described below.

**Buildings**—Acquisition dates and original costs were obtained for all buildings owned by the Government as of June 30, 1974, and accumulated depreciation was determined based on the number of years each building had been owned.

**Structures and Facilities**—Net additions in this category were obtained for the last 21 years, and accumulated depreciation was computed under the assumptions that the balance as of June 30, 1953, was one-half depreciated as of that date, that such balance would be depreciated evenly over the remaining one-half of the estimated useful life for this classification, and that there were no sales or retirements since 1953 for this category.



Military Assets and Nonmilitary Equipment—Net additions by major category were obtained for the past 20 years for the Department of Defense. Budget outlays for major equipment purchases were compared to net addition amounts to arrive at estimated percentages for retirements, and the available information and estimates were extended to cover all assets within these categories to arrive at gross addition and retirement figures by year. Estimated useful lives were then used to determine the remaining undepreciated portions of gross additions.

Depreciation by year was computed on a straight-line basis with no salvage values.

Useful lives were selected for major categories to spread the acquisition costs over the periods during which the average asset in each group could reasonably be expected to be useful at the time of acquisition. The useful lives adopted for agencies for which estimates were required are listed below.

<u>Classification</u>	<u>Life</u>
Buildings, structures and facilities .....	50 years
Ships and service craft .....	30 years
Industrial plant equipment .....	20 years
All other depreciable assets .....	10 years

Accumulated depreciation balances so computed as of June 30, 1974 and 1973, are shown below by balance sheet classification.

<u>Classification</u>	<u>Millions</u>	
	<u>1974</u>	<u>1973</u>
Buildings, structures and facilities .....	\$ 45,000	\$ 43,700
Strategic and tactical military assets .....	63,500	59,700
Nonmilitary equipment .....	20,000	18,100
Other .....	500	500
	<u>\$129,000</u>	<u>\$122,000</u>

#### 11. FEDERAL DEBT

The gross amount of Federal debt outstanding at June 30, 1974, and June 30, 1973, consisted of the securities summarized below.

<u>Type of Security</u>	<u>Millions</u>	
	<u>1974</u>	<u>1973</u>
Marketable—		
Treasury bills .....	\$105,019	\$100,060
Treasury notes .....	128,419	117,840
Treasury bonds .....	33,137	45,071
	<u>266,575</u>	<u>262,971</u>
Nonmarketable—		
U. S. Savings bonds .....	61,921	59,418
Foreign series .....	25,011	28,524
Government account series (special issues related to specific funds) ..	115,442	101,738
Other .....	5,286	4,666
Total Treasury obligations ...	<u>474,235</u>	<u>457,317</u>
Agency securities .....	12,012	11,109
	<u>\$486,247</u>	<u>\$468,426</u>

Maturities of the outstanding marketable securities are reflected in the following table.

<u>Due Within</u>	<u>Millions</u>	
	<u>1974</u>	<u>1973</u>
One year .....	\$139,942	\$122,803
One to five years .....	77,199	88,223
Five to ten years .....	26,957	31,111
Ten to twenty years .....	17,403	14,477
Twenty years or longer .....	5,074	6,357
	<u>\$266,575</u>	<u>\$262,971</u>

The gross amount of Federal debt outstanding has been reduced by the holdings of entities included in the consolidated financial statements. The largest such reduction reflects the holdings of Government trust funds. Significant trust fund holdings of Federal debt securities are summarized below.

<u>Trust Fund</u>	<u>Millions</u>	
	<u>1974</u>	<u>1973</u>
Social Security Administration—		
Federal old-age and survivors' insurance .....	\$ 37,717	\$ 35,501
Federal disability insurance .....	8,195	7,803
Federal hospital insurance .....	7,864	4,222
Federal supplementary medical insurance .....	1,231	700
	<u>55,007</u>	<u>48,226</u>
Civil Service Commission—		
Civil Service retirement and disability .....	34,331	30,866
Other .....	1,672	1,468
	<u>36,003</u>	<u>32,334</u>
Department of Labor—Unemployment ..	<u>12,121</u>	<u>10,957</u>
Department of Transportation—		
Highway .....	7,599	5,550
Other .....	878	—
	<u>8,477</u>	<u>5,550</u>
Veterans Administration .....	<u>7,567</u>	<u>7,428</u>
Federal Deposit Insurance Corporation ..	<u>5,861</u>	<u>5,636</u>
Other .....	<u>4,709</u>	<u>4,721</u>
	<u>\$129,745</u>	<u>\$114,852</u>

Of the debt outstanding with the public at June 30, 1974, and June 30, 1973, approximately \$57.7 billion and \$60.2 billion, respectively, was held by foreign and international investors.



