STATE OF MARYLAND

R E P O R T

IN RE

THE ORGANIZATION AND ADMINISTRATION OF THE STATE GOVERNMENT

PART III

A DISCUSSION OF FINANCIAL AND ACCOUNTING CONTROL

April 15, 1921

GRIFFENHAGEN & ASSOCIATES, Ltd.

STATE OF MARYLAND

REPORT

IN AN

THE ORGANIZATION AND ADMINISTRATION OF THE STATE GOVERNMENT

PART III

A DISCUSSION OF FINANCIAL AND ACCOUNTING CONTROL

April 15, 1921

GRIFFENHAGEN & ASSOCIATES, Ltd.

TABLE OF CONTENTS

PART III - A REVIEW [illegible] ACCOUNTING [illegible]

	Page
Letter of Transmittal	1
Introduction	2
Problems of State Finance	4
Merits and Defects of the Borrowing Policy	5
Possibilities for Economy in the Maintenance of Cash Balances	6
The Budget as the Statement of the Financial Plan	7
Recommendations with Regard to Finance	11
Problems of Control	14
Appraisal of Present Means of Control	15
Incompleteness of the Present Central Treasury System	15
Dulness of the Central Accounting System	16
Dulness of the Present Auditing Practice as a Means of Enforcing Control	18
Defects in Policy of Handling Collections of Public Funds	19
Incomplete Central Control of Property	20
Failure to Place Responsibility for Authorizations of Expenditures	21
Indefiniteness of Responsibility for Approval of Claims	22
Failure to Recognize the Importance of Expenditure and Cost Accounting and Reporting	23
Departmental and Institutional Accounting	24
Comment on the Analysis of Expenditures in the Budget	26
Recommendations with Regard to Control	27
Means to Secure Treasury Control over All Financial Transactions	32
Improvements in Central Bookkeeping	33
Improvements in Audit Practice	35
Closer Control over Collections	36
The Adoption of Accounting Means of Property Control	38
The Preparation of Expenditure Regulations	40
The Adoption of a Standard Expenditure Voucher	40
The Development of Systems of Expenditure and Cost Accounting	43
The Application of Adequate Standards of Record and Bookkeeping to all Departments	43
The Development of Means for Greater Analysis of Expenditures in the Budget	44
The Establishment of a Budget Office	45

TABLE OF CONTENTS, CONTINUED

Page

The Finance Organization..... 48

Appraisal of Present Finance Organization..... 51
Recommendations with Regard to Finance Organization..... 55

Exhibit "A" - Table Showing Extent to which Monies Expended by Certain State Offices are Shown in the Budget and the Extent to Which Monies are Deposited in the State Treasury

Exhibit "B" - Suggested Form for General and Special Appropriation Fund Balance Sheet

Exhibit "C" - Suggested Form for Fund Statement

Exhibit "D" - Suggested Form of Expenditure Voucher

GRIFFENHAGEN & ASSOCIATES, LTD.

INDUSTRIAL ENGINEERS, ACCOUNTANTS, AND EMPLOYMENT ADVISORS

GRIFFENHAGEN
DIRECTOR
THOMAS W. HOWARD
ASSISTANT DIRECTOR
ROBERT E. GOODELL
WARREN G. BAILEY
FRED TELFORD
A. BECKMAN
G. EVERETT

CONSULTANTS IN
PROBLEMS OF MANAGEMENT
BUSINESS ORGANIZATION
INDUSTRIAL RELATIONS
PRODUCTION CONTROL
COST ACCOUNTING
OFFICE SYSTEM

116 SOUTH MICHIGAN AVENUE
CHICAGO

April 15, 1921

Hon. Albert C. Ritchie,
Governor of Maryland,
Annapolis, Maryland.

Dear Sir:

Bound herewith is Part III of our report on the Government of Maryland. It has to do with the fiscal, accounting, and auditing problems of the State, and discusses questions of policy, organization, and procedure with regard to each of these subjects.

Yours faithfully,

GRIFFENHAGEN & ASSOCIATES, Ltd.

by G. R. Griffenhagen
Director

PART III

[illegible] OF THE [illegible] IN [illegible]

INTRODUCTORY

In the following discussion two groups of problems are dealt with, the first has to do with financial policy, and the second with questions of financial and auditing control. The policy questions come within the field of finance in the limited sense of the term and relate to such matters as borrowing policy, the retirement of debt, the providing of adequate current cash balances, and the periodic preparation of clear and complete statements of the financial plans of the administration. They do not however, take up questions of taxation and revenue.

In the discussion of the second group of questions, which are referred to by the general term "problems of control", the problems of the treasury are discussed with particular reference to the relation of the treasury to the management of the administrative affairs of the state generally and to the systems of accounting, auditing, and administrative supervision required in the handling of the business transactions of the state. The point of view assumed is that of the responsible administrative officer rather than of the purely accounting officer. The often matters of financial control are left to specialists in financial affairs and not treated as integral parts of the general problem of management. It has been the aim, therefore, in dealing with the problems

of control in this respect is bring out the close relationship that should exist between financial administration and executive direction of the state's affairs as a whole. If the executive is to take an active part in the management of the state he must give his attention to the detailed plans and requirements of the administrative units and to reports of work accomplished and the costs. To make it possible for him to cover this ground there must be built up a system of procedure by which accurate planning for future appropriations will be done and a means established of analyzing operations and measuring results. The same machinery should provide for a reporting by a more or less independent agent representing the appropriating body as well as the executive, of the activities of the spending departments and of their adherence, or failure to adhere, to the terms of the appropriation act and the requirements of statutes and regulations.

In the following pages these various subjects are treated under three main heads. Problems of finance are taken up first, then problems of control, and finally, the organization necessary to exercise the recommended form of control. Existing conditions and practices and their defects are discussed in each connection and suggestions are put forward for the improvement of the fiscal and accounting administration and methods of the state.

PROBLEMS OF STATE FINANCE

A state meets public expenditures through taxation, from the income of partially and fully self-supporting public services and enterprises, from donations and grants, and temporarily by borrowing. A complete review of the problems of state finance must embrace a study of all of these sources. The adequacy of the return from each source, the relation existing between revenues and probable expenditures, the systems of tax administration and revenue collection, and the soundness of the borrowing policy, are fundamental finance problems. Sound financing involves not only the securing of adequate income, but, in addition, the management of funds in such a way that cash balances are maintained to meet all needs.

Under a budget system the revenue and expenditure problems of the state are brought up for review at regular intervals and steps are taken to lay out a financial program for the ensuing period. In the budget, both revenue and expenditure requirements should be fully analyzed. The budget should constitute a clearly defined and complete plan for financing the governmental activities proposed for the coming period; it should be exact in the information it presents; and it should show the financial policy of the state to be sound.

In the succeeding paragraphs the following aspects of

the finance problem are discussed: (a) borrowing policy, (b) economy in the maintenance of cash balances, and (c) the budget as the statement of the financial plan.

No comprehensive study of such questions was included in the survey upon which this report is based. A brief consideration of existing tax laws brings to light no very serious defects in tax policy or in the distribution of the tax burden. The administration of the tax system by the Tax Commission deserves special recognition for its efficiency.

Merits and Defects of the Borrowing Policy:

The borrowing power of the state is limited by Section 34 of Article III of the State Constitution. The provisions of this section include one stating that "No debt shall be hereafter contracted by the General Assembly unless such debt shall be authorized by a law providing for the collection of an annual tax or taxes sufficient to pay the interest on such debt as it falls due, and also to discharge the principal thereof within fifteen years from the time of contracting the same; and the taxes laid for this purpose shall not be repealed or applied to any other object until the said debt and interest thereon shall be wholly discharged".

Another provision of the same Section permits borrowing without levying a tax in two cases: (1) an amount not exceeding 100,000 may be borrowed to meet temporary deficiencies in the treasury, and (2) debts to any amount may be contracted for the defence of the State.

The constitutional limitations insure that provision will be made for debt redemption - that the credit of the state will

not be impaired, that the state may borrow at fair rates, and that the debt burden of the state will not pile up owing to the failure to redeem is uses outstanding and due. The policy of the state is in accord with the object sought by the Constitution. The use of serial bonds goes a step beyond the constitutional requirements and is a further guarantee that the debt will be administered properly.

It is believed, however, that the officials of the state should consider the possibility of realizing decided savings through the elimination of current borrowing. The elimination of interest payments on the state debt would mean a saving as compared with the payments now made of approximately a million dollars a year.

By careful planning either the necessity for borrowing can be entirely removed or the amount of borrowing greatly reduced. A large public organization is seldom justified in issuing bonds for relatively small works. The state can plan better to meet each small need as it arises than to meet obligatory charges for redemption of debt which in the aggregate may become extremely burdensome. Very large undertakings can often be better accomplished on an annual installment basis than in such large projects that bond funds are required.

<u>Possibilities for Economy in the Maintenance of Cash Balances:</u>

The present treasury system ties up much larger amounts of money in bank than is necessary to conduct the business of the state. Large sums are held by departments for various reasons. Collecting offices hold their receipts in departmental bank accounts in some cases until the money is required for departmental expenditures. Balances of most departmental accounts are turned over to the treasury only at

the end of the year and, under the laws concerning a few offices, they are never turned over. Other collecting offices make deposits in the treasury monthly or quarterly. Large special funds including revolving funds and others are held by the departments without the cash being made available for treasury uses. Departments having special funds of their own generally draw upon their general fund appropriations as long as possible so as to permit building up their own working capital; only when the treasury appropriations are exhausted is it necessary for them to expend large sums from their own income.

The necessity for changes in the present treasury system in order to obtain adequate financial control is considered in the following pages; it is to be noted here that the present system has in no respect been planned to simplify the problem of maintaining adequate cash balances without tying up unnecessarily large amounts of money and without temporary loans. Any steps which can be taken to reduce the amount of cash required to carry on the transactions of the state will be equivalent to saving interest on the amount in question. The cash released can be used to reduce the debt of the state or for any other purpose.

The treasury system and the financial planning at budget time should recognize the cash problem both from the point of view of preventing treasury deficits and from the point of view of economy in balances.

