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A Program for Improving
BUDGETING AND ACCOUNTING
in the
GOVERNMENT
of the
KINGDOM OF GREECE



Public Administration Service

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October 20, 1950

His Excellency, Sophocles Venezelos
Prime Minister
Office of the Prime Minister
Ministry of Foreign Affairs
Athens, Greece

Excellency:

We transmit herewith our report on A Program for Improving Budgeting and Accounting in the Government of the Kingdom of Greece. This report, submitted for consideration by appropriate officials within your Government, was prepared in keeping with our agreement with the United States Economic Cooperation Administration as set forth in the letter dated July 24, 1950, from Mr. C. Tyler Wood, Assistant Director for Operations, Economic Cooperation Administration, to Public Administration Service.

This report deals with the problems involved in accounting and in the preparation, adoption, and execution of the budget of the Kingdom of Greece. It was not possible, nor was it intended, that an exhaustive study of accounting and budgetary problems be made. Likewise, it was not intended that a complete report on present accounting and budgetary practices be presented. Rather, it was the purpose of the study to inquire sufficiently into the present practices to permit the development and presentation of a program of improvement.

In the report which is presented herewith, we have attempted to call attention to some of the fundamental problems which exist with regard to accounting and budgeting. The first part of the report is devoted to a brief review of the practices which are currently in existence and seeks only to give emphasis to some of the major problems which were discovered in the brief review. No attempt has been made to cover the many good features of the present systems.

The second part of this report presents and explains a program of work which will, if it is carried through to completion, establish within the administrative branch of the Government a stronger foundation for effective fiscal administration. The program which we propose would be carried out largely by officials and

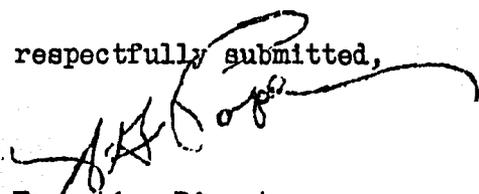
employees of the Government of the Kingdom of Greece, rather than by consultants, and therefore it requires that: (a) the nature and objectives of the proposed program should be fully understood by responsible officials within the Government; (b) the decision to proceed with the work should be based upon such an understanding and upon agreement as to its desirability; and (c) there must be direct access to responsible officials by those charged with directing the technical work and with formulating recommendations upon which official action will be required.

In order to assure that the Kingdom of Greece may secure the maximum benefits from the opportunities to train its own employees, our program has been developed so as to involve only that degree of outside technical participation which is necessary to afford promise of sound results.

In a separate letter, which is made a part of this submission, we set forth: (a) our estimates of the maximum costs of securing through Public Administration Service the consulting services required for the program which we have proposed; and (b) a statement of the conditions upon which our estimates are based.

We wish to express our gratitude for the helpfulness and cooperation of officials and employees of the Kingdom of Greece and for the unusually comprehensive preparatory work of the staff of the ECA Mission to Greece.

Most respectfully submitted,



Executive Director

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I. BUDGETING AND ACCOUNTING PROBLEMS

Most of the fundamental principles of accounting and budgeting have been recognized in Greece for many years, and the present laws generally reflect these principles. The basic provisions governing the preparation of the budget, for example, are contained in the General Accounting Act, parts of which were made effective by a Royal Decree of October 15, 1852. It is remarkable that these legal provisions, enacted nearly a century ago, so nearly coincide with those which today are considered to be the most modern. Likewise, in many respects, the legal provisions relating to accounting are satisfactory in the light of modern standards.

There is, however, a tremendous body of law relating to accounting and other fiscal matters which it was impossible to review in this brief study. Although some of the provisions reviewed would tend to cause duplication and to delay the provision of fiscal information in a form most useful to administrative officials, it is probable that the most significant present deficiencies in budgeting and accounting for the Kingdom of Greece result from a failure to follow the present legal provisions, rather than from defects in these provisions. Consequently, it appears that the revisions necessary to make the budgeting and accounting practices most effective are related to such matters as classifications, procedures, and forms to a greater extent than they are concerned with changes in law.

