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4 April 1947

MEMORANDUM FOR CHIEF, PLANS

Subject: Audit of Special Funds

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1. We return herewith memorandum of 10 March 1947 from the Executive for P&A, and the draft memorandum of 19 March 1947 from the Chief, Special Funds, with our comments. The audit of special funds goes to the heart of the whole unvouchered funds problem, and we shall attempt briefly to state our analysis.

2. We cannot state too strongly our opinion that unvouchered funds have a unique status in our Government. All other funds of Executive Agencies are subject to the completely independent audit by the General Accounting Office. Congress has seen fit by law to relieve GAO of this function and place entire responsibility upon the head of the department concerned. Congressional hearings, the Comptroller General's decisions and our own opinions have consistently held that this responsibility cannot be delegated. The Director may establish controls or abolish all controls in his discretion, but he may not divest himself of his responsibility for the proper disbursement of special funds. This unique status, therefore, necessarily takes the special funds problem out of normal command and administrative channels, and renders the Director's appointee for control of special funds directly responsible to the Director. This special channel in turn necessarily separates special funds from all vouchered funds and their administration. In our opinion, it is proper that this separation be kept complete, both to avoid confusion as to the funds and the methods of handling, and to preserve the security essential to special funds operation. We feel that all control of the Personnel and Administration Branch over unvouchered funds ceases and should cease upon budget allocation from basic appropriations to the Special Funds Branch, in accordance with the decisions of the Projects Review Committee. This cessation of control, of course, in no way affects the routine administration by P&A of personnel within the Special Funds Branch.

3. There is no question as to the desirability of an audit of special funds. It is necessary to maintain the trust

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of Congress and GAO in the control of unvouchered expenditures, as a protection for those disbursing officers who might incur personal liability by improper expenditures and, most important, for the protection of the Director. An independent audit is patently impossible, and, since the power to audit necessarily involves the auditing office in the operations of the office audited, we believe that power should not be given to the P&A branch. In our opinion, it is the logical conclusion that the auditors must be specifically made responsible to the Director, must render their routine reports to his office, and must have authority to approach him directly on any point they believe requires his attention. They should not be put under the control of any Assistant Director, or of the Executive for Personnel and Administration, all of whom were given certain authorities to commit Special Funds by CIG regulations. Ideally, the auditors should be a part of the Director's Office, and act in his name. It is our understanding that it is desired not to attach additional personnel to that office. In view of this desire, we believe the same purpose can be achieved by placing the auditors in Special Funds for TO and normal administrative purposes, as members of the staff of the Chief of Special Funds, and with the above-mentioned written authority to have direct access to the Director's Office. We acknowledge that this proposal is an exception to normal administrative channels, but we feel that this is necessary in view of the unique situation created by statute, and that it would fulfill the legal requirements insofar as they can be met without independent outside audit.

LAWRENCE H. HOUSTON
General Counsel

LRH/ml

cc: Director's Office
ADSO
Exec. for P&A
Chief, Special Funds

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