The Budget as the Statement of the Financial Plan:

The Constitution of the state provides that the Governor shall submit to the General Assembly a budget for each of the two ensu-

fiscal years.

"Each budget shall contain a complete plan of proposed expenditures and estimated revenues for the particular fiscal year to which it relates; and shall show the estimated surplus or deficit of revenues at the end of such year. Accompanying each budget shall be a statement showing: (1) the revenues and expenditures for each of the two fiscal years next preceding; (2) the current assets, liabilities, reserves, and surplus or deficit of the state; (3) the debts and funds of the state; (4) an estimate of the state's financial condition as of the beginning and end of each of the fiscal years covered by the two budgets above provided; (5) any comments the Governor may desire to make as to the important features of any budget and any suggestion as to methods for the reduction or increase of the state's revenue."

"The General Assembly shall not amend the budget bill so as to affect either the obligations of the state under Section 34 of Article III of the Constitution concerning incurrence of debt, or the provisions made by the laws of the state for the establishment and maintenance of a system of public schools, or the payment of any salaries required to be paid by the State of Maryland by the Constitution thereof; and the General Assembly may amend the bill by increasing or diminishing the items therein relating to the General Assembly and by increasing the items therein relating to the judiciary, but except as hereinbefore specified, may not alter the said bill except to strike out or reduce items therein, provided, however, that the salary or compensation of any public officer shall not be decreased during his term of office; and such bill when and as passed by both Houses shall be a law immediately without further action by the Governor."

"The Governor and such representatives of the executive departments, boards, officers, and commissions of the state expending or applying for state's money, as have been designated by the Governor for this purpose, shall have the right, and when requested by either House of the Legislature, it shall be their duty to appear and be heard with respect to any budget bill during the consideration thereof, and to answer inquiries relative thereto."

The powers of the General Assembly to originate appropriation bills in addition to the budget are not removed but the following limitations are made.

"Neither House shall consider other appropriations until the budget bill has been finally acted on [illegible] and to such other [illegible] bills shall be held except in accordance with the revised allotment (1) [illegible] appropriation shall be [illegible] limited [illegible] all bills, except [illegible] shall be [illegible] in [illegible] entry [illegible] (2) [illegible] population bill shall [illegible] the revenue necessary [illegible] the population [illegible] made [illegible] tax, least [illegible] collection as shall be directed in bill (3) [illegible] supplementary appropriation bill shall [illegible] [illegible] in each house by [illegible] majority of the entire elected [illegible] provided [illegible] (4) each supplementary appropriation bill shall be presented to the Governor [illegible] the provisions of said section shall apply.

The budget provisions of the Constitution, subject to the exception [illegible], define briefly a modern budget system; they require the Executive to prepare the budget, they require the information submitted to include comparisons of proposals with income and expenditures of the last two years, they call for explanatory statements of various kinds, and they limit the power of the General Assembly to increase amounts to be appropriated, etc.

In permitting supplementary appropriation bills the provisions of the Constitution open the way for latest departures from sound budget practice. The Constitution does not require that the Governor initiate these measures, but it allows the Governor [illegible] The Constitution does not limit supplementary appropriations to emergencies or requires a two-thirds or three-fourths majority to pass them. Under the present provision a three-fifths majority will pass an appropriation bill over the Governor's veto. On the basis [illegible] the seemingly lesser danger of arbitrary action on the part of the Executive is avoided by allowing the General Assembly unlimited [illegible]

to initiate supplementary [illegible], but [illegible] tions [illegible] extensive reliance upon supplementary bills is [illegible] guarded against.

When there is no serious disagreement between the executive and legislative branches the necessity for supplementary appropriations rests entirely upon the inability of the administration to complete its plans in time for all elements to be considered at once.

Although the Constitution requires that the budget "shall contain a complete plan of proposed expenditures and estimated revenues", the present budget does not in fact include information with regard to income and expenditures from large amounts of fees and federal grants. The numbers of offices or divisions concerned are shown in the budget and the approximate amounts of these are brought out in the tabulation presented as Exhibit A. There are also several state institutions which appear under the caption "state-aided institutions".

The present budget (for the fiscal years ending September 30, 1941 and 1942) is published in a volume of 127 pages. All but the first sixteen pages are devoted to detailed schedules of expenditures. These schedules and the general summary of the budget in relation to expenditure control are considered in later pages of this report under the heading "Comment on the Analysis of Expenditures in the Budget".

The statements presented in the first sixteen pages are:

1. Revenues for the fiscal year 1941
2. Expenditures for the fiscal year 1940
3. Current assets and liabilities
4. The state debt
5. Estimated revenues for the fiscal year 1942

6. Estimated expenditures for the fiscal year 1920
7. Estimated revenues for the fiscal years 1921 and 1922
8. Financial requirements and balances for the fiscal years 1921 and 1922

The actual budget statements under the present plan begin on page 16 following six statements of detailed information introduced to permit comparison with past years. The most essential summary statements appear on pages 17 and 18 and are in no way set out so that the reader may find them readily.

No means are adopted to facilitate comparisons between years except in the detailed statements from page 19 on. In fact comparisons are made unusually difficult by varying the forms of financial statements for the different years. Furthermore certain rather large personal service items appear as lump sums that should be shown in detail.

It is believed that the defects in presentation of the budget information, particularly as regards the general summary of financial resources and requirements cannot properly be regarded as defects of detail. On the contrary, all matters affecting the form of the budget as well as its content deserve careful consideration since the budget proposals should receive the widest publicity and the summary statements should be understood by all.

Recommendations with regard to finance:

It is recommended:

1. That the present practice of issuing bonds for many classes of state expenditure be abandoned in favor of a pay-as-you-go revenue policy;

2. That all special funds held by departments be reviewed to be turned into the treasury;

3. That every effort be made in the financial plan and in the management of the treasury to reduce the cash balance to be held in banks; that fund balance sheets be prepared at budget time showing the probable cash balance in the treasury for various times during each of the two fiscal years for which budgets are proposed.

4. That constitutional limitations be placed upon the power of the General Assembly to initiate appropriation bills;

5. That the necessity for voting any appropriations, whether from bond funds or revenue, except as a part of the budget proposals and act, be avoided by insisting upon the inclusion of all items approved by the Governor in the budget;

6. That the state income from fees, federal grants and any other sources, not now shown in the budget be hereafter included with schedules indicating the manner of expending the money from these sources; that such schedules be incorporated in the appropriation act;

7. That in referring in the detailed expenditure schedules of the budget to the sources of money to be employed in meeting appropriations, reference be made specifically to the exact nature and name of the funds.

8. That the form of the summary budget statements showing the estimates of income and expenditure of the state comparatively, be revised with a view to securing a clearer and more definite presentation of the essential facts.

A proposed form of summary statement of the financial plan is submitted as Exhibit B. This statement shows resources of all funds available for meeting appropriations and the expenditure requirements of the periods. At the bottom it shows also a summary operation account for the next two years and the effect upon the net debt of the state of carrying out the budget proposals. The [illegible] items of proposals with past expenditures are obtained directly from columns of this statement. The only additional statements proposed to be included are:

1. A fund statement showing for the general fund and each special fund, the cash balance, income, expenditure, and probable balance at the end of the year. This statement is illustrated by Exhibit C.

2. A detailed comparative revenue statement.

3. A comparative expenditure statement showing the amounts of money expended and to be appropriated to each organization unit (i.e., the totals from the detailed expenditure schedules).

Recommendations: The budget and bond separate cover the General Assembly should be furnished with a statement of the assets and liabilities of the state, an operating account for the last completed fiscal year, with estimated figures for the current fiscal year, and other statements as set forth in a later section of this report.

PROBLEMS OF CONTROL

In its simplest aspects financial control involves merely the preparing of records of cash, revenues and accounts receivable, equipment, and other assets, verifying claims against the state, and other accounting work of a similar nature. When the term is applied in its broader meaning, financial control is understood to be one of the most important forms and means of administrative direction.

In large organizations, and particularly in public bodies, every administrative problem is more or less intimately connected with the spending of money. In order to insure that the work which is intended is done effectively and that the dictates of economy are observed, effective expenditure control is necessary. All financial planning must be based on contemplated expenditures and must, therefore, revolve about estimating and budget making. Authorization of items of work to be done must include expenditure authorizations. Study of the results of work must include consideration of costs.

The responsibilities of financial control may be divided into two groups:

(1) Those pertaining to the work of the administrator;

(2) Those pertaining to the work of the accountants and auditors.

The administrator alone is responsible for duties connected with the direction of the work of the organization which include the financial planning, the authorization of expenditures, the approval of claims, the review of expense and cost data, and the proper care of equipment and other objects of value. The higher administrator acting through

his financial and accounting officers is responsible also for the accounting and auditing work necessary to secure needed information and to enforce the system of control. The financial and accounting officers direct the routine work of bookkeeping, preparing accounting statements, and the like, and in addition should furnish technical advice as to methods. An accounting officer's duties as chief of the staff handling the routine record-keeping work, are, or should be, if the procedure is fully developed, relatively simple. His duties as an expert advisor, however, offer opportunities for constructive service of the most important kind.

Appraisal of Present Means of Control:

In common with the great majority of public bodies, the State of Maryland has not developed the technique of central management in any marked degree. Each department and institution has in large measure been relied upon to carry on its own affairs in the manner established by the traditions of the organization unit in question. There being no compelling incentive to show profits, as there is in a private undertaking, the central authorities have not been encouraged to interfere with departmental affairs or to study the problems of central direction.

Up to the time that a budget system was adopted the Governor was not required to give his attention to the financial needs of the administration. He was, in fact, in no sense in the position of a responsible chief of a large working organization. Nominally he was designated as the directing official, but his actual functions were limited both by the laws defining the administrative organization and by the absence of central financial control.

In adopting a budget system the state took an important step toward securing adequate central financial control. The relation existing between the Governor and each administrator who secured funds through the budget was immediately changed. It became necessary for the departments to recognize the office of Governor as an element in state management.

