The proposed budget and accounting plan provides that all gross revenues from whatever source shall be included in the budget, with the single exception of the Banco Nacional, which shall be excluded from the budget except for any dividends derived from its operations by the Government. Proceeds from loans would not be included. Proposed expenditures would be shown in the budget in detail for all activities. While proposed expenditures to be met from the proceeds of loans would not be included in the budget, detailed plans of such proposals should be prepared for the fiscal period by the administrative units concerned. Upon the approval of the President, these plans become the authorities for expenditure and would guide the Office of the Comptroller General in the examination of the accounts for these items. The practice of reserving certain funds for specific purposes should be discontinued and all government revenues should go into the general fund of the Treasury to be available for any authorized expenditures, except for the receipts of the National Lottery, which shall be used for general welfare and educational purposes.

The Office of the Comptroller General would make a pre-audit of all expenditure vouchers. The items would be checked as to availability of funds, legality of expenditure, and conformity with the Comptroller General's regulation regarding supporting documents and certificates. No expenditures would be approved until all requirements had been met. For certain government activities detailed accounts would be maintained by the Comptroller General's office, while for others the accounting records would remain decentralized as at present. However, in the latter case, the accounts would be audited in the field by representatives of the Comptroller General's office. The plan also provides that the Comptroller General should determine the forms of accounts and methods of reporting of the municipalities, and should audit their accounts, reporting on them to the President.
As previously has been stated, the accounting system which is now in effect, or at least theoretically in effect, is based on sound fundamental principles. But in many instances application of these principles can be improved. By the introduction of certain accounts the financial transactions of the several departments may be more adequately controlled. By the introduction of a system of financial reports administrative officers may have laid before them much better information on which to base their operations.

The system is based on double entry ledger accounts which are supported by several registers, by subsidiary ledgers, and by detailed records of the several classes of transactions in connection with the collection and disbursement of government funds. All are well and carefully kept.

**General Ledger Procedure.**

At the end of each biennial period all general ledger accounts are closed. The balance in the accounts which reflect items that are of a continuing nature such as cash balances, public debt items, outstanding accounts, etc., are carried forward as the opening balances of the new biennial periods. These accounts reflect the cash assets and the liabilities of the Government at the beginning of the new biennium. The amount of available cash in the general fund at the beginning of a fiscal period is included under revenues as a separate item in the budget and the amount of outstanding accounts on the last day of the biennium is brought forward and given preference as a current liability of the new period.

At the end of the first month of the new biennium the actual revenues for the month are taken up from the appropriate register in the general ledger accounts by debiting the bank accounts through which the revenues were collected and by crediting accounts that indicate the nature of the revenue.

The expenditures for the month are posted from the appropriate registers by debiting accounts which show broad general expenditure classifications,
such as ordinary expenses, expenditures from special funds, public debt expenditures, etc., are by crediting the bank accounts through which the checks were issued.

In order to compare actual revenues and expenditures with the amounts as estimated in the budget the following entries are made:

The estimated revenues for one month are determined by dividing the total estimated revenue for the entire biennial period by twenty-four. This amount is then taken up in the general ledger by debiting an account created for this purpose and by crediting appropriation accounts for each of the five major departments with one twenty-fourth of their biennial appropriation. The debits and credits to these accounts would balance provided the budget were balanced at the beginning of the year and no outstanding accounts were carried forward. However, in setting up the total estimated revenues to cover the appropriations, there is first deducted the amount of outstanding accounts brought forward, and the remainder is divided by twenty-four. If the amount of outstanding accounts is greater than the amount of available cash brought forward (which has been the case in the last two bienniums) the new biennium will start with an indicated deficit. However, a review of the records indicates that a deficit of this character would ordinarily have been wiped out within a comparatively short time, since revenues have been estimated conservatively. It is found that the actual collections of revenue have usually been greater than were the estimates. It is the voting of supplementary appropriations and additional credits without giving due consideration to the availability of revenue to cover them that causes serious difficulty with respect to overdrafts and deficits.

