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Office Memorandum • UNITED STATES GOVERNMENT

TO : Comptroller

DATE: 14 May 1956

FROM : Chief, Finance Division

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SUBJECT: Accounting for Confidential Funds

1. In the administration of accounting requirements and controls, confusion occasionally arises because there is no clear definition of "normal Agency accounting requirements". This problem arises not because of lack of understanding and agreement with respect to the substance of accountings but rather with respect to depth to which detailed documentation is required.

2. There seems to be little basis for objection to the principle that detailed documentation of the use of funds (i.e., the who, what, when, where and why) is normally required as long as the funds remain in control of persons or projects under Agency control. Conversely, there can be little quarrel with the principle that it is unrealistic and impractical to endeavor to insist upon detail documentation of the use of funds from persons or activities not controlled by this Agency.

3. While the above stated policies represent accepted operational as well as sound accounting and funds control, in the absence of clear determinations as to the point at which funds pass from Agency control it is often difficult, if not impossible, to clearly establish whether normal Agency accounting requirements have or have not been satisfied. As a result, accounting requirements as set forth in many Administrative Plans or as interpreted by Certifying Officers and others, have tended to reach further and further beyond the point where realistic control and proper documentation can be expected. On the other hand, Case Officers and other operational personnel, not having a clear concept or guide as to what constitutes acceptable accounting documentation and policy, tend to agree to whatever requirements are suggested, even though in substance the requirements may be unrealistic and may not truly reflect operational circumstances and relationships.

4. In recent discussions with representatives of operational elements, it was proposed that approved project outlines be utilized to establish Agency-project relationships for the purpose of fixing the point where funds are passed beyond effective detail control. It was further proposed that project procedures be revised to provide that Case Officers would be required to develop the financial aspects (other than budgetary) in coordination with the Certifying Officer in order that the project outline may reflect accounting requirements determined by the Certifying Officer as conforming with normal accounting concepts as defined above and practical

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of compliance as determined by the Case Officer. In those instances wherein these criteria cannot be met, an Administrative Plan setting forth special accounting requirements would be required.

5. In the case of accounting requirements imposed on individuals, the status of an individual with respect to his relationship to and control by the Agency is normally evident from his employee or contract status. The only area wherein relationship and control tend to become nebulous is in the case of field agents and others who refuse or for operational reasons are not requested to sign formal contracts. As a general policy, in application the "point of control" concept would require accountings in detail from all employees and other persons under formal contract with the Agency on the premise that any person who has signed a contract with the Agency has a relationship to the Agency of such nature as to justify insistence on documented accountings.

6. In the case of unilateral memoranda of agreements, however, the substance of the relationship as evidenced in the project outline or from other sources would have to be examined to determine whether control is such as to require detail accounting documentation, or to permit acceptance of receipts or certifications of services purchased as adequate support of the use of Agency funds.

7. In recent months it seems to be increasingly apparent that we are tending, in all areas, to place more and more emphasis on the form of accounting documentation on the erroneous premise that if form is proper, substance is assured. The re-statement of policy as expressed above is believed properly to place major emphasis on the substance of a situation with the objective of documenting the form as necessary to support the substance. In line with this view, we propose to work closely with operational elements to obtain a better understanding of this policy and to expand the use of project outlines to substantiate accounting determinations. Before proceeding further, however, we would appreciate your approval.

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CONCUR:

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Chief, Audit Staff

APPROVED:

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E. R. SANDERS
Comptroller

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