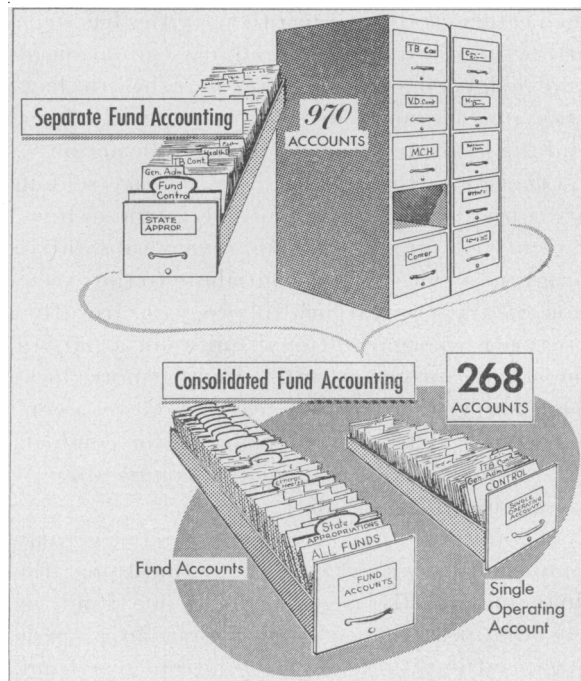


Simplifying State Accounting For Federal Health Grants

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ACCOUNTING SYSTEMS in government generally must provide for the accumulation of fiscal data by purpose, organization, activity, and object. In the health field an example of purpose is prevention and treatment of tuberculosis; of organization, division of tuberculosis control; of activity, mobile X-ray; of object, salaries. The basic accounting unit is the object account. To arrive at a total accounting by purpose, expenditures are posted from vouchers to individual object accounts, then either posted individually or summarized by activity and organization, and finally summarized by purpose. To arrive at a total accounting by organization or activity, the basic

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figures are brought together from object accounts which are subunits of one or more major purpose funds.

The Accounting Problem

Accounting for health grants is difficult because funds appropriated for specific purposes are usually spent by multipurpose organizations. The Congress has provided grants-in-aid for purposes specified in various sections of the Social Security, Public Health Service, and Appropriation Acts. These include:

Children's Bureau crippled children's services and maternal and child health services; Public Health Service cancer control, community mental health services, establishment and maintenance of adequate public health services (general health), heart disease control, tuberculosis control, venereal disease control, and water pollution control.

Except for the grants made to establish and maintain public health services (general health), these purposes are defined in terms of applying public health measures to prevent and control specific health hazards or to protect the health of specified groups of individuals. From the standpoint of health administration

such categorization of health activities has some utility in relation to research, dissemination of knowledge concerning particular health hazards and the methods for dealing with them, and the securing of support for public action.

Official health agencies, however, are seldom organized solely along special purpose lines. Executive, supportive, and even substantive program services which contribute to the execution of a particular health program are often provided by organizational units not a part of the specific program staff. Furthermore, local health services are usually carried out by a general staff which has responsibility for conducting a public health operation encompassing all categories of programs.

Accounting in this situation would be greatly simplified under either 1 of 2 conditions: the financing of all programs from one fund, or the administration of each program by a single organizational unit supported from one fund. Neither solution is entirely practicable. Legislative program authorization by major purpose and implementing appropriations usually make financing from one fund impossible. The excessive costs of duplicating specialized personnel (by discipline or by process) make separate administration of each program impractical.