## 12. RETIREMENT AND DISABILITY BENEFITS

Liabilities for military retirement benefits and for retirement and disability benefits provided under Civil Service have been recorded, irrespective of whether trust funds exist for the programs, because the liabilities are those of the Government and not of the trust funds and since the covered individuals worked directly for the Government. The recorded amounts are based on the estimated present values of vested benefits, which were derived from the actuarially computed present values of future benefits (as computed by the Government) less the present values of future employee contributions, if any.

The liability for Veterans Administration benefits represents the computed present value of annual benefit payments, which have been estimated by the Government to the year 1999.

The noncash provisions for retirement and disability benefits of \$20,560 million for 1974 and \$13,360 million for 1973 represent the combined changes in the liabilities for Civil Service, military retirement and veterans' benefits between years.

No attempt has been made to record liabilities for several other Government plans providing future benefits, since the total liabilities for such plans would not be significant in relation to those recorded and certain basic information was not readily available.

## 13. ACCRUED SOCIAL SECURITY

The Government computes two estimates of future liabilities for Social Security. These estimates are based on a present-value approach, taking into consideration future contributions and benefits which have been established by present laws. Beginning in 1972, benefits are automatically adjusted for changes in the consumer price index. The first estimate, usually referred to as the Official Actuarial Concept, indicates that the excess of benefits to be paid to present and future participants over anticipated receipts for the next seventy-five years on a present-value basis is \$1.312 trillion as of June 30, 1974. The second estimate, usually referred to as the Full-Reserve Actuarial Concept, estimates that the excess of benefits to be paid to present participants over contributions by present participants on a present-value basis is \$2.460 trillion as of June 30, 1974. This estimate is based on concepts that more closely approximate those used in the private sector.

An accrual for Social Security benefits is reflected in the accompanying financial statements because it appears that such benefits could not be terminated or substantially curtailed without serious social and political implications. Social Security receipts and disbursements are also included in the Unified Budget. Further, in principle, the consolidated financial statements and the accumulated deficit should reflect a liability for the amount of future benefits that will not be covered by future contributions under present law. Under this principle, inclusion of an accrual would seem to be both proper and required. It is recognized that the Social Security Act states that payments should be made only to the extent of the trust funds and that covered individuals who have contributed to the fund have no contractual right to receive benefits; however, this does not negate the need to accrue a liability.

An argument could be made to support the current accrual in full of the estimated present value of the difference between future revenue and benefits, i.e., \$2.460 trillion for the Full-Reserve Actuarial Concept. However, it was concluded that a more realistic approach would be to accrue for such amounts over a reasonable future period. In determining such period, recognition was given to the fact that the estimated average period for present participants to contribute revenue under the Full-Reserve Actuarial Concept would approximate 25 to 30 years; further, the



Government amortizes its prior service costs for Civil Service retirement benefits over a thirty-year period, and any period up to 40 years could be used to amortize prior service costs in the private sector. A period of 30 years was used as a reasonable period in this regard for establishing the amount to be accrued.

The estimated amounts by which the present values of future benefits exceed future receipts, determined on an annual basis for the past five years under the Full-Reserve Actuarial Concept, are as follows (in billions): 1970—\$415; 1971—\$435; 1972—\$1,865; 1973—\$2,118; and 1974—\$2,460. Using the thirty-year period to amortize the increase for each year results in an accrual of \$416 billion as of June 30, 1974, and \$341 billion as of June 30, 1973, as reflected in the accompanying balance sheet.

The noncash provisions for Social Security benefits of \$75,090 million for 1974 and \$63,670 million for 1973 represent the changes in accrued Social Security between years.

