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A BUDGETARY AND FISCAL SYSTEM FOR THE  
PROPOSED FIELD ADMINISTRATION PROGRAM

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A Budgetary and Fiscal System for the Proposed  
Field Administration Program

To be presented to the Committee for the Study of Budgetary and Financial  
Questions

by

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## A Budgetary and Fiscal System for the Proposed Field Administration Program.

To the President and Members of the Committee for the Study of Budgetary and Financial Questions:

I am very happy to have this opportunity to present to you Michigan State University's conception of the budgetary and fiscal process as it would relate the proposed field administration organization for Viet Nam, recommended by Michigan State University.

I wish to point out that although my concern in this report is primarily with the budgetary aspects of a fiscal system, it is necessary for me to discuss superficially the accounting and auditing system as well. Governmental budgeting, accounting and auditing are the three components which make up fiscal administration and none of them can be completely understood without reference to the others. I am not an accounting specialist, but within a period of a few weeks MSU will have a governmental accounting specialist on the staff to work with me. This person will be more qualified than I to work out with you in detail an accounting system.

Also I would like to mention that the material I am attempting to cover here in a relatively short period of time usually covers a full semester of course work at a University. I recognize that all of you have considerable experience in this phase of administration and therefore I have not attempted to present in minute detail some of the processes that I will discuss.

Before discussing a budgetary and accounting process specifically related to the administration of the proposed field administrative organization, I believe it is necessary to discuss briefly our conception of the budgetary process in general. Section I of the report covers this phase, Section II lists some essential elements of the proposed system and Section III attempts specifically to relate the budget process to the proposed field organization. Charts are used in Section III to more clearly explain the process.

### SECTION I: THE BUDGET, THEORY AND PROCESS

A. A budget is a plan of operations expressed in fiscal terms. Because it is a plan it covers a defined period of time - usually a year. A governmental budget is a plan of the total program that the government expects to accomplish throughout the fiscal year, indicating what is to be done, who is to do it, how it is to be done and (because to accomplish most things money must be spent) what it is going to cost to do it. It is primarily concerned with the cost of the program, because, in governmental administration, the amount of funds available for expenditure, derived through taxation or borrowing, determines what can be accomplished. Budgeting is the allocation of limited resources to worthwhile, yet competing projects.

B. Budget Administration is the preparation, creation, and operation of the plan. Budget administration can be divided into the following phases, processes or techniques.

1. Budget preparation and review, which is the creation of the plan.
2. Budget execution, which is the operation of the plan.
3. Budget control, which assures that the execution is done in accordance with the budget plan.

1. Budget preparation and review falls into two main subdivisions:

- a. The recommended budget of the Chief Executive. This includes the establishment of budget policy by the Chief Executive, agency preparation of budget requests, review and recommendations by the Central Budget Agency, which reflect the policy of the Chief Executive, and the preparation of the budget document.
- b. Review of the Chief Executive's budget recommendation by the Legislative body, and creation of the legally established program for the ensuing fiscal year. This is done by passing appropriation statutes (laws) authorizing the expenditure of public funds for defined purposes. Articles 43, 44, and 66 of the Draft Constitution of Viet Nam refers to this process.

2. The process of budget execution begins once the budget has been approved. Funds have been legally made available to do certain jobs. The two important elements of budget execution are:

- a. Budgetary allotment.
- b. Agency responsibility for spending

a. A budgetary allotment system is an instrument of both execution and control. It consists in securing the advance approval by the national budget officer of the agency plan for spending the appropriation.

The system works in this manner. As soon as the appropriation has been authorized and before the beginning of the fiscal year, the central budget agency sends out allotment forms to the agencies. On these forms the agencies indicate the rate at which they expect to spend the funds and the broad purposes of such expenditures. Allotments are made for uniform time periods, usually either months or quarters. The allotment schedule must show that the funds are apportioned over the entire year in order to prevent exhaustion of the funds before the end of the year.

In addition to the time of expenditures, the allotment schedule indicates the purposes or objects of expenditure. The schedules are returned by the agencies to the central budget agency where they are analyzed to see that funds are

spread over the whole year and that the purposes or objects for which the money will be spent agree with the legally approved budget appropriation. If the schedule is found to be in order, or when corrected, it is approved by the central budget agency.