Budgeting and accounting are closely interrelated. The annual budget represents a translation into fiscal terms of the program of services which the Government proposes to perform and of the means of financing these services. Unfortunately, from a budgeting standpoint, governments usually cannot obtain sufficient funds to support all of the public services that the citizens themselves demand or the responsible officials deem desirable. It becomes necessary, therefore, for the legislative body to make the final determination as to the allocation of the available resources among the several functions and activities of the Government. In order that this be done in an orderly manner, a staff agency of the executive branch of the Government must first review and revise the proposals

of the ministers and develop an over-all expenditure plan, which is in balance with the available resources, for review by the legislative body. Preliminary to the development of this plan, however, the cost of the work proposed by the ministers must be determined. It is in this respect, and in the estimating of available revenues, that accounting information is necessary in the preparation of the budget.

Classification of Expenditures and Revenues

One of the most useful devices in estimating future costs and revenues, and in appraising the results of past operations, is an adequate system of classification of revenues and expenditures. It would be impossible, even if the clerical work could be performed, to appraise results accurately from a listing of individual revenue and expenditure items. By grouping expenditures into similar classes for each function or activity it is possible to use past experience in arriving at more accurate estimates of future expenditures; to simplify control over the execution of the budget; to make comparisons in determining the relative efficiency with which different organization units are performing the same or similar operations and the relative efficiency with which a particular unit is performing an operation as between different periods of time; and to make meaningful fiscal information available for the administrative and legislative officials and for the public.

At present, in Greece, there is little uniformity in expenditure classifications among the different ministries and other agencies, and even between different organization units and activities within the same ministry or agency. Furthermore, some of the budget items include expenditures of such diverse character as to make the expenditure total for the item meaningless for any of the purposes for which a classification system should be designed.

The existing classification of revenues is quite complex, and some revision in the groupings would be helpful. The basic difficulty in revenue classification, however, arises from the extraordinary complexity of the revenue structure, rather than from the arrangement of the accounts.

Fund Structure

The complexity of the revenue structure is also reflected in the fund structure. There are innumerable separate funds, many of which derive their income from the proceeds of specific revenues which can be expended only for specific purposes. The existence of a large number of special funds not only complicates accounting and related processes, but more important, it needlessly restricts the freedom of responsible officials in allocating available resources among the different functions and activities of the state. Usually, where such a condition exists, some of the activities financed from the proceeds of special revenues receive more than their proper share of total resources in comparison with other activities financed from general funds, and money may even be expended wastefully because it happens to be available. Particularly, in a country where the government can expect total revenues which are far short of the amounts needed to provide services on a desirable scale, there is serious question as to the wisdom of placing restrictions on the use of such revenues. Furthermore, for some of the special funds there is no budgeting, even on an informal basis.

Preparation and Adoption of the Budget

To a very high degree, the responsibility for the preparation of the budget rests with the Minister of Finance. In the regular ministries, as contrasted with the defense ministries, the heads of the payable orders sections, who are representatives of the Minister of Finance assigned to and located in the several ministries, have the duty of compiling the original requests. In some cases this is done almost completely by the head of the payable orders section, using past expenditure figures obtained from his own accounting records, and with only a minimum amount of discussion with the ministry officials concerned. In most cases, however, the ministry officials prepare their own requests and submit them to the head of the payable orders section, who subsequently forwards them to the General Accounting Office of the Ministry of Finance. Discussions are then held among the minister concerned, the Minister of Finance, the head of the

General Accounting Office, and the head of the payable orders section assigned to that ministry. In the course of these discussions, the budget figures are reduced, in most instances, so that the total proposed expenditures will not exceed the available funds.

On completion of the budget, the Minister of Finance submits it to the Council of Ministers for approval. That this approval is perfunctory is to be expected, because the individual ministers have all been consulted prior to its submission to them as members of the Council of Ministers. The law provides that the budget shall then be submitted to the Parliament for consideration and adoption, with such changes as the Parliament may wish to make. For many years the Parliament has not acted on the budget, but this year it is resuming its constitutional functions. Since this is just taking place, however, it was not possible to determine the exact nature of the legislative review and action.

Under the present system of budget preparation, most of the ministers do not take as active a part in the determination of expenditure requirements as proper budgeting would dictate. In some of the ministries, as has been stated, the head of the payable orders section assumes almost complete responsibility for the development of the expenditure estimates. Certainly the operating officials, that is, the ministers and their subordinates concerned with the provision of direct services to the public, should develop work programs on which to base the expenditures. That work programs are largely lacking and that estimates are not accurate are evidenced by the facts that tremendous amounts are transferred between budget classifications during the course of a budget year and that very large sums are added to the original estimates from reserve funds and other sources.