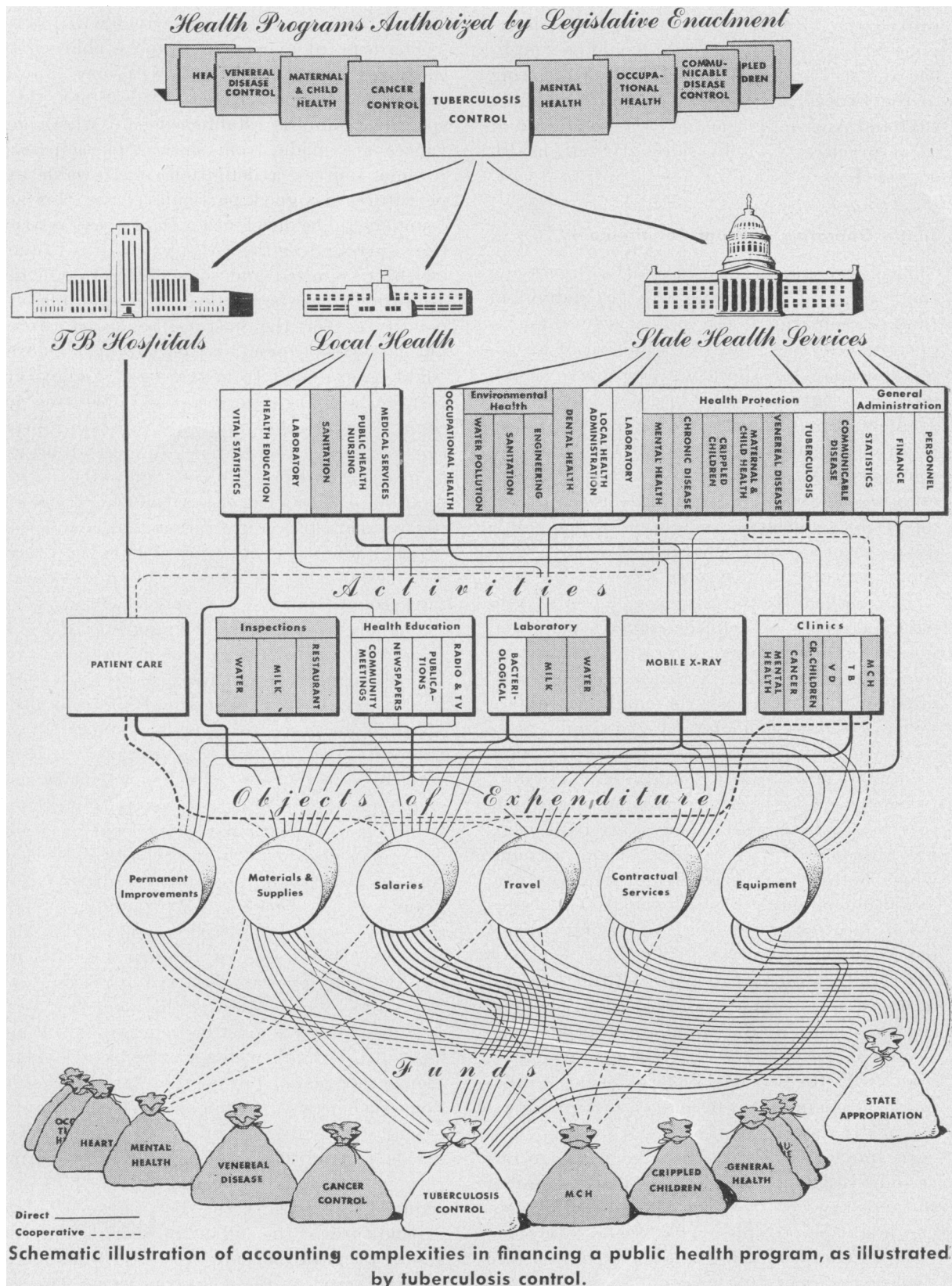
The State health department accountant is therefore faced with a task of setting up an accounting system which produces expenditure data by funds (purpose), responsible organization, activity, and object. To do this requires a great number of detailed accounts. The number of original entry accounts for a typical program is illustrated in the chart by the number of lines leading to the symbols at the bottom representing the various funds. The increase in object accounts, because of the addition of one more fund, or organization, or activity is obvious.

Proper accounting for funds spent on a public health program becomes more difficult when costs of program coordination, administrative staff services, or special professional services must be identified. What the accountant needs is a device which may be adjusted to the necessities of program administration. Fund accounting is too inflexible and cumbersome in complex program situations to justify the

bookkeeping cost involved. Under the fund accounting procedures which were first used in many States it was not unusual to find a local health officer or public health nurse receiving 4 or 5 separate salary checks each pay period. Their services contributed to many programs, and from each they received separate recompense. This situation was improved somewhat by a more judicious budgetary allocation of funds. But there is an accounting concept that can be used to further simplify the handling of special purpose funds in administrative situations in which both general and special purpose activities are involved. This is the concept of the revolving fund.