#### 14. CONTINGENCIES

Several Government agencies insure businesses and individuals against various risks. The amount of insurance coverage in force, representing the maximum contingent exposure of the Government, is summarized below as of June 30, 1974.

<u>Nature of Coverage</u>	<u>Millions</u>
Federal Deposit Insurance Corporation . . . . .	\$ 442,000
Federal Savings and Loan Insurance Corporation . . . . .	220,000
Housing and Urban Development—Riot Reinsurance . . . . .	175,000
Atomic Energy Commission . . . . .	60,000
Other . . . . .	144,000
	<u>\$1,041,000</u>

The Government, under several agencies and programs, guarantees loans made to businesses and individuals by non-Government enterprises, such as commercial banks, and by privately owned, Government-sponsored enterprises, such as Federal Land Banks. These guarantees become assets and/or liabilities of the Government only when the Government is required to honor its guarantees. Loan guarantees in force at June 30, 1974, are summarized below.

<u>Guarantee Related To</u>	<u>Amount Outstanding (Millions)</u>
Federal Housing Administration . . . . .	\$ 97,753
Veterans Administration . . . . .	27,053
Farm Credit Administration . . . . .	23,612
Federal Home Loan Bank Board . . . . .	20,733
Federal National Mortgage Association . . . . .	25,828
Other . . . . .	32,583
	<u>\$227,562</u>

The annual rental of real property leased throughout the world to the United States Government is approximately \$600 million.



# 15. RECONCILIATION OF BUDGET DEFICIT

The following tabulation reconciles the reported budget deficits for the years ended June 30, 1974 and 1973, to the excess of expenses over revenues reflected for each year in the accompanying statement of revenues and expenses.

	Millions	
	1974	1973
Reported budget deficit (Appendix 1) ..	\$ 3,460	\$14,300
Add—		
Noncash provisions for retirement and disability benefits .....	95,650	77,030
Depreciation .....	13,200	12,800
Net expenses of off budget agencies ...	2,675	607
	<u>111,525</u>	<u>90,437</u>
Deduct—		
Capital outlays .....	16,066	16,117
Net effects of accrual adjustments ...	2,267	1,586
Revenue attributable to change in gold valuation .....	1,157	—
Seigniorage .....	321	400
Earnings of Federal Reserve .....	68	61
	<u>19,879</u>	<u>18,164</u>
Excess of expenses over revenues .....	<u>\$ 95,106</u>	<u>\$86,573</u>

## CERTAIN ECONOMIC QUESTIONS

### Related to Consolidated Financial Statements of the United States Government

- The gross Federal debt increased from \$250 billion in 1949 to \$382 billion in 1970 and to \$486 billion in 1974 (see Appendix 1). The amount owned by domestic private investors (as distinguished from foreign investors, trust funds and the Federal Reserve) increased from \$190 billion in 1949 to \$212 billion in 1970 and decreased to \$207 billion in 1974.

What is the significance of these changes— will the Federal debt approach a level where it will be difficult to obtain new funds from the public? Is the gross amount approaching a level where the carrying cost will be unduly burdensome? Does this mean that between 1949 and 1974 the amount required to finance the increase of \$236 billion in the gross amount of debt had little impact on the capital available for private purposes?

- The amount of Federal debt owned by foreign investors increased from \$3 billion in 1949 to \$14 billion in 1970 and to \$57 billion in 1974.

Has the rapid increase in Federal debt held outside the United States created a serious potential for future problems? Is there a possibility of sizable amounts being returned to the United States for sale or redemption, thus creating an immediate drain on the national capital markets?

- The amount of Federal debt held by Government trust funds increased from \$38 billion in 1949 to \$97 billion in 1970 and \$140 billion in 1974.

Is it proper for trust funds to be invested in Federal securities? If so, when such funds are needed, does this create a double requirement for our capital markets? What is the merit of having an organization invest funds held in "trust" in its own securities? Is this a major defect in concept of "trust fund"? Would the implication be any different if states and cities bought securities of their own governmental unit for "trust funds"? Could the Government invest large sums of trust fund money in the private capital markets without disturbing these markets?