With the adoption of a budget system, however, the old system of decentralization was not in one move replaced by a new one adapted to the needs of central direction. Most of the features of the old plan were not changed: to a considerable degree the old idea of divided responsibility remained; the importance of a tight control over financial affairs was only partially recognized; central agencies to carry on the work incidental to central management were not created; and many of the instruments and procedures of the old fiscal system remained intact. In the following sub-sections the most serious defects in the present system of treasury control are indicated.

b. <u>Incompleteness of the Present Central Treasury System:</u> The most significant feature of the old system which has not been affected by the adoption of the budget system is what may be termed the decentralized treasury. An examination of the problem of control makes apparent the necessity for a strongly centralized treasury system. All public money should be immediately turned over and accounted for to the treasury. Disbursements should be made in all but a few exceptional cases by presentation of approved claims directly to the treasury. Certain preparatory steps are necessary to make such a system workable, but when once well established, it is the simplest and most practical. Experience of public

and private bodies has demonstrated beyond question that the most effective control as well as most economical management of the treasury is to be secured by giving the central officials immediate contact with, and a share in effecting, all financial transactions.

At the present time most of the financial transactions of the state are controlled by departmental officials under no direct supervision. Departments and institutions maintain bank accounts into which revenues are deposited and from which payments of individual claims are made. Amounts due the state are turned over monthly, quarterly, or annually. Amounts appropriated for the department or institution are paid by check of the State Treasurer as called for, generally monthly. Individual claims are not as a rule paid from the treasury.

Certain large classes of income are at no time deposited in the treasury but are collected and disbursed by the departments without the treasury having any part in the matter. These classes of income are shown in the second and third columns of the tabulation presented as Exhibit A. Other funds pass through the treasury and are turned over to the departments for specific purposes, but the claims for which the money is disbursed from the treasury are not generally required to be presented to the Comptroller and no provision is made for examination of the authority for the expenditures or proof of actual payment.

Under this system the influence of the treasury over the management of each department's fiscal affairs is very limited.

The present system for controlling receipts and disbursements in the Comptroller's and Treasurer's offices is suitable for a small volume of work. It is a system which within its scope may be termed

"safe". It furnishes proof that receipts sent to the Treasurer have actually been deposited in the treasury and that withdrawals have been made only for public purposes or to replenish departmental funds. The characteristics of the system designed to make it "safe", however, apply only to the financial transactions in which the treasury takes a part. So far as money in the treasury is concerned, five signatures serve as protection, two by the Comptroller, one by the Comptroller's chief clerk, one by the Comptroller's budget accountant, and one by the Treasurer. In other words as far as the thousands of dollars of revenue deposits made to state officers other than the Treasurer are concerned, the treasury system now furnishes no control. The scheme of sending a receipt from the Treasurer to the depositor was perhaps originally planned with the idea that all public receipts would be so controlled, but it now applies to relatively few.

With regard to disbursements, the present system in most cases affords positive proof only that the money, if it passes through the treasury at all, leaves it upon departmental requisition.

<u>Weaknesses of the Central Accounting System</u>: The defects in the bookkeeping system of the central fiscal offices are of two kinds:

First, the present procedure is adapted to the present treasury system described above and, therefore, is not suitable for handling large volumes of work. If an attempt is made to provide greater centralization without providing for more expeditious accounting procedure, the bookkeeping would be unduly costly and it is not improbable that the number of delays would serve to discredit the new plans.

Second, the present books do not produce currently the

information which a modern system of governmental accounts should furnish. This information includes the following:

> Information with regard to the relation between the amounts of appropriations and contingent obligations on the one hand and resources available for meeting these on the other.
>
> Information with regard to all assets and liabilities of the state and the net difference between live assets and liabilities, i.e. the net debt.
>
> Information with regard to expenditures and revenues chargeable to operation (as contrasted with disbursements and receipts)and the difference between these, i.e. the increase or decrease in net debt during the period.

So long as the treasury does not currently receive either the cash or information with regard to large amounts of cash, the central books cannot be complete. In addition to changes necessary to make the records complete, the present ledgers and arrangement of accounts must be revised to make it possible to obtain the information referred to above.

<u>Weakness of the Present Auditing Practice as a Means of Enforcing Control</u>: Where it is necessary for a public or private business to maintain sub-agencies which both receive and disburse public monies, a rigid system of current control is difficult to maintain. It becomes necessary often to adopt an inspection system and to provide for careful local audit at frequent intervals. Under present conditions there are great numbers of state offices which both receive and disburse public monies and the necessity for extensive auditing and inspectional work is great.

It is provided under existing laws that many offices shall be examined each year by the State Auditor and his assistants. Other

offices are to be examined when the Board of Public Works so directs. In actual practice, although the requirements of the law are lenient, the State Auditor is not provided with the staff he requires to meet all requirements of the law completely.

So long as there are offices whose financial affairs are in a measure independent of treasury supervision (and almost always in the case of collecting officials), a local audit is necessary. If present conditions are to continue a considerable increase in auditing work is desirable.

On the other hand the conditions which exist now as regards treasury supervision should not remain, and with a change in the treasury system, the character of the audit work should be changed. The audit should be related definitely to the scheme of treasury control. It should be directed by the Comptroller. It should, as regards expenditures, compel adherence to all regulations and the production of all needed proofs by requiring that the auditor be satisfied before any claim is paid.

Under present conditions the influence of the auditor is limited both on account of his lack of authority and because the matters he deals with are closed and of historic interest only. He cannot fully compel adherence to a system of control. He can secure few if any changes in past actions which are not badly in error. He can have little to do with the most important sources of governmental loss, which are not those involving absolute fraud or numerical miscalculations.

<u>Defects in Policy of Handling Collections of Public Funds</u>: The collecting officers of the state now make deposits with the Treasurer,

at such times as provided by law or by agreement. Some officers deposit monthly, others quarterly, still others annually, and some never. The treasury officials draw a receiving warrant for each deposit and send a copy of this to the collector as a receipt.

Corporation taxes are billed by the Comptroller and are paid directly to the Treasurer, the receipt being sent to the corporation.

Payments of license fees are controlled by stationery issued to collectors by the Comptroller and required to be accounted for.

The defects of the present system with regard to nearly all collections not made to the Treasurer directly include the following:

(1) The treasury cash is not maintained at as high a level as is possible owing to the length of time required for moneys to reach the Treasurer.

(2) The custody of unnecessarily large amounts of cash is left with collecting officials.

(3) The collection of large amounts of money is not subject to current treasury supervision.

Incomplete Central Control of Property: The books of the Comptroller's office do not show the properties of the state. In not including properties as assets of the state, the Comptroller's office is believed to be following the best governmental accounting practice but the central books, should however, show properties in a set of records maintained purely in the interests of property control. A careful distinction is made in accounting between articles which will be consumed by use within a short period and articles which have a relatively permanent value. Articles of the first class can be treated as values owned by the state only so long as they are held in stores. Articles of the latter class should remain under control during use and until condemned

by proper authority.

The ownership of property should not be regarded as a departmental or institutional matter. The use of property should be supervised by a property officer responsible to the state, and responsibility for the custody and care of property should be placed through the supervision exercised by treasury officials.

Failure to Place Responsibility for Authorizations of Expenditures: Under present conditions current control of expenditures is purely a departmental responsibility. The influence of the treasury or chief executive does not extend even to seeing that high standards are observed in each department. It is believed that one of the first responsibilities of the treasury should be to see that in every state office and institution the expenditure procedure is defined by written regulations ensuring that in practice as well as in theory the responsible head exercises control over all expenditure authorizations. Regulations should provide also that certain classes of expenditures must be approved by the Governor or his representatives.

Limited central check of departmental methods of authorizing expenditures is furnished by the present audit. The auditor while examining vouchers of a department can see that officials regarded by the department as responsible expending officials have approved all claims. This check, however, does not have the influence over departmental management that should be exercised. It is based largely upon the acceptance and enforcement of the department's own system. It does not embrace means of taking effective action to remedy weaknesses disclosed. It does not permit a distinction being made between the orig-

inal authorization of the expenditure and the approval of an established claim. It does not provide any central approval before expenditures are made.

At the present time wide differences of method of control over authorizations of expenditure exist throughout the state administration. It is not uncommon to find little emphasis placed upon the control coming before the issuance of orders and incurrence of obligations.

Indefiniteness of Responsibility for Approval of Claims: To the responsibilities of approving claims, i.e. to passing upon vouchers, more attention is now given than to the incurrence of obligations. It is generally provided that the responsible administrative head of each department must pass upon all claims.

The character of the scrutiny given claims, however, is not defined and consequently may be of limited scope. In fact the experience of public administrations with regard to placing responsibility for claims has been that complete attention to all aspects of an expenditure can be assured only by requiring a complete administrative certificate to the effect that each essential requirement has been met. The number of requirements may be great. For example, for each purchase, no matter how unimportant, the funds of the state should not be drawn upon until all of the following facts have been established:

That there is money available.

That the appropriation and expenditure accounts charged are applicable to the general purpose.

That the method of incurring the obligation was in accordance with laws, orders, and regulations.

That the method of purchasing (requesting bids, drawing contracts, etc.) was in accordance with laws, orders, and regulations.

That articles or services of the quantity, kind, and quality stipulated have been received.

That the receipt of articles or services is acknowledged by the authorities in charge of expending the appropriation.

That the price is fair.

That extensions and additions are correct.

That the claim has not previously been paid.

A complete certificate and other means to assure adequate attention to and placing responsibility for each feature of an expenditure are undoubtedly urgent needs in the administration of the State of Maryland.

Failure to Recognize the Importance of Expenditure and Cost Accounting and Reporting: The central financial officials now secure few or no analytical expenditure reports from departments and institutions, and no systematic procedure for the review of expenditure data is introduced in the scheme for central supervision of departmental affairs. In the large departments and institutions expenditure accounting has been given varying amounts of attention. In very few instances are statements prepared which adequately meet the needs.