In the defense ministries and the Ministry of Foreign Affairs, the fiscal representatives of the Ministry of Finance do not exercise as extensive control as in the case of other ministries, and, consequently, the officials of the former group play a larger part in the preparation of the budget than is the case with most of the regular ministries.

Control over the Execution of the Budget

The Minister of Finance has almost complete theoretical control over the execution of the budget. A resolution of the Revisionary Parliament, passed on July 8, 1927, contains the following provisions:

"The special Accounting offices of the Ministries and those of the Secondary Accountants, which are entitled to commit the State are hereby obliged, before undertaking any disbursement to request the approval of the Minister of Finance.

"The Minister of Finance, though there is no question whatsoever about the legality, the necessity and the purpose of the disbursement, has the power to postpone (through the special Accounting Offices) the undertaking of the commitment if the cash position of the State does not allow this burden."

In controlling expenditures, the Minister of Finance uses an allotment system. In most cases one-twelfth of the annual appropriation is allotted for each month, but for some types of expenditures he does allot funds for longer periods than one month, and in some cases, there is a single allotment for the entire year. Generally speaking, there appears to be a lack of recognition of the fact that seasonal or other conditions make it necessary to spend different amounts during different months of the year. The principal control over commitments and expenditures for non-defense ministries is exercised by the Ministry of Finance through its payable orders sections located in the various ministries. These sections maintain records of allotments and other credits, transfers, commitments, and expenditures. In most cases, however, these records are duplicated in the General Accounting Office of the Ministry of Finance, and in several cases they are also maintained in the accounting offices of the operating ministries.

Before payments are made, the vendor takes the contract or purchase order, the warehouse receipt, and the invoice to the payable orders section where an audit is made and a pay order prepared. These documents are then sent to the Court of Accountants, which verifies the fact that all necessary signatures are on the documents and that the documents are otherwise in proper order. After approval, they are returned to the payable

orders section, which sends them to the cashier for payment. For recurring expenditures of the regular ministries, such as salaries, rents, and other fixed expenditures, there are offices at a number of different locations throughout the country which have control over the commitment and payment of these items.

With respect to the defense ministries, the situation differs in that the Ministry of Finance exercises considerably less control and in some cases practically none. The fiscal office maintained by the Ministry of Finance in the defense ministries is primarily a recording office. Furthermore, the defense ministries have secondary accountants or paymasters, stationed throughout Greece, who issue payment orders which must be honored by the state cashiers. Consequently, there is a lack of control over the execution of the budget, not only on the part of the Ministry of Finance, but also on the part of the central offices of the defense ministries themselves, since payments are made in the field without central approval and, in many cases, it is from one to several months before reports from the field are received.

While it is true that, because of their scattered and mobile operations, the defense ministries must be given latitude in carrying on their operations and in meeting emergencies, many of the transactions which are consummated under the guise that there is an emergency appear to be such that they could very well be conducted through regular channels. Also, except under emergency circumstances, there is no reason why reports of commitments and expenditures should not be submitted regularly and promptly to the central offices of the respective ministries and to the Ministry of Finance. Certainly there seems to be little excuse, again under normal as opposed to emergency circumstances, for obtaining additional funds to reimburse previous advances without first submitting reports of expenditures made from such advances. In many cases the so-called reimbursements for these advances are obtained on the basis of telegraphic requests prior to submission of detailed information.

For many of the legal entities of public law, control over the execution of the budget is entirely lacking. As a matter of fact, and related to the use of special funds, there is no central budget review in many

cases, and in a few instances no budget is prepared even for use within the agency.

On the basis of limited study, it would appear generally that:

1. The control exercised over the expenditure budgets in the case of the regular ministries is probably excessive and could be accomplished effectively with much less work and duplication.
2. The control over the execution of the budgets of the defense ministries and the Ministry of Foreign Affairs is probably somewhat weaker than it should be, in spite of the fact that emergency conditions make it necessary to provide for carrying on operations on a moment's notice.
3. There is a distinct lack of control generally over the budget execution in the case of many of the legal entities of public law.
4. Many of the difficulties in controlling the execution of the budget are caused by the fact that the estimates of expenditures contained in the original budgets are not realistic.

General Accounting

The governmental accounting procedures, forms, and records now in use in Greece are cumbersome. There is an excessive degree of decentralization of the accounting activities of the Ministry of Finance. Despite the decentralized records the Ministry of Finance has established in the various ministries, the General Accounting Office duplicates these records, to a large extent and in many cases, gives prior approval to the commitment and expenditure of funds. Since this is the case, it would seem that the accounting activities of the Ministry of Finance might well be conducted on a centralized basis so far, at least, as the Athens operations of the various ministries are concerned.