The approved allotment schedule form is sent to the National accounting agency, a copy is retained in the central budget agency and a copy is returned to the operating agency. This becomes the operating agency's authority to spend funds in agreement with the schedule. Note that all this is done before the beginning of the fiscal year.

b. Agency responsibility for spending is assured in the following manner. Once appropriations have been made and allotment schedules approved, it becomes the responsibility of the agency to carry out its program. The operating agency has complete authority to spend, so long as it stays within its allotment of funds, and carries out its authorized program. An elaborate system of pre-audit and administrative authorization by a number of control agencies simply slow down the process and, in the long run, fails to effectively control expenditures. Programs which are intended to be accomplished often fail to materialize because authority is shifted from the operating agencies, which are responsible, to staff officers who are sometimes more concerned with form than with substance.

3. Budgetary control ensures that funds will be spent for the purposes intended and will not be misused or misappropriated, also that expenditures will not exceed appropriations. It achieves this through:

- a. Central accounting
- b. Budgetary control reporting
- c. Post auditing

a. In a central accounting system, the national accounting agency establishes accounts for each agency and each appropriation. It also sets up in the accounts the approved allotment schedule received from the budget office indicating how each agency plans to spend its funds. When the agency wishes to spend funds - say for a payroll or to buy supplies - it initiates a spending document which must clear through the national central accounting agency or one of its branches to make sure that funds are available and that the purpose or object of expenditure are as approved.

The national accounting agency's "pre-audit" does not concern itself with the wisdom or lack thereof of the expenditure. That is the responsibility of the operating agency. If the operating agency's account shows it has money for the purpose of the proposed expenditure, the accounting unit passes the document for payment. If, however, it believes there is something wrong, it does not substitute its judgement for that of the agency. Instead, it sends the document either back to the operating agency for an explanation or to the central budget agency for review and investigation.

The national accounting agency does not try to run the government. It simply develops factual data and reports such to the responsible management authorities. It does this periodically, so that the latter can have current facts upon which to base its decision.

The national accounting agency uses a system of obligation accounting.

b. Using a system of budgetary control reporting, each operating agency is required to keep its own accounts so that it can know the exact condition of its own affairs. As the agency issues the spending documents it posts all obligations to its bookkeeping records and makes the proper entry as the transaction goes through obligation, liquidation and payment. Agencies are required to reconcile their accounts with the records of the national accounting agency each month by use of statements sent by the national accounting agency to the operating agency. At the end of each month the operating agency prepares a report showing the exact status of its accounts and forwards this to the central budget agency, where it is analyzed to see if it appears that any appropriations accounts may be in danger of being over expended. If the budget agency believes the account is endangered they contact the spending agency for a review to see what action should be taken by the agency to correct the situation.

Upon the basis of these monthly reports, the central budget agency can approximate the rate of obligation and expenditure and by comparing this with the monthly report of actual versus estimated revenues (which should also be furnished by the national accounting agency) can determine whether the government is operating in the "black" or "red". On the basis of such comparisons action can be taken to avoid a year end deficit. If actual revenues fall below revenue estimates, allotments can be reduced.

c. Post-Auditing . Audit is the process for determining whether the administrator is spending, or has spent, public funds in accordance with the terms of the executive order or legislative act which appropriated the money. It if occurs before the money is spent or during the process of spending, it is referred to as pre-audit. If it takes place after the money is spent, it is called post-audit. Pre-audit can stop improper expenditures before they are made; post-audit can report the misuse of funds for subsequent administrative or legal action, but cannot prevent it. The chief value of pre-audit is safety. The principal advantage of post-audit is that it gives the agencies maximum freedom to spend their funds in a flexible manner to meet the exigencies of the moment. An efficient fiscal system needs both types of audit, for a government that depends upon a complicated and involved system of pre-audit control pays a price in the administration of its programs because of excessive rigidity and delay.

Most public administrators agree that the post-audit function should be conducted by an official who is independent of the executive branch of government. A good post-audit operation should concern itself with not only a check upon the money transactions of an agency but also on the administrative procedures of the agency.