A scientific system of expense accounting, and where possible unit cost accounting, is fundamental to economy and efficiency in almost all types of large organizations. Through the medium of properly classified expense accounts information may be secured as to the effectiveness of work being done and as to sources of waste. These facts should have a great influence over methods employed, personnel entrusted with responsibilities, and administrative decisions of all kinds. Where

no expense data are prepared for the administrators, on the other hand, there is a strong tendency to neglect the responsibilities for economy in expenditure.

There are ordinarily two comparisons brought out by expense and cost accounting:

(1) Comparisons between similar organizations, especially where unit costs are obtainable;

(2) Comparisons of the cost of the same work in different months or years.

Changes in cost bring forcefully to the attention of the administrator any facts which it is important to note; where the costs rise, the matter should be investigated; where the costs decrease, the method of securing the reductions should be looked into. Comparisons between like units make it possible to give the individual who is conducting his work in the most effective manner full credit, and they make possible a system of competitive performance whereby the better men in the service are setting a pace for the least active and are indicating what it is possible to achieve. Also they may be employed to show the difference in effectiveness of two entirely distinct methods of conducting similar pieces of work. The information available and the use made of it should be regarded as one of the most important interests both of the accounting officers and of the administrative officers.

The means of securing significant expense and cost data are generally not fully apparent without a careful study of each individual problem. The typical state hospital may be taken as an example. Very limited informational value attaches to individual figures showing the total cost of running such an institution. Comparisons between months

will sometimes be of interest but if the number of patients varies and the institution maintains a farm, variations between months will be expected and a direct definite comparison is impossible. Exclusive of farm expenses, unit costs per patient-month may be of considerable interest. These, however, may be distorted by inclusion of figures not closely related to care of patients or by purchasing in bulk not specially provided for by the system of accounting.

Comparisons between costs of different institutions depend upon similarity of the work or units of work for which the figures are prepared. The unit costs of subsistence including service can be compared. The unit costs of cleaning buildings can be compared. Costs of administration may be roughly comparable at least in their ratios to totals. Costs of record-keeping including bookkeeping may be reducible to a basis for comparison. Care of patients in general is a comparable item of cost if the figures are properly prepared. Total costs or the total consumption of individual commodities, however, cannot generally be compared or reduced to any fair unit as the several institutions of the state differ in more or less essential respects as regards what work is done.

In addition to the need for expenditure and cost accounting in an institution, adequate accounting for revenues and expenditures of farms and other fully and partially self supporting undertakings should be noted as special needs.

<u>Departmental and Institutional Accounting</u>: The problems of departmental accounting should be considered from the broad point of view of the administrator as responsible for departmental management.

their solution should, therefore, have regard especially to the problems of expenditure and cost analysis which are the big problems of accounting for every organization. In addition careful consideration must be given to control over the authorizations of expenditures and approval of claims, for control over stores and property on hand, for control of stores issues, for completeness of records, for methods of currently proving the accuracy of records, for elimination of needless bookkeeping work, etc.

In the State of Maryland some progress has been made by the State Auditor toward the installation of adequate bookkeeping procedure. However, a number of offices and institutions have not adopted the methods put forward by this official and the improvement of systems employed in many others has not been taken up.

In departments and institutions having revised accounting procedures, these are based upon the present relationship between the treasury and departments and do not provide for the changes in systems of control which it is practicable to take up in connection with the strengthening of treasury supervision.

Comment on the Analysis of Expenditures in the Budget:

In the previous paragraphs it has been pointed out that the remedy of many of the weaknesses of the present system of financial administration is dependent upon the widening of the influence of the treasury. In turning to the subject of control through the budget it is to be noted that the budget legislation has been based on the recognition of the important place that the treasury and the scheme of financial administration should have in the executive direction of the affairs

of the state.

In its major features the expenditure schedules of the Maryland budget resemble those of budgets recently established in a number of American states and municipalities. The summary classification of expenditures employed, an important detail often overlooked, is logical and concise, though possibly not as fully descriptive of the services of the state government as might be obtained. Under each head of the summary, expenditures are classified by "purpose", i.e. by organization unit in the main with occasional subdivisions according to function or subsidiary purpose. Under each head of the "purpose classification" (i.e. the designation of organization unit or function for which the money is appropriated), expenditures are sub-divided according to the nature of the services and commodities which may be bought, i.e. according to the "nature of expenditures" authorized.

This division of expenditures according to "purpose" and sub-division according to "nature" is a mode of classification of expenditures which meets the needs of control and conforms to accepted standards. The "purpose" heads serve to indicate the character of the work for which money is asked. The "nature" heads serve to compel planning and study of the needs of the work and should furnish a satisfactory analysis of the requirements of each unit.

Although the form of expenditure statements in the present budget resembles closely that of other modern state budgets, decided improvements can and should be made. Improvements in one direction should be toward more complete expenditure analysis, particularly by inserting in the budget supporting schedules showing the costs of specific

kinds of work. Where the purpose of expenditure is the operation of a partially or fully self-supporting organization or plant it is desirable that its return as well as costs be shown in the budget.

It should be borne in mind that the aim in estimating as well as in expenditure accounting should be to present figures and supporting information that will aid in obtaining a maximum of the necessity they impose upon the treasury. Comparisons of the cost of the same work during different periods, comparisons between similar organizations, and comparisons between costs of units of work performed can be obtained in many instances where they are not now obtained. Since the review of the budget secures the full attention of the controlling officials and the information it contains furnishes the basis for decisions as to appropriations for the coming year, the budget should be regarded as an <u>expenditure report</u> of great importance.

Another means of greatly increasing the informational value of the present expenditure proposals in the budget is to make the captions more descriptive of the work being done. Each head might to advantage include a concise functional title in addition to the name of the unit and beneath this title there should be added a fairly full statement of work to be done.

No explanation of increases in requests over past appropriations is given in the present budget. It is believed to be highly desirable to follow the uniform policy of inserting a summary explanation of each increase in the budget even in printed form.

The classification of expenditures by "nature" is not uniform throughout the budget. There are practical difficulties to be

encountered in applying a uniform classification but the failure to adhere closely to a uniform rule inevitably leads to the heading a losing their value as a means of analysing costs.

There are especially among the personal service classifications still a number of rather large amounts that are not identified and detailed as they should be.

The columns of the present budget permit comparisons to be made between all items of the estimates for the next two years and the corresponding items of appropriations for the last year and current year. In addition a column is included to show the actual expenditures for the last completed fiscal year. The present practice is likely to bring about a comparison of appropriations from year to year as opposed to a comparison of requests with actual expenditures. Where there is any difference between actual expenditures and appropriations, this practice is bad. Following the principle that the estimates should include data to make them in effect analytical expenditure reports, the most important comparative columns needed are those to show the actual expenditures during the last completed fiscal year and a carefully prepared estimate of actual expenditures for the current fiscal year. The wording of the constitutional provisions regarding the budget seems to call definitely for comparison with actual expenditures.

The problem which confronts the department and institutional chiefs at budget time is to secure adequate resources to meet the requirements of their organizations and to carry on the work for which they are responsible. The test of the success of their efforts, as they see it, is and will always be simply the adequacy of the resources

obtained. From the point of view of the central fiscal authorities and the chief executive of the state, the problem is less simple. While these officials must give due consideration to the needs of the service, they must also exercise a restraining influence in order to limit total expenditures to the income of the state and to insure strict economy in the use of revenues.

But arbitrary action on the part of the central officials is not wise; it may serve to reduce the total expenditures for a period, but it cannot result in true economy. It has been pointed out that in connection with the planning of the work to be done and the determination of amounts necessary for the units, each department chief must have full information and a complete understanding of his problem. The same complete information and understanding are necessary on the part of the reviewing officers if these estimates are to be effectively scrutinized.

The means of securing for the central officials the complete information necessary for expenditure control and the review of the estimates are (1) the estimates themselves, (2) the reports of the department units, including expenditure and cost reports, and (3) direct observation of the work of the departments.

The information as to the needs and relative efficiency of organization units which is obtained through the first two means can never be complete in itself. A certain amount of independent direct observation of administrative units is always necessary to make the estimates and reports clear. Often complex problems can be solved by a short period of investigation on the ground.

At the present time there is no technical assistant on-

ployed on the problems of the budget and responsible for the perfection of the budget system. There is no one who represents the particular interests and requirements of budget making. The budget is prepared in the executive office by the employes of that office with incidental assistance from other sources. No one has it as his primary function to study in detail the adequacy of the estimates and reports of the departments as means of analyzing expenditure needs. No regular procedure for directly observing the needs of organization units is in effect.

Recommendations with Regard To Control:

It is recommended that the problem of financial control be attacked through the following means:

1. The readjustment of the treasury system to provide treasury control over all financial transactions of the state, for the keeping of all public funds in the treasury, and for the payment of claims by presentation of these directly to the treasury.

2. The improvement of the central bookkeeping and accounting system.

3. The development of more thorough-going and effective means of audit including complete audit of all claims before payment.

4. The adoption of the policy of requiring all cash receipts to be immediately turned over to the treasury and of providing current central control over all collecting offices.

5. The adoption of accounting means of property control.

6. The preparation of written regulations defining and limiting the powers of state officers to authorize expenditures and laying down expenditure procedure both as regards features applicable to the whole service and as regards special problems of individual departments.

7. The adoption of a standard expenditure voucher carrying a complete certificate to be signed by the expending official of each department before a claim may be paid, and the adoption of a corresponding certificate for payrolls.

9. The development of scientific systems of expenditure and cost accounting for all large departments and institutions.

10. The application of adequate standards of record and bookkeeping procedure to all public offices.

11. The development of means for clearer statement of expenditure requirements and for greater analysis of expenditures in the budget.

12. The establishment of a Budget office responsible for the preparation of the budget, the enforcement of accurate estimating, the study of the needs of the service, and other duties related to the budget and effective control of expenditures.

Each of these means of strengthening the system of financial administration is considered in the following paragraphs, the nature of the proposed changes being dealt with briefly.

Steps to Secure Treasury Control over All Financial Transactions: The steps necessary to provide that the Treasury officials take part in or closely supervise all financial transactions of the state are the following:

1. Providing by law that collecting officials must deposit all public monies with the State Treasurer. These monies will include receipts from fees and special funds, and every other form of public money not advanced by the treasury for a specific purpose.