Several of the operating ministries have established their own accounting systems, some of which completely duplicate the accounting records maintained by the local offices of the Ministry of Finance and the General Accounting Office. Officials have believed it necessary to set up their own accounting systems in order to keep themselves informed on fiscal

matters, since, generally speaking, the Ministry of Finance does not provide sufficiently current and informative reports relative to available budget funds and other essential fiscal data.

Other Fiscal Operations

The procedures employed in the disbursement of public funds to vendors and contractors are cumbersome and time consuming. These procedures also impose a burden on the vendor or contractor in making collections from the state, and it would seem reasonable to assume that prices quoted to the Government for services and commodities are increased to cover such inconveniences.

The revenue accounting, billing, and collection processes are unusually complex, but this is caused in part by the fact that the revenue structure, itself, is inordinately complex. Although revenue administration and the revenue structure were not matters included in the scope of this study, the very great need for revision, particularly in the direction of simplification, of the revenue structure and for improvement in revenue administration was apparent.

The classification of expenditure accounts and the fund structure have been mentioned previously in connection with budgeting. The inadequacies of the expenditure classification result in accounting reports which are of relatively little use. The extreme complexity of the fund structure results in excessively complicated accounting and fiscal management practices. Furthermore, the very large number of accounts, particularly the so-called "cash accounts outside the budget," tend to reduce control and to make information supplied by the accounting system of little use for management purposes.

Stores accounting, including perpetual inventory records covering consumable materials and supplies in storage, is carried on by several agencies, although most of the agencies maintain no such records. Some of the inventory records appear to be quite satisfactory, while others are entirely inadequate.

The same comments apply to inventory records and other controls of fixed property and equipment, although the practice of maintaining records

on this type of property is probably even less common than in the case of consumable articles. The law provides that there shall be property accounting control, but such control has never been established either on a uniform or centralized basis.

So far as could be determined in this brief study, cost accounting is sporadic and, in most cases where cost records are maintained, the impression gained is that they are inadequate.

Use of Accounting Equipment

The fact that nearly all fiscal operations are performed manually is, at least partially, responsible for: the cumbersome and obsolete methods in use; the failure to furnish adequate information to department heads; the extreme delay in the preparation of fiscal reports; and the fact that even when the fiscal reports are issued they do not contain all of the information which should be provided. Although there is an abundance of relatively inexpensive clerical help available to perform the accounting and related tasks connected with fiscal administration, it is nevertheless true that, with regard to certain of the operations, it is impossible to provide accurate and adequate information promptly unless some accounting equipment is used.

II. IMPROVING BUDGETING AND ACCOUNTING PRACTICES

The program presented below for the improvement of budgeting and accounting practices in the Kingdom of Greece is based on the belief that the development and installation work should be performed by officials and employees of the Government with only such outside technical consulting services as are necessary to give direction to the project and to assure satisfactory results. Under such an approach a small group of employees will receive intensive training in the techniques of the analysis, development, and installation of systems; will become thoroughly familiar with the objectives of the program and the nature of the work performed; and will understand the reasons for the changes which are made. They will, consequently, be able to serve as the core of the technical staff needed to insure that the new systems are operated properly, to carry on continuing analysis and improvement of the systems installed, and to provide for study and improvement in other areas of financial administration.

The preceding portion of this report points up the need for the revision of budgeting and accounting administration in a number of respects. One of the major problems in deciding upon a program for developing and installing such revisions is the difficulty in determining how extensive the program should be. Cost accounting is a very helpful administrative tool, for example, but it would seem that the need for improved general accounting practices transcends the need for cost accounting at this time. Likewise, the program might be extended to revisions in the internal accounting of all of the legal entities of public law carried on by the Government, but it is believed that the present program should be restricted so as to permit revisions in the over-all accounting and budgeting administration at the earliest date possible.