- The amount of Federal debt held by the Federal Reserve increased from \$19 billion in 1949 to \$57 billion in 1970 and to \$80 billion in 1974.

What are the implications of continuing to increase the money supply by purchasing more Federal securities?



- The average maturity of Federal debt has decreased from 5.3 years in 1965 to 3.0 years in 1974.

Does the substantial amount of debt in short-term maturities create a major uncertainty for our capital markets? Does this also create a serious situation for Government when combined with other demands for capital?

- Transfer payments for retirement benefits and salaries for Government employees are a significant portion of the total costs of Government.

Can we adequately manage our financial affairs when retirement benefits are indexed to inflation? From a control standpoint, how can effective financial control be maintained over such costs?

- The accumulated deficit on an accrual basis has increased from over \$700 billion to over \$800 billion from 1973 to 1974.

Is there any practical limit on the amount of the accumulated deficit?

- Retirement benefits, for both Social Security and retirement programs for Government employees, have increased significantly during the past few years.

Are the present values of future retirement benefits increasing at rates that may substantially restrict the future financial flexibility of the Government? Should the reporting and management policies imposed on the private sector by the Pension Reform Act be extended to cover Government plans?

- There are significant Government assets, such as certain land, which could be sold if it were not required for public purposes.

Should the Government adopt a policy that all assets not required for public purposes be sold under a controlled program with such funds designated to pay for present liabilities? Is the Government able to sell assets and use the funds for new programs without the electorate realizing this under the present reporting?

- The additions to property represent a sizable investment each year.

With the significance of capital outlays, should a standby plan be developed whereby certain items would be delayed by Government during high economic activity to provide jobs during recession when the private sector has substantial excess capacity? Can such interface be of prime benefit to both the private and public sectors and reduce the cost of unemployment and other transfer payments during periods of low economic activity?

- The amount of Federal Government transfer payments to individuals has increased from \$84 billion in 1973 to about \$98 billion in 1974 and is on an increasing trend.

With the size of transfer payments today, and with such payments increasing during periods of low economic activity,

should the Government's financial planning provide for surpluses during periods of high economic activity?

- The excess of expenses over revenues in 1974 on an accrual basis was over \$95 billion.

Should the Government develop a five- or ten-year plan to phase in a program to overcome such increases in accumulated deficits?

- Assets are valued at cost in conventional balance sheets. A committee of the House of Representatives reported as of June 30, 1972, that the estimated current value of the public domain lands was approximately \$30 billion. No similar reports were available estimating current values for other land, mineral resources or the outer continental shelf. The accumulated deficit as of June 30, 1974, on an accrual basis was in excess of \$800 billion.

Would the increase in values from cost for properties not required for public purposes have a significant offsetting influence on the accumulated deficit?

- The United States dollar has been devalued twice in recent years. A flexible exchange rate is now in effect.

Would the availability of consolidated financial statements have an impact on the value of the dollar in world markets?



## CONCLUSIONS AND RECOMMENDATIONS

### For United States Government

- Financial management systems and functions of the Federal Government should be strengthened and integrated to achieve financial accountability at all levels.
- A strong and well-staffed central accounting department should be established in the Executive Branch.
- The accounting system should contain internal checks and balances to assure reliability of the data produced. Such internal controls should be supplemented by annual financial audits.
- Accrual accounting should be adopted. This was recommended by both Hoover Commissions and is required by Public Law 84-863, which was passed in 1956.
- The Federal Government should take the leadership now in developing fiscal responsibility by preparing and publishing consolidated financial statements.