2. Providing by law or otherwise that no monies will be paid out of the state treasury except upon the presentation of vouchers in proper form proving a valid claim against the state or authorizing an advance to be charged to some official.

3. Providing by law or otherwise that no large advance may be made except to officials who are bonded, the amount of the bond at all times exceeding the amount advanced and remaining unaccounted for.

4. Providing by law or otherwise for an official in the office of the State Treasurer (or Finance department) to act as state paymaster.

5. Providing, as described below, for audit before payment of all claims paid out of funds in the state treasury or funds held by the state paymaster.

Provision for advances is necessary in order to permit immediate small payments of various sorts which must be made locally. The extent to which advances are required, however, is an index of the effectiveness of the central treasury system. Where a rapid procedure for central disbursements after complete audit is in effect, relatively small advances are necessary and the number of these will be limited.

The issuance of an advance should be carefully regulated. The authority for an advance to issue should recite the purpose, the authority for the expenditures, the period the money is to be held, and all other essential facts. Limits should be defined as regards purpose and period in every case and, if it is to set up an imprest fund, as regards the amount to be expended. The authority for the advance should be approved by the Comptroller and a chief financial official representing the Governor.

Advances for petty cash funds should be renewable on the imprest fund basis, the vouchered claims being passed by the auditors before repayment to the imprest fund is made.

The proposal to establish the office of state paymaster may not be regarded as a necessary adjunct to the other recommendations under this head. It is believed, however, that a rapid disbursement procedure is essential to the success of a system for central treasury control, and that the present constitutional provisions prevent rapid disbursements directly from the treasury proper. To avoid the necessity of obtaining the Comptroller's and Treasurer's signatures for all pay-

ments, it is proposed to have the paymaster pay all but the largest claim by writing checks on his advance account. He would be authorized to write no checks except for vouchers audited and duly approved in the Comptroller's office and his records would be under control by the records of vouchers approved for payment maintained by the Comptroller. His bond would cover by a safe margin the amount of his advance and no replacement would be made to his account except for sums properly paid out. Checks cashed by the bank would be audited in by by the Comptroller. Such a system could be developed so that the possibility of any loss would be entirely eliminated.

Improvements in Central Bookkeeping and Accounting: The steps necessary to the establishment of a uniform system of accounts in the Comptroller's and Treasurer's offices include the following.

1. Devising a scientific system of accounting reports for the state including

Balance sheets showing assets and liabilities in summary form, the condition of the several special funds, and the net debt of the state.

Operation accounts showing expenditure and revenue (as contrasted with disbursements and receipts) and the effect of the operation of the capital upon the net debt and upon the several balances of special funds.

A fund balance sheet showing the relation existing between appropriations and resources available for meeting them.

Supporting schedules presenting comparative information and detail related to the three classes of general statements.

2. Setting up a system of registers and ledgers designed to secure the figures required in the financial statements and to furnish current control over the accuracy of all bookkeeping. The summary statements should be produced from the general ledger of the state; the subsidiary statements from ledgers furnishing detail under the heads of the general ledger.

3. Provision needs to facilitate rapid handling of routine accounting work especially as regards disbursements. Registration of documents and check writing should be done by bookkeeping machinery. A central payroll section should be provided with modern machinery to list names on payrolls and write checks, a step needed to secure complete central control over employees' pay and to eliminate hand writing of payrolls and checks by departments.

4. Establishing additional records of control. Ledgers recording the accrual of certain classes of revenue should be set up. Property ledgers should be installed.

Improvements in Audit Practice. The proposed changes in audit practice are:

1. The inclusion of a complete audit in the regular procedure of accounting to the Comptroller for money received and deposited with the Treasurer or received from the Treasurer to be expended.

2. The provision of a complete audit before payment of all claims paid by the central financial officials.

3. The placing of responsibility with the Comptroller for any additional audits of the affairs of departments.

The complete audit of expenditures before payment is believed to be essential to the enforcement of adequate expenditure control.

The audit should be conducted by a man of high caliber who is keen to detect errors and irregularities and is intelligent in his direction of the work. Routine checking should be done only as required by such chief audit officer, for but not by him.

The auditing official must have in his office readily accessible and properly classified files of laws, orders, regulations, and other information dealing with the authority of officials, the purchasing system, the disbursing system, and related matters. Among the most important records which should be available for the auditor are copies of every contract and contract ledgers in which are entered all of the

essential facts with regard to each contract.

The general procedure to be followed in an audit must of necessity be varied to meet the needs under the expenditure procedure and of the class of payment, i.e. whether an advance is being issued, a claim for delivery of articles under a contract is being settled, freight invoices are being paid, etc. In addition a skillful auditor will be able to adapt his work to the specific needs on the basis of his knowledge of the care habitually exercised by the several responsible administrators. Judgment in the use of time is necessary to secure a [illegible] enforcement of regulations.

The field which it is believed to be most practicable for the auditor to occupy for the purposes of maintaining field systems of departmental control and enforcing the central control may be outlined as follows:

1. The auditor's office should maintain appropriation accounts posted currently before the vouchers are paid.

2. The auditor should receive notices and particulars of contingent liabilities or encumbrances against appropriations and should have these entered in the appropriation accounts.

3. The auditor should currently examine the information with regard to encumbrances and all vouchers and should take action for a more complete test investigation and check of a number of these items including all important and questionable items and a limited number of others depending upon the amount of time available and other considerations. The auditor should completely cover by his test audit a number of expenditures of each kind and from each organization unit during the course of the year. He should not fail to investigate services, inspect deliveries, check prices, check additions and extensions, review in detail the regulations and procedure with regard to the administrative responsibility for expenditures, review in detail the purchasing procedure, and make any other investigation required.

4. The auditor should review payrolls in detail.

If the auditor had to determine for himself all of the essential facts with regard to every claim, his task would be hopeless. The auditor must, in the main, accept the claim as reasonable and in accord with regulations if it is presented by an official authorized to incur obligations for the government. It is a well established principle of government financial control, however, that any facts which are not independently established by the auditor must be certified to by the responsible expending official. The practical necessity for this requirement has been well demonstrated in a great number of cases.

Under the procedure proposed, current examination of the accounting records of most of the departments would be wholly unnecessary.

Closer Control over Collections: The steps which should be taken with regard to collections of public monies should have regard both to the need for a system for safeguarding the immediate deposit of money in the treasury in order to maintain and conserve the treasury bank balances and to the need for a more direct contact between the treasury officials and collecting agents than now obtained.

It should be provided by law that all collections must be turned over to the Treasurer on drafts in favor of the Treasurer purchased and mailed to the Capitol daily except where otherwise provided by order of the treasury officials.

The procedure for collections of each kind should be defined by regulations and should provide means of current control. When controlled stationery, such as license forms, cannot be employed, it is advisable that each item of revenue to be collected be billed by some

official who has no connection with the collection. The bills should be numbered serially and should be issued under control so that all numbers must be accounted for.

A procedure suitable for many uses is that of having the bill prepared in duplicate, the original being divided into two parts, one giving full particulars and the other the serial number, amount, and nature of revenue. The duplicate bill is sent to the Comptroller while the original rose to the payee. The designated collector, the State Treasurer when practicable, stamps both parts of the original receipt and signs and returns one copy to the payee. The Comptroller's office lists his copies of the bills, charging accounts receivable and the collector and crediting the source of income. As the collector returns money on account of the source of revenue in question, the bills in the Comptroller's file are removed and relisted to prove the collector's account. The collector is then credited and the State Treasurer, or if the money has been receipted for by a bank, the state's cash is charged. Such a procedure for many claims would somewhat increase the work in the Comptroller's office but would correspondingly relieve the department and auditor of work, and it would provide exact control.

Where wide variations from the above procedure are employed the same principles of control should be adhered to. Where the collector himself must determine the amount of the bill or present the claim to the payee, duplicate receipts and a carbon copy of the collector's register of receipts should be sent to the Comptroller for audit immediately, and inspections should be made to ensure the use of numbered receipts and the handling of cash from collections entirely apart from

any other funds.

It is often desirable for the Treasurer to send receipts directly to the payee for sums coming to the Treasury through a collector. This plan may be used uniformly for certain classes of revenue or it may be employed as a scheme for securing occasional tests of the integrity of employes receiving small sums.

The Adoption of Accounting Means of Property Control: The steps necessary for the establishment of definite accounting control over property are the following:

1. The entering of permanent property and equipment purchases in property ledgers in the Comptroller's office as charges against departmental property officers.

2. The adoption of regulations requiring property losses to be reported to the Comptroller.

3. The adoption of regulations requiring the investigation of property losses and formal action by the Comptroller and Governor to relieve property officers from responsibility for the value of lost property.

4. The provision of a scheme for annual inventory under the general supervision of the Comptroller of all state property.

5. The adoption of regulations requiring all worn out equipment and other property not actually in use to be turned over to the purchasing agent or other official acting as state property officer.

6. The adoption of means for redistributing equipment not needed in one department to meet the needs of others.

7. The adoption of regulations providing central control over the sales of property, materials, produce, waste paper, etc., and prohibiting sales without authority of the state purchasing agent or property officer and without notice to the Comptroller.

The Preparation of Expenditure Regulations: The first step in the preparation of expenditure regulations should be the secur-

ing of fairly complete information with regard to present procedure in each department and institution. To secure such information considerable care is necessary. One department may have many classes of expenditures with a distinct procedure for each. There may be more than one bank account and in addition possibly small amounts of cash held by individuals. The exact authorities of individuals to make expenditures may not be defined. The nature of the situation for which the procedure was developed may not be clear without considerable study.

For each class of expenditure the information procured should indicate:

1. Upon what authority the cash is made available if cash is held by the department or individual, i.e. what official of the department if any must sign the requisition or check making the cash available.

2. Upon what authority the expenditures of the class in question are made, what general order or understanding covers them.