Application of revolving fund techniques to accounting for special purpose health grants depends upon the ability of the grantee to make disbursements for salaries, supplies, contractual services, rentals, equipment, and other items, from a single account. Federal requirements which originally prevented any application of revolving fund techniques to grant fund accounting have been eliminated through a series of amendments to the grant-in-aid regulations. First, a requirement that State accounting and disbursing officials maintain separate and distinct fund accounts was amended in 1943 to permit State treasurers to consolidate grant funds with other moneys in accounting for the custody of cash received by the States. Then, in 1949 the commingling of grant funds to the extent of consolidating all health grants in one account on the books of the principal State accounting officer was permitted. At the discretion of the State, the State health executive may now be the only State official responsible for keeping a separate account for the receipt and disbursement of each health grant.

With Federal requirements no longer a barrier to the use of simpler fund accounting techniques, in 1951 the grant operations branch of the Division of State Grants of the Public Health Service approached a few fiscal officers of State health departments to discover if they found the idea of a single grant operating account feasible and worth special study. Individual fiscal officers and members of the Subcommittee on Fiscal Affairs of the Federal Relations Committee of the Conference of State and Territorial Health Officers ap-



Schematic illustration of accounting complexities in financing a public health program, as illustrated by tuberculosis control.

proved the idea of a special study to determine how accounting practices could be simplified and still maintain the necessary accounting to the Federal agencies. Between September 1951 and August 1952 a study was conducted of fiscal practices used by selected State health departments.

Single Operating Account Requirements

Two prerequisites for use of a "revolving fund" in grant accounting are: (a) individual fund participation in the costs of defined multipurpose activities, and (b) adoption of an acceptable plan for allocating total costs among several programs. The use of categorical grants to support a portion of such defined costs presupposes sufficient flexibility in State accounting practices to permit either the commingling of funds in one operating account or interfund transfers based upon an equitable distribution of costs charged originally to a single appropriation account.

The method of establishing an account from which all items of defined costs are paid, and into which revenues from all participating sources are received, will vary according to permissible State practices. A single account in which revenues from both Federal and State sources may be commingled is the best arrangement. Whether such a joint account is established by means of advances from all revenue sources or whether all expenses are paid originally from a State appropriation account, which is then reimbursed from the other participating accounts, is immaterial to the successful application of the single operating account principle.

Even when such a full degree of fund consolidation is impossible because of State accounting practices, a more limited application of the principle can be adopted. For example, revenues from the various Federal health grants might be commingled to make a disbursing account. If the inclusion of both Children's Bureau and Public Health Service grants in one account is not possible, a consolidation limited to funds received from one of the Federal agencies might be possible. The broader the scope is of a Federal health grant consolidation into the single operating account, however, the

greater the operating benefits which will accrue.

The type of expenditures to be charged to the single operating account will vary according to the method selected by the State. If a special account is established into which advances are made from several participating revenue sources, a definition of allowable expenditures designed particularly for this account should be developed. In this way restrictions surrounding the use of grant-in-aid funds can be recognized and some difficulties in the allocation of costs avoided. For example, expenditures for the hospitalization of cancer patients, except for a 3-day period for diagnosis, could be excluded from the area of allowable costs to be charged to the single operating account. On the other hand, if a State appropriation account is used initially to meet all operating costs, limiting of grant fund participation to allowable costs becomes a function of the reimbursement procedure rather than a function of the definition of allowable expenditures which establishes the scope of the single operating account.

The key to successful commingling of funds in a single operating account is the procedure for allocating expenditures among participating sources. Development of an allocation plan involves several considerations. Allowable costs must be defined for each participating revenue source. Definitions may identify specific items of expenditures or project totals contributing to a particular categorical program. They may also identify the type of general or staff service from which a participating program receives benefits, for example, finance, personnel, nursing, nutrition, and local health services. The value of program benefits received from general and staff services, both State and local, in each of the identified areas of allowable costs must be determined. Judgment of program benefits may be based on data from either planned projects or past experience. Some such determinations are relatively simple; others will involve some research. A method to divide expenditures among the participating revenue sources must be established. This procedure should insure the distribution of total expenditures at the end of the year in line with actual program benefits received from operations financed by the single operating account.