## APPENDICES

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## APPENDIX 1

UNITED STATES FEDERAL GOVERNMENT  
FINANCIAL HIGHLIGHTS

Fiscal Year	Total Government and Military Employees  (Rounded)	Federal Budget			U. S. Federal Debt					
		(In Billions)			(In Billions)					
		Receipts	Disbursements	Surplus (Deficit)	Total Federal Debt	Held By		Held By		
						Government Accounts	Federal Reserve	Total Private and Foreign	Foreign Investors	Private Investors
1929	793,000	3.9	3.1	.7	16.9	N/A	N/A	N/A	N/A	N/A
1939	1,275,000	5.0	8.8	(3.9)	39.9	5.6	2.6	31.7	.2	31.5
1949	3,525,000	39.4	38.8	.6	250.7	38.3	19.3	193.1	3.0	190.1
1959	4,785,000	79.2	92.1	(12.9)	287.8	52.8	26.0	209.0	10.1	198.9
1960	4,784,000	92.5	92.2	.3	290.9	53.7	26.5	210.7	12.3	198.4
1961	4,851,000	94.4	97.8	(3.4)	292.9	54.3	27.2	211.4	12.7	198.7
1962	5,168,000	99.7	106.8	(7.1)	303.3	54.9	29.7	218.7	14.1	204.6
1963	5,096,000	106.6	111.3	(4.7)	310.8	56.4	32.0	222.4	15.8	206.6
1964	5,087,000	112.7	118.6	(5.9)	316.8	59.2	34.8	222.8	15.6	207.2
1965	5,101,000	116.8	118.4	(1.6)	323.2	61.6	39.1	222.5	15.7	206.8
1966	5,687,000	130.8	134.6	(3.8)	329.5	64.8	42.2	222.5	15.4	207.1
1967	6,165,000	149.5	158.3	(8.7)	341.3	73.8	46.7	220.8	14.7	206.1
1968	6,272,000	153.7	178.8	(25.9)	369.8	79.1	52.2	238.4	12.9	225.5
1969	6,264,000	187.8	184.5	3.2	367.1	87.7	54.1	225.4	11.1	214.3
1970	5,919,000	193.7	196.6	(2.8)	382.6	97.7	57.7	227.2	14.8	212.4
1971	5,513,000	188.4	211.4	(23.0)	409.5	105.2	65.5	238.8	32.7	206.1
1972	5,133,000	208.6	231.9	(23.2)	437.3	113.6	71.4	252.3	50.0	202.3
1973	4,989,000	232.2	246.5	(14.3)	468.4	125.4	75.1	267.9	60.2	207.7
1974	4,954,000	264.9	268.4	(3.5)	486.2	140.2	80.6	265.4	57.7	207.7

(Rounded)