3. Upon what authority individual obligations are incurred, i.e. who must sign requisitions or orders or may give verbal orders.

4. Upon what authority the actual purchase is made or the agreement for service to be rendered is entered into.

5. By whom the claim is approved for the administrative officer in charge of the work.

6. What independent check or audit of the claim is made.

7. Who signs the check to pay the claim.

8. What if any higher authority reviews some or all of the claims and at what point in the procedure.

Having obtained full knowledge of existing practice, the next step is to define the procedure which should be adopted. It is

necessary to select for each department and institution one expending official or if the organization is very large more than one. Ordinarily the chief of the department would be the sole expending official. The duties of such official should be laid down as consisting primarily of the exercise of responsibilities for the authorization of all expenditures and, with possibly a few exceptions, the approval of all claims by signing a certificate for each.

Regulations should provide that authorizations of expenditures be made by the expending official in either of two ways:

1. By the issue of a specific requisition or order for a purchase of articles or service or for travel.

2. By the issue of a general order defining a subordinate's authority to make petty cash purchases or employ a specific service or in other ways involve the department in expense.

It should be provided that a copy of all requisitions and orders including general orders be sent to the Comptroller's office immediately upon issue. It should be provided that large expenditures of the department be approved by the central state officials before the obligations are incurred. It should be provided that detailed comparative expenditure and cost data be sent to the finance officials monthly.

The expenditure regulations need not define what expenditures can be made from funds in the possession of the department since the use of moneys advanced can be regulated in issuing the authority for the advance. Nor is it entirely necessary that the expenditure regulations limit the use of general orders since each general order would be reviewed by the central authorities and can be disapproved or modified. The central officials should exercise close control over general orders

and should assist the departments to develop means to limit their use.

Audit before payment is the means of enforcing the regulations. No claim should be passed for which an individual or general order has not been filed, and no claim should be passed unless all features of the prescribed procedure are shown to have been followed.

The Adoption of a Standard Expenditure Voucher: When a claim is forwarded to the treasury for payment or when the current accounting is made for expenditures out of advances a complete certificate of a responsible administrative official, generally the expending official, should be obtained. The certificate should show that each feature of the expenditure requiring attention has been given the attention necessary and should place full responsibility where it should rest.

The necessary certificate for payrolls is ordinarily printed upon the back of the payroll sheet itself. For other expenditures it is desirable to provide a voucher form to be made out by the department or by the purchasing office and signed by the expending official. An illustration of a form of the type suitable for use in the service of the State of Maryland is shown as Exhibit D.

To the voucher should be attached two copies of the invoice and a copy of the requisition or order. The voucher would ordinarily be sent to the Comptroller's office for audit and then to the Treasurer for payment.

The Development of Systems of Expenditure and Cost Accounting: Four steps are necessary in putting into effect a system for the current preparation of analytical expenditure and cost reports:

1. The functions and activities of each department must be analyzed, the organizations studied, and on the basis of information collected the expenditures of each department classified in the manner necessary to secure total and unit costs of distinct activities of interest.

2. The classifications of expenditures prepared for the several departments and institutions must be compared and fairly uniform standards as to amount of detail and character of heads, applied.

3. The accounting systems of each department and institution must be adjusted so far as necessary to provide for distinct recording of expenditures chargeable to heads of the revised classification.

4. A system of standard expenditure reports must be agreed upon. The expenditure reports may include any or all of the following:

(a) Tabulations showing costs or unit costs by months, each month of the fiscal year being added as the figures are obtained.

(b) Tabulations showing costs or unit costs compared with the same period last year.

(c) Graphs showing costs or unit costs per month by a heavy line with a light line showing the corresponding figures for the preceding year.

In keeping the ledger accounts for each head of the detailed classification of expenditures, it is highly desirable and it should be required that each final "purpose" head be sub-divided according to the "nature" of expenditures thereunder, the "nature" sub-divisions being those employed in the budget. The bookkeeping work is not appreciably increased by such a requirement. Each page of the ledger may be devoted to a "purpose" head with a column for every "nature head affected.

<u>The Application of Adequate Standards of Record and Bookkeeping to all Departments:</u> A complete system of central accounting

should result in entries in the books of the Comptroller's office for all transactions of the departments. The entries in the central books would be secured from documents and schedules supported by documents. In no case should the state rely for essential information upon the permanent records of a department.

It is necessary, however, for the records and bookkeeping systems of the departments to meet reasonable standards of completeness and accuracy. The systems of documents and schedules to be sent to the Comptroller's office should meet the requirements of the central bookkeeping procedure. Any detailed expenditure and cost records must be accurately maintained. Records of stores and property should be complete. Any other records needed by the department for its own use should be in proper form.

With the development of a system of current treasury control over all departmental fiscal affairs, the bookkeeping procedure of a department is considerably simplified. For example, in requiring all receipts to be immediately turned into the treasury, the only accounting operations are (1) preparing documents for each collection, (2) registering these documents, and (3) posting totals from the registers to ledgers having an account for each column of the registers, including a controlling account for the total column of the registers. The department's revenue ledger would be controlled and checked either in detail or in total by the ledgers in the Comptroller's office.

Similarly where all disbursements are made centrally, expenditure accounting is primarily a matter of preparing and registering documents and posting totals from the columns of the registers to con-

trolling accounts. It is necessary also, however, to post individual vouchers and encumbrances (large orders and contracts) to appropriation ledgers and often to post vouchers to subsidiary expenditure accounts. Appropriation accounts should be handled as are accounts showing a bank balance, i.e. the account should be posted and the balance shown before the claim is approved for payment. The department's summary expenditure accounts and its appropriation accounts would be controlled and checked by accounts kept by the Comptroller.

Property records can and ordinarily should be maintained entirely separate from the other accounting records.

Where the department holds stores and cash, advances from the treasury, the bookkeeping is more complicated and a double entry system is necessary. The usual well established principles of governmental accounting should be applied, every effort being made to eliminate complications not essential to the problem. A department is not a complete business organization and has nothing to gain by producing the complete statements of a central finance office.

Attention should again be called to the need for planning the system of records with regard to the requirements of the expenditure procedure to secure administrative control.

<u>The Development of Means for Greater Analysis of Expenditures in the Budget:</u> It is proposed that the following changes be made in the form of the expenditure schedules of the Governor's budget:

1. That, for all large departments and institutions, supporting schedules be submitted showing the amounts of money intended to be expended in comparative form under the heads of a detailed classification of expenditures by "purpose". These schedules would be submitted for their informational value only; they would not be reproduced in the Appropriation Act.

2. That statistics showing comparative unit costs and explanations of all increases and radical changes be included in notes accompanying these schedules.

3. That every available means be taken to make the captions of the budget more descriptive.

4. That a standard classification of expenditures by "nature" be employed to analyze the nature of expenditures under all heads of the budget and Appropriation Act (except those heads of the budget referred to in paragraph "1" above).

5. That all requests be compared with the actual expenditures for the last completed fiscal year and with the probable expenditures during the current fiscal year, by showing for each item:

(a) The amount asked for the next fiscal years (two columns).

(b) The increase (or decrease) of the requests over the probable expenditure during the current fiscal year (two columns).

(c) The probable expenditure during the current fiscal year (one column).

(d) The actual expenditure during the last completed fiscal year (one column).

6. That for all partially or fully self-supporting units, a form of operating account be included showing income and expenditure compared.

7. That lists of positions in the personal service schedules be broken into groups according to subordinate organization units or functions so that the character of the organization may be clearly set forth.

<u>The Establishment of a Budget Office</u>: In the following section dealing with finance organization, the proposal to establish a budget office is considered in its relation to other proposed organization changes. It is believed that for the present two employes should be secured for the bureau of Budget and Investigations referred to therein. One of these employes should be a budget secretary and the other a qualified governmental accountant.

THE FINANCE ORGANIZATION

In finance organization two groups of activities should be recognized; the first including activities involved in the financial transactions that are arranged for and carried out as a part of the operation of the business; and the second including the independent review and audit of the affairs of officials responsible for such financial transactions. The audit should compel the enforcement of laws, regulations and executive orders and should ensure the maintenance of adequate accounting standards.

It has come to be generally accepted as the consensus of authorities that independent organization units should be set up to take care of these two sides of financial administration, management of finance and accounting on the one hand and audit control on the other. The first of these should be under the general direction of the executive. The organization dealing with the enforcement of laws and regulations and checking the work of the other group should have a measure of independence.

In some organizations a third group of activities is set out as distinct, viz:- the custody of the funds of the organization. Some years ago the custody of funds was the only independent factor recognized, the modern idea of audit not having been developed. To-day it is generally considered that the custody of funds is a very simple matter. The full development of an audit procedure and the creation of an independent reviewing and auditing office constitutes a sufficient guarantee of the integrity of the treasurer and at the same time makes possible a thorough and valuable control of the financial

operations of the organization.

The highest development of the independent governmental auditing office is seen in the British system of government and in the systems of the British dominions. In these countries the auditor holds a position which is said to be half way between the executive and legislative branches.

Under a plan proposed for the United States Government and incorporated in the budget bills recently passed by the Houses of Congress an independent Auditing office is to be created. This office termed "The General Accounting Office" is to have accounting functions associated with the problems of audit. The attention of the public has been centered on the budget provisions of the act passed by Congress and not upon the provisions respecting financial organization although the latter probably are of equal practical importance.

Financial powers and duties related to executive direction undoubtedly should be exercised through the medium of a central department of finance, the chief of which should be responsible to the chief executive. All financial activities except those of review and audit should be supervised by this department. The reason for consolidating financial affairs is simply that the effectiveness of a single organization unit under the leadership of a competent director is greater than that of separate branches carrying on parts of the work independently.

Functions logically pertaining to the finance or treasury department responsible to the Governor are:

(1) Keeping the central books of the government.

(2) Receiving, safeguarding, and disbursing public funds.

(3) Supervising the collection of revenue.

(4) Assisting the executive in exercising supervision over

the expenditure of public moneys.

(5) Assisting the executive in the work of preparing the estimates and the budget.

(6) Central purchasing and store-keeping.