The expenses for the month are then taken up against the appropriation credits. The offsetting credit entry is made to the expense accounts to which a former debit had already been made. This results in balancing these
efficiently, perform all the public work committed to their offices, and, at the same time, live within their budgets. This means that they should know at all times what amount has been appropriated for their work, for what purposes it is to be expended, how much they have already spent, and how much they have left to carry on their work during the remainder of the current fiscal period.

It appears that many of the officers are going along with their spending programs quite in disregard of the amount of funds still available for expenditures under the several "partidas" (appropriations). Any of the partidas for the current biennium period are already heavily overdrawn and there are nearly four months left before the period closes. How are these overdraws to be met? They will probably be added to the floating debt that is carried forward from year to year in the form of outstanding accounts. This is a most undesirable practice and should be corrected.

It is quite possible that the budget estimates are too small or that they are not scientifically prepared. This matter of preparation of the budget is covered in another section of this report.

The explanation is made that if regular monthly statements showing the status of the several partidas were prepared and submitted to the different administrative officers, they would be disregarded and overdrafts would continue the same as now. However, if heads of departments and divisions are not furnished with statements, there is always the excuse that they are not kept informed of the status of their partidas and therefore that they do not know that they are overrunning their allotment. If, on the other hand, they are informed currently (say monthly) of the balance in their respective partidas, the responsibility for overdrafts can be fixed definitely, and at the same time the administrative officer can be given the protection of complete financial information regarding his operations. The procedure of
this information should be an incentive for him to accomplish as much as possible and at the same time live within his income. It is therefore believed that the system should provide that the head of each principal government department or major subdivision be furnished with a monthly statement which would show in a clear and concise way the status of his several partidas. Summary statements covering all government appropriations should be prepared for the President, the Comptroller General and such other officials as may be interested.

Improvement for Appropriation Accounts needed. (1)

The present system of accounts does not provide any means of controlling through the general ledger the amount of the encumbrances which may be incurred against the several appropriations or "partidas" in the budget. The general accounts are run purely on a cash basis. Consequently, a statement drawn from the general ledger accounts does not reflect the true status of the finances in that no consideration is given to the amounts that are outstanding on account of current expenses; nor is any consideration given to encumbrances which may have been incurred against the several partidas, such as orders placed for goods or articles which have not been delivered and therefore do not at the time represent actual outstanding accounts.

It is true that theoretically the account which is maintained for each partida shows the encumbrances against that particular partida and also shows the amount that actually has been paid. The amount which remains available for further obligations may of course be obtained by calculation from these figures.

It would seem most important in making monthly or other periodical statements that there should be included not only the status of the finances considered from the viewpoint of actual cash but the status of the appropriations in such detail as will show the total amount appropriated, the total
Fundamental that the accounting system provide for an adequate system of property accounts and accountability. It is quite generally conceded that the most effective method of obtaining control over the property is to bring its total value into property control accounts in the general ledger. These control accounts should be supported by a detailed card record of all government property and equipment. The total values on all the cards should be in agreement with the total value of the property as shown in the control account. Physical inventories should be taken periodically to verify the detailed cards and to see that all government property is duly accounted for as well as to place responsibility and accountability for any articles missing.

The individual property records could well be kept in the office of the purchasing agent or in some central office which has to do with the approval of requisitions so that the person who approves requisitions for the purchase of equipment will be in position to know what the requisitioning office already has in the way of equipment and thus be better able to judge whether or not additional purchases should be made. It is believed that the installation of a complete set of property accounts and the establishment of property accountability on the part of employees would result in a considerable saving to the Government by preventing unnecessary purchase of equipment.

Control of Receipts and Expenditures From All Funds Required

In considering the revision of the accounting system the principle should be established that all government revenues or receipts should be cleared through the central accounting office and no expenditures should be approved or made except in accordance with duly authorized budget appropriations. Unless this principle is followed, the accounting system cannot reflect the true situation with respect to receipts and expenditures. Therefore, the system should provide for the recording and auditing of all receipts and expenditures of the Government from whatever source or for whatever purpose, without exception.
In order to expedite the accounting work and to make for a simpler and more efficient functioning of the accounting office, the number of special funds should be reduced to a minimum. In another section of this Report will be found a description of the special funds and how they operate.