## SECTION II: ESSENTIAL ELEMENTS OF THE PROPOSED SYSTEM

1. Budget Policy should be prescribed by the President. This policy should be expressed through means of a budget message and budget recommendations, embodied in a budget document, presented annually to the National Assembly.
2. The National Assembly should review the presidential budget recommendations and pass appropriation acts legally providing public funds to the various agencies of the government to carry out planned programs.

3. The National Assembly should enact a budgeting and accounting law to govern administrative procedures within the area of fiscal administration. The MSU Group will be glad to assist in this task if requested to do so.
4. The budget calendar should be revised so that the presidential budget recommendations can be presented to the National Assembly and the National Assembly can review and enact appropriations laws prior to the beginning of the fiscal year.
5. The national budget agency should act as the staff arm of the President to prepare the budget message and budget recommendations of the President. It should be reorganized, expanded and relocated into more adequate quarters.
6. The national budget agency should annually issue to the agencies a directive establishing presidential budget policy for the fiscal year and follow the presidential budget statement with a budget circular advising agencies as to how to submit agency budget requests.
7. The budget document should be revised extensively. It should include, in addition to the recommended amounts for each agency and program:
  - a. sound revenue estimates, based upon prior year collections and the consideration of future factors that will affect subsequent fiscal year revenues.
  - b. Actual expenditures of agencies for preceding fiscal year.
  - c. Explanations and program data which are meaningful for an understanding of the purpose of the proposed expenditure.
8. There should be but two levels of budgets, one for the nation and one at the municipal and village level.
9. The national budget document should contain a section for each ministry. This section should cover all costs of carrying out the ministry's program both in Saigon and in the field.
10. A national accounting agency closely associated with the national budget agency should be established within the office of the Presidency.
11. An agency responsible for making post-audits should be created. This agency should probably be responsible to the National Assembly.
12. Pre-audit controls should be reduced and post-audit controls strengthened. When post-audit controls reveal dishonesty and corruption, the officials responsible should be removed and should be criminally prosecuted.
13. Budget and accounting officers should be established as staff assistants to heads of all agencies.
14. Preparation of an annual budget request should be a responsibility of the agencies and their field agents.
15. Agencies should abide by the broad statement of Presidential budget policy in preparing their requests.

16. Area chiefs and area councils should have the opportunity to examine and comment on (but not alter) the requests prepared by each technical service of the area.
17. Budget execution should be a fundamental responsibility of the agencies and their field agents.
18. An allotment system should be established to control budget expenditures and at the same time permit primary responsibility for execution to be placed upon the operating agencies.
19. Budgetary control records should be established and maintained by or for all agencies. Monthly reports should be submitted to the national budget agency. The central accounting agency should prepare periodic reports on the status of revenues, obligations and expenditures to serve as guides to management authorities.
20. The tax revenues of the national government should be assessed and collected by national government employees. The tax system should be highly centralized and all collection and economic information should be available at the General Direction of Taxation.
21. All revenues other than those for villages, should be paid into the national treasury and should be disbursed in accordance with appropriation acts to the accounts of the agencies.
22. All personnel having budget and accounting experience or skills should be identified and moved into related positions.

### SECTION III: THE BUDGET SYSTEM ADAPTED TO THE PROPOSED FIELD ADMINISTRATIVE ORGANIZATION

The purpose of this section of the report is to present a step by step analysis of how the budget process will work when specifically related to the proposed field administration organizational structure.

Because the timing of each step in the process (the budget calendar) is extremely important (many of the steps have no meaning and would better be left undone if the time factor is ignored) an approximate date indicating the timing of each step is also presented. For purpose of clarity this study has used the 1958 budget and fiscal year as the period for which the process will be put into effect.

Also accompanying this explanation are three charts on which each step in the process is plotted. These charts should be used in conjunction with this paper and are to serve as a visual aid to understanding the process. Again for purposes of clarity, only the process as it applies to one line agency (Health) and one area (# 1) have been shown. Exactly the same process applies to all agencies and areas.