# **GOVERNMENT EXPENDITURES AND GROSS NATIONAL PRODUCT** **Calendar Years 1929-1976**

Year	Gross national product	Government expenditures <sup>a</sup>					
		Amount <sup>b</sup>			As a percentage of gross national product		
		Total	Federal	State and local	Total	Federal	State and local
		(Billions)					
1929	\$ 103.1	\$ 10.3	\$ 2.6	\$ 7.6	10.0	2.5	7.4
1930	90.4	11.1	2.8	8.3	12.3	3.1	9.2
1931	75.8	12.4	4.2	8.2	16.4	5.5	10.8
1932	58.0	10.6	3.2	7.5	18.3	5.5	12.8
1933	55.6	10.7	4.0	6.7	19.2	7.2	12.0
1934	65.1	12.9	6.4	6.5	19.8	9.8	9.9
1935	72.2	13.4	6.5	6.8	18.5	9.0	9.4
1936	82.5	16.1	8.7	7.4	19.5	10.5	9.0
1937	90.4	15.0	7.4	7.6	16.6	8.2	8.4
1938	84.7	16.8	8.6	8.2	19.8	10.2	9.7
1939	90.5	17.6	8.9	8.6	19.4	9.8	9.5
1940	99.7	18.4	10.0	8.5	18.5	10.0	8.5
1941	124.5	28.8	20.5	8.3	23.1	16.5	6.7
1942	157.9	64.0	56.1	7.9	40.5	35.5	5.0
1943	191.6	93.3	85.8	7.4	48.7	44.8	3.9
1944	210.1	103.0	95.5	7.5	49.0	45.4	3.6
1945	211.9	92.7	84.6	8.1	43.7	39.9	3.8
1946	208.5	45.5	35.6	9.9	21.8	17.1	4.7
1947	231.3	42.4	29.8	12.6	18.3	12.9	5.4
1948	257.6	50.3	34.9	15.5	19.5	13.5	6.0
1949	256.5	59.1	41.3	17.8	23.0	16.1	6.9
1950	284.8	60.8	40.8	20.0	21.3	14.3	7.0
1951	328.4	79.0	57.8	21.2	24.0	17.6	6.4
1952	345.5	93.7	71.0	22.6	27.1	20.5	6.5
1953	364.6	101.2	77.0	24.2	27.8	21.1	6.6
1954	364.8	96.7	69.7	27.0	26.5	19.1	7.4
1955	398.0	97.6	68.1	29.5	24.5	17.1	7.4
1956	419.2	104.1	71.9	32.2	24.8	17.2	7.7
1957	441.1	114.9	79.6	35.3	26.0	18.0	8.0
1958	447.3	127.2	88.9	38.3	28.4	19.9	8.6
1959	483.7	131.0	91.0	40.0	27.1	18.8	8.3
1960	503.7	136.1	93.0	43.1	27.0	18.4	8.6
1961	520.1	149.0	102.1	46.9	28.6	19.6	9.0
1962	560.3	159.9	110.3	49.6	28.5	19.7	8.8
1963	590.5	167.0	113.9	53.1	28.3	19.3	9.0
1964	631.7	175.6	118.1	57.5	27.8	18.7	9.1
1965	681.2	185.8	123.4	62.5	27.3	18.1	9.2
1966	749.9	212.3	142.8	69.5	28.3	19.0	9.3
1967	793.9	242.9	163.6	79.3	30.6	20.6	10.0
1968	864.2	270.2	181.5	88.7	31.3	21.0	10.3
1969	930.3	287.9	189.2	98.7	30.9	20.3	10.6
1970	976.4	312.2	204.5	107.7	32.0	20.9	11.0
1971	1,050.4	338.5	220.8	117.7	32.2	21.0	11.2
1972	1,158.0	372.1	244.7	127.4	32.1	21.1	11.0
1973	1,294.9	408.0	264.2	143.8	31.5	20.4	11.1
1974	1,396.7	460.9	298.6	162.3	32.9	21.3	11.6
1975	1,498.0	509.7	323.7	186.0*	34.0	21.5	12.4
1976	1,686.0	570.8	361.0	209.8*	33.9	21.4	12.4

<sup>a</sup> Expenditures on income and product account. They are on an accrual basis, include trust account transactions with the public, and exclude capital transactions that do not represent current production, etc.

<sup>b</sup> Federal data include expenditures for grants-in-aid to state and local governments. These amounts have been excluded from state and local expenditures to avoid duplication.

\* Projected using straight-line interpolation of actual 1974 expenditures and projected 1977 expenditures.

Sources: **Facts and Figures on Government Finance**, 1973, Tax Foundation, p. 33.  
**Survey of Current Business Statistics**, U. S. Department of Commerce, February 1975, pp. 15 and 16.  
**Economic Report of the President**, U. S. Government Printing Office, February 1975, pp. 249 and 328.



## HISTORY OF ACCOUNTING IN THE UNITED STATES GOVERNMENT

- 1789**—The first important legislation dealing with the fiscal authority of Congress was the Treasury Act of 1789, which created the Department of the Treasury. This Act established an auditor and comptroller within the Treasury. The Treasury was to submit an annual report to Congress.
- 1921**—The Budget and Accounting Act was passed by Congress in 1921. This law made a number of important changes in the financial management of the Government, the most significant being the creation of the Bureau of the Budget and the General Accounting Office (GAO). The Bureau of the Budget was established in the Treasury Department to be administered by a director who was responsible only to the President. The GAO was established independent of the Executive Branch. It became the auditing department for Congress and also kept the ledger accounts for disbursing and collecting offices.
- 1933**—In 1933, the President proposed that accounting should be the responsibility of the Executive Branch, and that auditing should remain the responsibility of the Legislative Branch.
- 1937**—In 1937, the Senate commissioned the Brookings Institute to study the financial administration of the Federal Government. Among their findings was, "there exists no control over the preparation of government financial statements."
- 1939**—The Bureau of the Budget was transferred from the Treasury to the Executive Office of the President.
- 1947**—The Joint Program for Improving Accounting in the Federal Government (JPIAFG) was established in 1947. This was the forerunner of the present Joint Financial Management Improvement Program (JFMIP).
- 1949**—The first Hoover Commission recommended the creation of an "Accountant General" in the Treasury to prescribe financial and administrative controls. The first Hoover Commission recommended use of accrual accounting.
- The Federal Property and Administrative Services Act was passed in 1949. This Act required the Administrator of the General Services Administration (GSA) to work with the Comptroller General to formulate principles and standards for accounting for property and aid in developing this segment of the accounting systems.
- 1950**—The Budget and Accounting Procedures Act of 1950 gave the establishment and maintenance of accounting systems to the individual agencies. The GAO maintained its authority to prescribe accounting principles and standards. The GAO also was given the authority to approve the accounting systems of the individual agencies, and prescribed accounting principles and standards for Federal Agencies which required the use of accrual accounting to supplement the "obligation" basis of accounting in Government. Its primary function was now auditing. It would make post-audits of operations and report to Congress.