During the year budget estimates may be used as a basis for percentage distributions. At the end of the year, however, it is essential that the distributions be consistent with actual program experience.

Advantages of a Single Operating Account

The most obvious advantage of a single operating account is the potential reduction in the number of original entry accounts which must be maintained. The possible reduction for a hypothetical accounting system which involves 10 funds, 16 organizational units, and 5 object classes of expenditures is illustrated on page 1071. Obviously, this illustration is not presented as representative of an actual accounting situation. In fact 10 funds are substantially fewer than exist in most States. Furthermore, accounting for special activities within a fund or as subdivisions within organizational unit accounts is not illustrated. Also the use of five object classes is most conservative. Despite general simplification of the real problem, the figure illustrates the substantial reduction in the number of accounts which can be achieved by use of a single operating account. The extent of such reduction depends upon the number of funds contributing to the single operating account. Savings in posting operations are related to the elimination of detailed expenditure accounts required by State accounting officials to reflect accountability by funds.

The second advantage in the use of the single operating account accrues from the simplified processing of fiscal documents. Individual items of expense are all charged to the single operating account rather than divided among several fund accounts. Coding is therefore facilitated by the reduction in the number of codes. Thus, the effort involved in assigning and charging individual expense items to the proper source of funds is drastically reduced and can be performed by less experienced personnel. Postings also are made easier and faster by a major reduction in the number of ledger cards used in daily operations. Payment is further expedited as accounting complexities may be handled through periodic summaries.

A third benefit which can accrue from the use of a single operating account is the easier ad-

justment of charges for categorical services as the program changes. Under the proposed method charges are not made finally to a particular fund until after the services are provided. This allows time for periodic reviews of performance in relation to budget plans before all the accounting processes are completed. Adjustments in fund accounting to reflect program changes may then be made by amending the allocation plan. Because of this flexibility the accounting record may reflect more readily the actual cost of program operation.

As a byproduct the budgeting procedure also may be simplified through the use of the single operating account. There would be no need to allocate individual items of expenditure to particular fund accounts within the budget of a given project; it would be necessary only to indicate the share of the program costs that should be charged in total. Even though specialized items of expenditures may be included in the allocation plan they need not be identified within the program budgets. The development and adjustment of an allocation plan will automatically take advantage of such specialized expenditures.

The reporting of meaningful fiscal information to program directors could be improved from a single operating account. By this device attention is focused on the support given to total operations from the several available funds. Consideration of the use of particular funds for the purchasing of individual objects of expense is avoided. At the same time a better understanding of total program costs is encouraged.

Disadvantages of a Single Operating Account

Accounting for the use of Federal grant funds through a single operating account has certain disadvantages. For one thing the sheer volume of transactions makes the location of posting errors more difficult. Obviously, when the original postings are divided into many fund segments it is easier to isolate errors. For this reason also the task of reconciling receipts, expenditures, and the balance of the single operating account at the end of an accounting period might be more time consuming than reconciling a series of fund accounts. The volume of transactions lengthens the list of

items in transit. Therefore, more time is likely to be required in searching out differences between postings by the health department and postings on the books of the State accounting officer. The greater the number of funds, the more points there are for reconciliation and the smaller the area of search.

Another disadvantage of the single operating account is the insertion of an additional step in the preparation of quarterly reports. Before an accounting of expenditures by funds can be made, charges to the single operating account for an accounting period must be distributed on a worksheet in accordance with the allocation plan. Only then can transfer entries be made charging each fund with its proper proportion of the total expenditures. With experience, however, this procedure will become routine and should not be a major problem in the handling of quarterly reports.

The process of budget adjustment may become more complicated. Transfers of funds from and to projects, even though made from a single revenue source, can affect the total allocation plan for a particular project. When this happens a revision in the percentage distributions used to determine the proportion of costs chargeable to each of the supporting revenue sources may be necessary. Adjustment of the allocation plan for a given program can be postponed until the end of a fiscal year. At that time the percentage distribution must be consistent with the year's operations. If program changes have invalidated the original budget estimates, adjustments must be made. On the other hand, a procedure for interim adjustment of the allocation plan can be used. For obvious reasons changes at the beginning of a quarter would be preferable to more frequent revisions.