Chart # 1 - The Process of Budget Preparation and Review

<u>Step #</u>	<u>Approx. Date</u>	<u>Process</u>
1	April 1, 1957	The national budget agency acts as a staff organization to assist the President in developing national budget policy. The budget agency should present him with all facts necessary to enable him to make sound policy determinations.
2	April 15, 1957	After consultation with the President, the national budget agency issues to all governmental agencies a presidential budget statement expressing the President's budget policy for the fiscal year 1958 and a budget circular giving specific instructions for preparing the 1958 agency budget requests.
3	April 16 - June 30, 1957	National Ministry of Health receives budget circular and budget request forms. Minister, top officials and budget officer of Ministry discuss budget policy of Health Ministry for 1958, send to service chiefs for Health in all areas a Ministry policy statement, budget instructions, and a call for area budget requests.
4	April 16 - June 30, 1957	Service chiefs and area budget officer for Health Ministry prepare area budget request for Health, taking into account the policy directives of the President and of the Minister of Health.
5	April 16 - June 30, 1957	Area Representative and Area Council enter their recommendation concerning the Health program in the area. They must not alter the request prepared by the service chief for Health.
6	April 16 - June 30, 1957	The completed area Health budget request and the comments of the Area Representative and Area Council are returned to the Ministry of Health.
7	April 16 - June 30, 1957	The total budget request for the Ministry of Health, which includes all area budget requests for Health function, is prepared by the budget officer within the Ministry of Health, under the direct supervision of the Minister of Health. The completed budget request is sent to the national budget agency by June 30, 1957.

Chart # 1 - The Process of Budget Preparation and Review (cont'd)

<u>Step #</u>	<u>Approx. Date</u>	<u>Process</u>
8	July 1 - Sept 15, 1957	The national budget agency, guided by policy from the President, reviews the agency budget requests, holds hearings with the agency for further explanation and understanding of the request and prepares the President's budget recommendations. The budget director refers all major policy decisions to the President. The President's budget recommendations are presented in the budget document which the national budget agency prepares. The budget document should include the President's budget message, summary statements of estimated revenues versus recommended expenditures, the <u>1956 actual expenditures</u> by agency and program, which should be received from the national accounting agency, the recommended amounts for 1958, and program and activity information giving a clear picture of why the recommendations are made and what is to be accomplished.
9	Sept 30, 1957 or before	The completed budget document containing the President's budget recommendation is presented to the National Assembly by the President.
10	Sept 30 - Nov 15, 1957	The National Assembly reviews the President's budget recommendations, holds hearings by budget director and agency chiefs, if necessary for further explanation, and passes appropriation acts legally establishing governmental funds for broad specific purposes. It would be well if these acts were passed by Nov. 15, 1957 if possible, thereby giving agencies time to develop allotment schedules before the beginning of the 1958 fiscal year on January 1. However, the Constitution establishes a deadline of Dec. 31 for passing the budget.

Chart # 2 - The Process of Budget Authorization and Allotment

<u>Step #</u>	<u>Approx. Date</u>	<u>Process</u>
11	Nov 15 - Nov 20, 1957	As the appropriation acts are approved by the President, and become law, the appropriation laws go, among other places, to the national budget, accounting and audit agencies. The national accounting agency establishes accounts for each appropriation.

Chart # 2 - The Process of Budget Authorization and Allotment (cont'd)

<u>Step #</u>	<u>Approx. Date</u>	<u>Process</u>
12	Nov 15 - Nov 20, 1957	The national budget agency sends an extract of the appropriation law for Health to the Ministry of Health. Accompanying the appropriation extract are allotment schedule forms and instructions which the national budget agency prepares and requests the Ministry of Health to complete.
13	Nov 20 - Nov 25, 1957	<p>The Ministry of Health notifies area service chief for Health of the Health appropriation for area and calls for the preparation of the allotment schedule.</p> <p>The Ministry of Health budget and accounting officers also enter in the books of the Ministry, the Health appropriations for operation of the Central Ministry and prepare the allotment schedules for these appropriations.</p>
14	Nov 26 - Dec 10, 1957	The service chief and budget officer prepare the allotment schedule. In the preparation they consult with and are advised by the Area Representative and Area Council. The service chief returns the completed allotment schedule to the Ministry of Health by Dec 10, 1957.
15	Dec 11 - Dec 25, 1957	After briefly reviewing the area allotment schedules to see that they meet the policy of the Minister of Health, the completed allotment schedules for all Health functions are returned to the national budget agency.
16.		The national budget agency reviews the completed allotment schedules and, if they are in order, approves them. If the schedules need correction, the budget agency consults with the agency concerned to secure proper correction and then approves the schedule.
16	Dec 26 - Dec 31, 1957	<p>The national budget agency keeps one copy of the approved allotment schedule, sends one approved copy to the national accounting agency and sends one copy back to the area service chief for Health. The national accounting agency sends to its area offices the allotment data for each agency which maintains an office within that area.</p> <p>The national accounting agency uses the allotment schedule as an instrument to release funds for expenditures in the corresponding appropriation account.</p>