- 1956—The second Hoover Commission made a strong recommendation for accrual accounting and this led to Public Law 84-863 which required all Government agencies to install accrual accounting "as soon as practical."
- 1967—The President's Commission on Budget Concepts made several recommendations as a result of its study in 1967. It recommended against a separate capital budget, but called for a unified budget which included the trust funds. The Commission recommended getting away from the singular concern with the bottom line of the budget (surplus or deficit), and emphasized the financing of the deficit. Most of its recommendations regarding the budget were adopted. However, it also recommended accrual accounting and that the annual budget be presented on an accrued expenditure basis. This was endorsed by two Presidents but was not implemented during their administrations. Again, the Congress appeared to prefer the "obligation" type budget. There were some improvements made in accruals for the year-end statements of the Federal Government, but not always at the installation or operating level.
- 1970—The President created the Office of Management and Budget (OMB), replacing the Bureau of the Budget. The Legislative Reorganization Act directed OMB and Treasury to modernize budget and fiscal management through installation of a new EDP system. To date, this project is still in the planning phase.
- 1973—The President transferred much of the Executive Branch responsibility for accounting and financial reporting from OMB to GSA. In addition, the administrator of GSA was made a member of the JFMIP.
- 1974—The Congressional Budget and Impoundment Act of 1974 created the Congressional Budget Office and a new budget committee for each house of Congress. The new budget committees and the Congressional Budget Office were charged with the responsibility for overseeing the Congress' work on the budget and insuring that the budget was reviewed as a whole and not just by individual appropriation. The new Congressional Budget Office is to be the OMB of the Legislative Branch of Government—coordinating and assisting the work of the two Congressional budget committees.



ACCOUNTING AND REPORTING QUESTIONS RAISED BY  
ILLUSTRATIVE CONSOLIDATED FINANCIAL STATEMENTS

With respect to the illustrative financial statements, the following are some of the accounting and reporting questions that arise.

- Are the criteria established herein for including Government and quasi-Government entities in these statements appropriate to best reflect the overall financial position and operating results of the Government?
- Should future retirement and Social Security benefits as shown be treated as liabilities?
- Should increases in the official rate for gold be treated as income?
- Should individual income taxes receivable be recorded on an accrual basis?
- Does the Government have adequate procedures to properly account for inventory items on hand?
- Have "excess materials awaiting disposition" been stated at net realizable values?
- Does the Government have adequate procedures to properly account for capital assets?
- Is it appropriate for the Government to capitalize and depreciate the cost of assets?
- Are reserves for loan guarantee defaults and other contingencies required to reflect potential losses or present liabilities?

EXCERPTS FROM SECTION 3 OF SECURITIES ACT OF 1933

**Exempted Securities**

Sec. 3. (a) Except as hereinafter expressly provided the provisions of this title shall not apply to any of the following classes of securities:

**Securities of Governments and Banks**

(2) Any security issued or guaranteed by the United States or any territory thereof, or by the District of Columbia, or by any State of the United States, or by any political subdivision of a State or Territory, or by any public instrumentality of one or more States or Territories, or by any person controlled or supervised by and acting as an instrumentality of the Government of the United States pursuant to authority granted by the Congress of the United States—