There is no department of the government which should be directly represent and carry out the powers of the governor as the finance or treasury department. In every country and state where the executive is given the responsibilities and powers which he should have with regard to financial matters he has the assistance of a chief financial officer.

The functions of the independent financial department or office may be referred to as those of the auditor general. By keeping accounting records for purposes of control and by reviewing the financial affairs of the state, this office should be able to enforce the provisions of appropriation acts and financial legislation as well as the rules and orders of executive officers and the standards of financial administration intended to be observed throughout the service. The influence of the office should extend to all departments. The state's guarantee that all financial affairs are properly managed by the Governor and all branches of the service should be that every act related to public monies or property must be passed or at least reported upon by the office of the auditor general or comptroller.

One of the important functions of the independent auditing and controlling office should be to criticise and offer constructive suggestions with regard to methods of financial administration. Criticisms, including references to specific errors and irregularities and

comments on general weaknesses in system, should constitute an important part of the annual report to the Governor and legislature.

The extent to which the auditing department may keep the state's accounts, is often a matter of little importance. The keeping of certain summary and detailed records belongs logically to the function of independent control. Where the independent financial office has been given wider accounting responsibility and keeps detailed accounting records which are necessary but are not strictly a part of its principal work, there is generally no reason why sweeping changes need be made.

Certain classes of decisions to be made by the executive branch in connection with financial matters are of such importance that it is not uncommon for states to enact legislation providing for an executive council consisting of the governor and other state officials, including the independent auditor general or comptroller, and frequently also including representatives of the legislature. Although the creation of such bodies cannot be defended insofar as they are administrative in character, it is undoubtedly true that responsibility for discretionary action of a quasi-legislative nature may often be properly placed with a group of individuals rather than with the chief executive alone.

Appraisal of Present Finance Organization:

The controlling officers and bodies now dealing with the general financial and auditing problems of the State of Maryland are the following:

The Governor
The State Comptroller
The Treasurer
The Board of Public Works
The State Tax Commission
The Purchasing Bureau
The State Auditor

The Governor as chief executive of the state may be expected to assume general responsibility for all problems of financial administration especially those not specifically assigned to the attention of some other official. Section 18 of Article II of the Constitution provides that the Governor shall twice a year "examine under oath the Treasurer and Comptroller of the State on all matters pertaining to their respective offices and inspect and review their bank and other account books." The extensive powers given to the Governor under the section of the Constitution dealing with the budget have been referred to above and need not be reviewed here.

The Constitution provides that the Comptroller "shall have general superintendence of the fiscal affairs of the State", and it specifically assigns to him many duties connected with revenue collection, the settlement of claims, the control of disbursements from the treasury, the prescribing of forms of accounts, the administration of the state debt, etc. Although the Comptroller is independent of the Governor the Constitution does not indicate a clear line of demarcation between the responsibilities of the chief executive and those of the Comptroller. The form of finance organization as set forth in the Constitution evidently follows the earlyprinciple of "check-and-balance" and divided responsibility developed with the idea of preventing the usurpation of improper authority rather than with the idea o f securing a strong central organi-

sation and the placing of responsibility. In actual practice the scope of the authority of the Comptroller cannot be said to be so wide as that implied by the terms "general superintendence of fiscal affairs" used in the Constitution. The Comptroller's office resembles, in fact, an independent accounting and controlling office such as that described above. The Comptroller is elected by popular vote.

The Treasurer's duties are those which the name of the office implies, viz; the receiving and depositing of state funds, the writing of checks upon the state's account, the signing of evidences of state indebtedness, the keeping of certain accounts, etc. In actual practical importance the office of Treasurer is not adequately described by reference to the specific duties assigned to it. It is recognized that the incumbent of the office should be a man whose advice on financial matters will be of material value to the state. The Treasurer's responsibilities with regard to borrowing are great. The Treasurer is elected by the legislature.

The Board of Public Works possesses under various statutes a considerable amount of authority with regard to financial administration. The State Auditor must report to the Board of Public Works; it is evidently intended that the Board shall take action to correct irregular practices and violations of law reported by the State Auditor. The Board of Public Works is authorized to direct offices and institutions to adopt specified methods of conducting their affairs, and of keeping their books and accounts. It seems to hold general financial powers of a quasi-legislative nature.

The State Tax Commission has general supervision of the assessment and tax systems of the state. Its duties are in the main distinct from those of the other financial officials. It controls the

work of a staff which supervises local assessments and makes assessments of corporation property. It acts in a quasi-judicial capacity to decide tax questions appealed from local officials. The three Tax Commissioners are appointed by the Governor.

The Purchasing Bureau is required to direct the work of central purchasing and to prescribe the rules and regulations under which estimates of requirements shall be prepared and requisitions upon the Purchasing Agent made. The Bureau must also prescribe rules and regulations governing methods of purchases and determine and lay down standards for supplies purchased. The Bureau consists of a large number of state officers, representing the various organization units of the state requiring supplies.

The State Auditor, appointed by the Board of Public Works, conducts annual examinations of the accounts of the state and county offices as provided by law, and of such other state departments and institutions as directed by the Comptroller or the Board of Public Works. In so far as his time permits, he is expected to assist in the installation and standardization of departmental accounting systems.

The wording of the Constitution implies the existence of a Treasury Department, consisting of the Comptroller and the Treasurer. As a matter of fact, the work of the Treasurer's Office and that of the Comptroller's Office are closely associated, but there is no such unity as to justify reference to the combined offices as a single department in the ordinary sense of the word.

The principal defects in the present organization for financial administration are the following:

(1) There is no official of the state now recognized as being responsible to the Governor for the advice and assistance needed on all problems of finance and financial control. It is believed that adequate study of all problems of finance and the development of a system of financial administration meeting the requirements of centralized administration is almost impossible so long as the Governor is not assisted by a full time general financial official.

(2) There is no office responsible for control and enforcement of the budget and estimating system and for securing the information needed to compile the budget and review the estimates of departments.

(3) The independent accounting and auditing office under the Comptroller is not given the complete powers and authority to direct all work of review and audit needed to permit the development of its full influence and usefulness.

The above organization defects may be considered to advantage in connection with the problem of putting into effect improved financial methods. Few proposals for extensive changes can be put into effect without the cooperation of state officers whose positions insure their appreciation of the needs and their active support of the work. The Governor's interests should be represented by an officer who will take up the problem of financial administration as an element in executive direction. The specific problems of the budget should be assigned to some one thoroughly familiar with budget problems and representing the financial administration in this field. Audit questions should be given the attention of an officer responsible for the whole field of independent review and control. The correction of the three organization defects enumerated above are necessary to permit all financial problems taken up in this report to be dealt with adequately.

Recommendations with regard to Finance Organization:

To correct the defects in the present organization for financial administration the following changes are needed:

(1) Provision should be made to permit the Governor's interests in financial administration to be represented by a full time official who shall have charge of all central fiscal affairs involved in the executive direction of the state's business.

(2) The functions and duties of the several agencies and officials at present concerned with matters pertaining to financial administration should be placed under this officer.

(3) This official should be given general charge of the work of departments and institutions in so far as accounting and financial policies and methods are concerned.

(4) A bureau should be established under this official to take care of work connected with the preparation of the budget, the review of departmental estimates, the central control of expenditures in the interests of the executive, and the effecting of improvements in departmental organization and procedure.

(5) The office of State Auditor should be placed under the Comptroller and the organization of the Comptroller's office planned with a view to securing a current audit so far as possible under the treasury system employed.

With a view to effecting these changes the following recommendations are made:

(1) That there be created by statute a department of finance or treasury department to exercise all executive functions of central financial administration, that is, all functions except those of independent audit and control. This department should embrace:

A bureau of budget and investigations,
A bureau of treasury and accounts, (after amending the constitution)
A bureau of taxation,
A bureau of purchase and supply.

(2) That the chief of this department be the Director of Finance of the State, an official compensated for full time work and appointed by the Governor.

(3) That steps be taken to secure an amendment to the Constitution of the State repealing all sections describing the duties of the State Treasurer and substituting sections providing for a Director of Finance (who shall act as Treasurer) appointed by the Governor.

(7) That the Comptroller's office be recognized as the independent auditing and accounting office, the scope of the work of the office being in no respect limited as compared with the work it now does and the duties of the office being broadened by a statute giving the office the work of the present State Auditor. The office should embrace:

An Accounts Division
An Audit Division

(8) That steps be taken to secure an amendment to the Constitution to remove the limits placed upon the Comptroller's salary and provide that the Comptroller be selected by the General Assembly.

(9) That an advisory body on financial policy, to be known as the Treasury Council, be created. This Council should be made up of the Governor, the Director of Finance, the State Comptroller, and the chairmen of the appropriations committees of the respective Houses of the General Assembly. The Governor should have two votes and each of the other members one vote in order that the administration may have an equal voice with the legislative branch in the determination of financial policies. All of the acts of the Council should be through the medium of formal treasury orders passed at duly constituted meetings; the members should have no authority as individuals. The Council should take over the financial functions at present exercised by the Board of Public Works, which should then be discontinued, and in general it should have certain powers, in addition to its advisory duties, over such matters as the transfer of appropriations, the designating of official disbursing officers and of officers qualified to incur obligations, the regulation of the investment of public funds, the designating of state depositories, and the like.

(4) That the Comptroller's office be recognized as the independent auditing and accounting office, the scope of the work of the office being in no respect limited as compared with the work it now does and the duties of the office being broadened by a statute giving the office the work of the present State Auditor.

(5) That steps be taken to secure an amendment to the Constitution to remove the limits placed upon the Comptroller's salary and provide that the Comptroller be selected by the General Assembly.

The office should embrace an accounts division and an audit division.

Pending the time that it is possible to make all changes in organization recommended and at as early a date as possible, the staff to become the bureau of budget and investigations should be provided to work under the direction of the Board of Public Works on the installation of changes recommended in the foregoing pages. The number of employes proposed for this staff is two, one a budget secretary and the other a governmental accountant. The titles refer to the special responsibilities of the positions.