The program proposed for carrying out revisions in the general accounting and budgeting practices of the Government of the Kingdom of Greece would involve the following specific steps on the part of the project staff:

- 1.a. A complete review of the provisions of the constitution, laws, resolutions, decrees, regulations, and other provisions having legal effect in so far as they have a bearing on budgeting and accounting practices.
 - b. The appraisal of such provisions in the light of modern and accepted practices.
 - c. The preparation of drafts of revised provisions which will permit the development of the most effective and efficient procedures and records.
- 2.a. A study of the organization, procedures, forms, and methods employed in the preparation and adoption of the budget.
 - b. The appraisal of the present practices and the development and installation of revised organizational patterns, forms, and methods, as deemed necessary and desirable.
- 3.a. A determination, in detail, of the revenue and expenditure classifications presently employed for budgeting and accounting purposes.
 - b. The development and installation of new classifications which will facilitate the preparation of accurate budgets; will permit proper control over the execution of the budget without restricting, unduly, the freedom of action of the operating officials; and will provide useful fiscal information for the administrative and legislative officials and the public.
- 4.a. An analysis of the fund structure and of the cash accounts outside the budget, including the legal requirements or other reasons for the establishment of each fund or account.
 - b. A determination of the necessity or desirability for the maintenance of each fund or account.
 - c. The development of simplified fund and cash account structures, together with the drafting of revisions in legal and administrative provisions necessary to put them into effect.
- 5.a. A study of the organization, and of the forms, records, and procedures involved in the control over and the accounting for receipts, commitments, and expenditures. This would include

- a study of the present system of allotment of appropriations over the budget year, and of the procedures involved in the commitment and disbursement of public funds.
- b. The appraisal of such organization, forms, records, and procedures in the light of the requirements for effective control and efficient administration.
 - c. The development and installation of revised organizational patterns and new forms, records, and procedures in so far as necessary.
- 6.a. A review in detail of the classifications used and the practices followed in the general accounting for assets, liabilities, reserves, and surpluses of the several funds, and the tie-in of these accounts with the expenditure and revenue accounts.
- b. The development and installation of such revised practices and account structures as are deemed desirable.
- 7.a. A determination as to fiscal data needed by administrative and legislative officials and the public.
- b. The development and installation of a system of reports which will furnish such information promptly and in a usable form.
- 8.a. A review of the needs of the individual ministries for fiscal information, other than cost accounting data, which cannot be readily and promptly furnished by the Ministry of Finance.
- b. The development and installation of accounting systems for the individual ministries which will provide them with such data.
- 9.a. A review of the systems used for accounting for consumable materials and supplies in storage.
- b. The development and installation of adequate systems which can be applied uniformly, in so far as practicable, in the different agencies.
10. The development and installation of a system of centralized control and accounting covering the fixed property and equipment owned by the Kingdom of Greece.
11. The provision of a program of training for the employees concerned in the operation of the revised systems.

12. The preparation of written manuals of procedures, including procedural flow charts, relating to all of the revised systems to serve as guides for present employees and as sources of data for acquainting future employees with the exact nature of their duties.
13. The provision of assistance, during the early stages of their operation, in the supervision over the operation of all new systems put into effect.

In those of the above steps which involve the development of systems, consideration should be given to the desirability and feasibility of using accounting or billing equipment or other accounting devices. The fact that there is an abundance of clerical help available should not deter the Government from installing equipment in cases where the use of such equipment will make it possible to perform fiscal activities in a manner that is significantly more efficient and that produces results which are significantly more effective than can be achieved by manual methods.

Also, in performing each of the steps, the appropriate officials would be consulted as to proposed changes, and detailed proposals would be developed only after approval of general recommendations had been obtained from such officials.

The work would not necessarily be performed in the order listed above. As a matter of fact, many of the steps would be receiving attention simultaneously. Some of the work, however, such as the revision of stores and property control records, should be deferred in favor of the development of revised budgeting and general accounting systems.

It is estimated that the work outlined above could be performed in about 18 months. If an early start is made, this would permit the installation of some of the significant changes as of the beginning of the fiscal year on July 1, 1951, and the completion of the revisions by July 1, 1952. This, of course, assumes that an adequate and qualified staff is assigned by the Government, at the start of the project, for full-time participation in the work. This staff should consist of persons selected from within the public service who are suited personally and professionally to participate in such an undertaking and to assimilate the extensive training which will be provided. It would, of course, be desirable

if most of them are technically qualified in the fields of accounting and budgeting.

One of the factors which often delays the progress of a project of this sort, is the failure of the responsible officials to render prompt official decisions relative to proposals developed by the project staff. It is therefore essential, if the work is to be completed within the period of time indicated, that the undertaking be enthusiastically supported by the Government and that there be assurance of active cooperation from all administrative officials and employees concerned.