Current State Practices

Several State health departments were found to be applying successfully various techniques which wholly or partially represent the use of a single operating account. Tennessee, for example, uses a system whereby all expenditures are charged initially to the State appropriation account. As requisitions and vouchers are processed, expenditures are allocated among the

various fund sources on the basis of percentage distributions established from the budgets. At the end of each quarter, transfers to the State appropriation account from the various fund accounts are made on the books of the director of accounts. This illustrates the use of a State appropriation account as a single operating account. In a State which operates under a quarterly allotment system, it may involve the director of accounts' acceptance of a temporary overdraft in the State allotment account.

California has a similar plan for charging the costs of State level operations originally to the State general fund. The mechanics of operation differ from those used in Tennessee, but the principle involved is the same. Reimbursements to the general fund are made quarterly from other funds participating in "joint cost" activities on the basis of "plan of operation" approved by the director of finance and the State comptroller. The staff of the California Department of Finance took an active part in the development and installation of this system.

In Georgia, the single operating account principle is used in accounting for State salaries and travel. Project budgets for the various organizational units of the State health department contain only salary and travel items. Monthly payments for these expenses are met from State appropriations. These charges are prorated immediately by project against the respective fund accounts, and checks are drawn to reimburse the State deposit account from the several Federal deposit accounts.

A different approach to the use of a single operating account has been put into experimental use by Oklahoma and Missouri for the fiscal year 1953. These State health departments have arranged to consolidate their Federal grants into a single account on the books of their respective State accounting officers. Expenditures charged to the consolidated Federal grant account are allocated each quarter among the respective separate grant accounts kept by the health department. Total expenditures for projects are distributed in accordance with percentages derived from budgeted Federal fund participation. The results of the project distributions are summarized to arrive at the amounts to be charged to the sepa-

rate Federal grant accounts kept by the State health departments.

A more limited use of the technique described in this paper is being tried by the Kansas State Health Department. The Kansas experiment involves reduction of the several Children's Bureau and Public Health Service Federal grant accounts to two: one for grants received from the Children's Bureau and the other for grants received from the Public Health Service.

Conclusions

Program administration may be expedited by use of a single operating account. This permits program financing to be given a general fund orientation in contrast to detailed consideration of special purpose fund accountability.

Each separate and distinct fund account kept by the principal State accounting officer to which must be charged individual items of expense adds to the accounting load of the State health department in geometric proportions. The objective of the single operating account procedure is to reduce the number of such separate fund accounts to the minimum permitted by State accounting practices.

Federal regulations and State accounting practices as regards public health grants will

generally permit the adaptation of revolving fund techniques to the accounting for Federal grant funds. The extent to which such adaptations may be made by individual States will vary. Experience of several States with various applications of the single operating account technique attests its usefulness.

The basic requirements for conversion from a system of separate fund accounting to the single operating account are the definition of allowable costs and the construction of a sound plan for allocation of total allowable expenditures.

State health departments and State accounting officers who are not using the techniques described can profitably look into the possibilities of modifying their accounting practices to utilize a single operating account. The general objective of having Federal fund expenditures participating on a reimbursement basis in certain broad areas of allowable costs can be achieved in a number of different ways which take into account the limitations or modifications imposed by present accounting restrictions. With ingenuity and persistence, accounting modifications can be made from which will accrue large dividends in savings of staff time and effort devoted to the processing of documents and posting of accounts.

Juvenile Delinquency Rate Increase

Of every 50 children aged 10 to 17 (385,000 youngsters) 1 went to court in 1952.

This estimate by Dr. Martha M. Eliot, chief of the Children's Bureau, U. S. Department of Health, Education, and Welfare, is based on the experience of 342 courts throughout the country regularly reporting to the bureau. It represents an increase of 10 percent over 1951 and 29 percent over 1948.

Shortages in child welfare workers and in probation officers, overworked courts and understaffed police units, and overcrowded training schools or training schools that lack the staff to do a good job were cited by Dr. Eliot as conditions that will have to be faced realistically and not left to chance for improvement.