Suspended

EXHIBIT "A"

Table Showing Extent to which Monies Expended by Certain State Offices are Shown in the Budget and the Extent to which Monies are Deposited in the State Treasury

Figures Reported by State Offices for the Fiscal Years 1920 or 1921

Note: The following table was prepared from answers to a questionnaire sent to all executive departments, boards, commissions, and institutions. It was impracticable to ascertain definitely that the questions had been given proper interpretation and that the answers were exact. The figures are therefore submitted simply on the authority of the replies received from the departments. Where question marks appear in the tabulation there were no replies received or the replies were incomplete. In the great majority of cases, it is evident that accurate figures have been obtained.

Expenditures of the state offices not now shown in the budget are indicated by the first column. The larger part of the total of this column represents expenditures from bond funds but many hundreds of thousands of dollars are expenditures from fees and other income not appropriated by the General Assembly.

Expenditures of the state offices shown in the budget but made from special funds held by the departments are shown by the second column.

Name of Organization Unit	Monies not Shown in the State Budget	Monies Shown in the State Budget: Funds not deposited with State Treasurer	Special Funds deposited with State Treasurer	Gen'l Funds deposited with State Treasurer
Totals for the Following 77 Offices	$5,157,507	$494,373	$4,360,816	3,771,314
1. Adjutant General's Office	9,330	---	---	98,600
2. Aid & Charities, Board of State	127	---	---	4,950
3. Athletic Commission, State	9,604	---	---	---
4. Auditor, State	---	---	---	14,000
5. Bank Commissioner	1,650	---	---	27,500

"Exhibit 2"

Name of Organization Unit	Monies not Shown in the State Budget	Monies Shown in the State Budget: Funds not deposited with State Treasurer	Monies Shown in the State Budget: Special Funds deposited with State Treasurer	Monies Shown in the State Budget: Gen'l Funds deposited with State Treasurer
21. Executive Department	---	---	300	61,300
22. Forestry, State Board of	9,500	---	1,800	26,780
23. Geological + Economic Survey, State	---	---	600	18,672
24. Health, State Department of	15,184	---	---	240,000
(The amount in Column 1 is disbursed through the State Treasury)				
25. Hay + Straw, Inspectors of	---	---	---	---
26. Homeopathic Examiners, Board of	---	---	---	---
27. Horseshoers, Board of Examiners of	---	---	---	---
28. Industrial Accident Commission, State	---	---	---	87,765
29. Industrial Training School for Girls, Md.	---	4,800	10,000	27,760
30. Insurance Commissioner	19,462	---	---	30,900
Labor + Statistics, State Board of	---	---	---	51,790
32. Land Office, Commissioner of	---	---	---	17,000
33. Law Department	---	---	---	27,318
34. Legislative Commission, Uniformity of	---	---	---	700
35. Legislative Reference Bureau	---	---	---	3,275
36. Library Commission, Maryland Public	110	---	---	2,000
37. Library, State	---	---	---	5,500

EXHIBIT "A"

Name of Organization Unit	Monies not Shown in the State Budget	Monies Shown in the State Budget		
		Funds not deposited with State Treasurer	Special Funds deposited with State Treasurer	Gen'l Funds deposited with State Treasurer
38. Liquor License Com'n'rs (Paid by City of Baltimore)	---	---	---	---
39. Lunacy Commission, State	---	---	---	5,000
40. Medical Examiners, State Board of	6,163	---	---	---
41. Miners' Hospital, Directors of	14,256	---	---	5,000
42. Motion Picture Censors, Md. State Board of	---	---	?	14,828
43. Motor Vehicles, Commissioner of	---	---	210,770	---
44. Moving Picture Machine Operators, Board of Examiners of	287	---	---	---
45. Normal & Industrial School, Maryland	500	---	---	38,000
46. Normal School, State (Towson)	---	24,300	---	34,000
47. Normal School #2, State (Frostburg)	100	---	---	20,000
48. Nurses, State Board of Examiners of	5,277	---	---	---
49. Optometry, State Board of Examiners of	7,000	---	---	---
50. Osteopathic Examiners, Board of	75	---	---	---
51. Parole, Advisory Board of	---	---	---	13,300
52. Penitentiary, Maryland	14,043	---	---	---
53. Pharmacy, State Board of	2,069	---	---	---

EXHIBIT "A"

Name of Organization Unit	Monies not Shown in the State Budget	Monies Shown in the State Budget: Funds not deposited with State Treasurer	Special Funds deposited with State Treasurer	Gen'l Funds deposited with State Treasurer
54. Pine Bluff Sanitorium	$ ---	$ ---	$ ---	$ 3,006
55. Plumbing, Commissioners of Practical	2,[illegible]	---	---	---
56. Prison Control, State Board of	---	550,020	---	33,900
57. Public Accountants, Board of Examiners of	969	---	---	---
58. Public Buildings & Grounds, Supt. of	---	---	---	25,280
59. Public Service Com'n	20,600	---	---	119,500
60. Public Works, Board of	---	---	---	33,944
61. Purchasing Bur., Central	---	---	---	15,000
62. Racing Commission, Md.	13,075	---	---	---
63. Roads Commission, State	4,100,500	---	1,300,000	520,000
64. Rosewood State Training School	---	31,011	---	133,010
65. Springfield State Hosp.	53,217	10,004	148,281	176,[illegible]
66. Spring Grove State Hosp.	35,000	15,782	97,500	112,994
67. Tax Commission, State	---	---	---	80,900
68. Tobacco Inspector, State	---	---	83,000	---
69. Training School for Boys, Maryland	?	---	30,000	33,320
70. Treasurer's Office, State	---	---	---	10,320
71. Tuberculosis Sanitorium, Maryland	77,675	---	---	[illegible],320
72. Undertakers, State Bd. of	1,[illegible]	---	---	---

EXHIBIT No

Name of Organization Unit	Monies not shown in the State Budget	Monies shown in the State Budget: Funds not deposited with State Treasurer	Monies shown in the State Budget: Special Funds deposited with State Treasurer	Monies shown in the State Budget: Gen'l Funds deposited with State Treasurer
73. University of Maryland	$ 404,400	$ ---	$ ---	$ 430,775
74. Veterinary Medical Board, State	[illegible]	---	---	---
75. War Records Commission	---	15,000	---	---
76. Washington Cemetery, Trustees of	?	---	---	---
77. Weather Service, State	---	---	---	1,170
78. Workshop for Blind, Maryland	47,542	---	---	14,000

Exhibit B

GENERAL AND SPECIAL APPROPRIATION FUND BALANCE SHEET

	Proposals for the Fiscal Year Ending		Increase over 1920 (Decreases in Italics)		Figures for the year 1920	Figures for the year 1919
	1922	1921	1922	1921		
RESOURCES AVAILABLE FOR APPROPRIATION						
AVAILABLE CASH (or Cash Deficit)						
State Treasurer's balances						
Less: Reserve for current obligations						
Temporary loans (if any)						
CURRENT ACCOUNTS AND REVENUES RECEIVABLE						
INCOME OF THE YEAR (estimated for next fiscal years)						
Taxes upon property						
Business and corporation taxes and licenses						
Income from State Institutions						
Miscellaneous						
BORROWING NECESSARY TO MEET APPROPRIATIONS						
Portion of temporary loans to be renewed (if any)						
Proceeds of bond sale for						
TOTAL RESOURCES AVAILABLE FOR APPROPRIATION						
EXPENDITURE REQUIREMENTS						
CHARGES OF GOVERNMENT OPERATION						
Costs of the Permanent Establishment						
The General Assembly						
The Executive						
The Administrative Departments						
Public Education						
Penal Institutions						
Other State Institutions						
Debt Service						
Interest on debt						
Retirement of debt						
OTHER EXPENDITURES						
General Public Grants						
State-aided institutions						
Other public grants						
Permanent Acquisitions, Loans, and Investment						
Loans and investment (not affecting the net debt)						
Lands and properties for administrative departments and institutions						
Other non-revenue producing works and properties						
UNAPPLIED BALANCE (Resources in excess of expenditure requirements; if any)						
TOTAL REQUIREMENTS OF THE PERIOD (AND UNAPPLIED BALANCE)						

FUND STATEMENT

Nature of Fund	Present Resources	Resources to be Realized by		Requirements (Estimated or actual)		Probable Balance at end of year
		Income	Transfers from other funds	Expenditures	Transfers to other funds	
General Fund	-	-	-	-	-	-
Special funds available for appropriation	-	-		-		-
Fund a.		-		-		-
" b.						
" c.						
(Under this head all special funds available for appropriation are to be listed. All donations for specific purposes should be included as special funds.)	-	-		-		-
Totals affected by the budget	-	-	-	-	-	-
Sinking Funds (including all redemption of debt)	-	-	-	-	-	-
State Accident Fund	-	-		-		-

Exhibit C

Exhibit D

ORIGINAL Official Copy	Form ---------- The State of Maryland PAYMENT VOUCHER	Register & File No.

FOR DISBURSING OFFICER Voucher No. Date

Mail Check as Follows:

Make Check Payable To

Paid by Check No.

Amount of Check

Date Paid

Terms

IN PAYMENT OF OBLIGATIONS AUTHORIZED OR WITNESSED BY:

Kind of Document No. Date

Amount

I hereby certify-
1. This obligation was properly authorized as witnessed by the document attached (or referred to abov) and was necessary for the transaction of the business of the State.
2. The claim is fair and just as to prices, or the amount of the obligation has been previously established as stated.
3. All calculations and extensions are correct, and the extensions total to the amount of this voucher.
4. The amount of the claim, or any part thereof, has not been included in any voucher or claim previously certified for payment.
5. Funds are available applicable to this purpose.
6. If a payment chargeable to an appropriation, I certify further that duly approved certificates recording the receipt of articles or services of the quantity and quality stipulated, are attached or available.

Authorized Expending Official

Account Charged	Code	Amount

For Use of Comptroller's Office Only

Registered By

Posted by

Deliveries Inspected By

Examined and audited under my direction. To be paid.

Chief Auditor or Comptroller

General Ledger		

Audit Notes

1926-3