Chart # 2 - The Process of Budget Authorization and Allotment (cont'd)

<u>Step #</u>	<u>Approx.Date</u>	<u>Process</u>
		The service chief's budget and accounting officer sets up the appropriation and allotment schedule in the area books. The allotment schedule now becomes an authority to spend the appropriation

Chart # 3 - The Process of Budget Execution and Control.

The agencies are now into the 1958 fiscal year. This is the period for which the appropriations and allotments have been made and the several agencies are expected to carry out the authorized programs. The appropriation accounts and approved allotment schedules have now been recorded in the accounting records of the area service chiefs and the national accounting agency and its field office. All bookkeeping is initially done at the area level and all financial transactions are entered in the account books of the area office of the national accounting office.

<u>Step #</u>	<u>Approx.Date</u>	<u>Process</u>
17	All these steps take place during fiscal year 1958 as occasion arises.	<p>Service chief issues purchase requisition for certain health supplies after contacting vendor who quotes price. Note: This study does not concern itself with central purchasing procedure. Without detailed study of this important phase of governmental administration it is recommended that present purchasing procedures remain in effect.</p> <p>Purchase requisition is sent to the area office of the national accounting office for charging against the appropriate allotment. (Note: Administrative officer of the requisitioning agency may keep "memorandum" accounts until he receives his copy of the allotment ledger, which will be sent to him monthly.</p>
18		<p>National accounting agency area office pre-audits purchase requisition. If it appears to be within broad purpose of program and is not an item which appears improper, national accounting agency area office obligates area account and returns an approved purchase order to service chief. It is at this step that the accounting staff must exhibit good judgment. Accountants must not substitute their judgment for that of the service chief in such a way as to interfere with delay and prevent him from carrying out his program. On the other hand, obvious misuse of public funds (as an example: the purchase of a silver tea service for the service chief's personal use) must be stopped. In case of doubt, the national accounting agency area office should check all items if this type with the national budget agency.</p>

Chart # 3 - The Process of Budget Execution and Control (cont'd)

<u>Step #</u>	<u>Approx. Date</u>	<u>Process</u>
19		Service chief issues approved purchase order to to vendor, Transaction is entered in area books. Service chief receive goods from vendor who submits invoice voucher for payment. Service chief approves invoice voucher and sends it to national accounting agency area office.
20		If invoice voucher is in order, accounting agency records it in the account as an expenditure and issues warrant for payment to vendor. If any of these transaction exceed the amount of funds allotted for the period, vouchers are returned at any point to service chief, disapproved. No obligations will be incurred or payments made unless there is a balance in the account available to cover the transaction.
21		Vendor takes warrant to a bank or to national treasury where it is immediately cashed. Facilities for cashing checks or warrants should be established in each area.
22		Each month area Health budget and accounting officer reconciles his account books with a monthly report of his accounts sent from national accounting agency area office.
23		After reconciliation of his accounts, area office of national accounting agency prepares a monthly budgetary control report, which shows the true status of his accounts. This budgetary control report is sent to the national budget agency thru the central office of the national accounting office, with a copy to the central office of the Department of Health.
24		National budget agency reviews monthly budgetary control report. Takes proper action if any danger spots are indicated.
25		The national post-audit agency audits all governmental agencies after the close of the fiscal year. Reports all mis-use of funds to the public prosecutor, the National Assembly and the President. In criminal misuse of funds, all cases are promptly prosecuted. In administrative mis-use of funds, depending upon the degree of the mis-use, the President takes appropriate action. This action might consist in removal of the agency chief and all responsible.