**Departmental Accounting (B)**

The accounting work done in the several departments ranges all the way from practically nothing to complete systems of accounting such as that found in the Central Road Board. It would be impossible to lay down a rule which could be applied uniformly with respect to what accounts should be kept in the several government departments. Quite naturally such accounts would depend entirely upon the nature of the work performed by the particular department. The Central Road Board, for example, has complete control over the construction of all roads and is responsible for the expenditure of the road funds without respect to the Office of the Fiscal Agent which merely issues the checks. This organization must of course have its own accounting organization and make provision for all administrative appropriation accounting and cost accounting. The same would be true of the Chiriqui Railroad, the Post Office, the Government hospital and other similar departments. However, it is believed that there should be a control and audit of all Government expenditures as well as receipts by a central independent office. (See section on Budgetary Procedure and Accounting Control).

Generally speaking those departments which are charged with the duty of carrying on public works which are of an engineering, industrial, or commercial character should be required to maintain cost records which should be reduced as far as possible to a unit cost basis. For the purposes of control these records should be audited by the Office of the Comptroller General. The total expenditures as shown by the cost records should be in agreement with the total expenditures for the particular department as shown by the central accounting
office. In the case of hospitals or penal and correctional institutions, cost records should be maintained and reduced to a cost per capita basis.

Cost accounts should be encouraged but care should be taken to see that they are only installed where necessary and that they are made as simple as possible in order to insure that their maintenance will not be more expensive than the results justify. The advice and approval of the Comptroller General should be obtained in connection with the installation of all systems of accounting of whatever nature, including cost accounting, and the Office of the Comptroller General should have not only the authority but the duty of making periodic audits of the accounts kept by any and all departments.

For the average government office the duties of which do not involve engineering, industrial or institutional work, it is only necessary that a blotter record be kept of the balances available for expenditure. At the end of the first month of a biennial period, the administrative officer should receive from the central office a statement showing the status of the parties. Then that officer should record against the free balance, as shown by the statement, the expenditures of the month and compare the remaining balance at the end of the month with the next statement received by the central office. In this way he would know at all times just what available balance he had for operating purposes and he could thus assure himself that he is at all times living within his income.

Summary

In conclusion, it may be stated that, generally speaking, the present accounting system is based on the fundamental principles of sound accounting, is well developed and well worked out, and, if fully applied, would probably prove satisfactory. Certain changes and improvements are, however, needed in order to tighten up the system generally and to make its application to the local situation easier and at the same time more effective.
It is fundamental that a model accounting system should provide for a complete system of financial reporting in order that the President, the Cabinet officers, and the head of each major division may be supplied currently with the financial information required for carrying on the public work efficiently and at the same time enabling them to live within their incomes. The general ledger accounts should be reorganized and reclassified so as to facilitate the preparation of summary statements which will reflect the financial condition of the government as a whole. It is believed that accounts should be provided to control all obligations against appropriations as well as actual expenditures, in order to establish a safeguard against overspending. It is also believed that the introduction of an adequate property accounting system throughout the government service to be controlled through general ledger accounts would result in a considerable saving. Generally speaking, departmental accounting should be limited to a blotter record of appropriation balances and such cost accounting records as are necessary in each particular department.

The present accounting system has the fundamental features of control for both revenues and expenditures; but unfortunately that control is not exercised. The result is that the Government's accounts tend to become mere historical records of what has happened after all is over and after it is too late to do anything to correct a situation. Unless authority for the enforcement of the control is provided, neither this system nor any other can be anything but a record of historical facts concerning financial transactions.

**Government Organization and Methods (A)**

A progressive government, alive to the welfare of the people, gives prime attention to the economy and efficiency with which the ordinary business of government is transacted. The slogan adopted by the present administration - *Trabajo, Orden y Economia* - indicates its desire to follow modern
methods and to eliminate duplication and overlapping of effort. With a view to assisting in this laudable effort we wish to point out instances where it is believed considerable improvement can be made; first, in regrouping and reorganizing the duties and functions of the several departments; second, in matters of business administration; and third, in matters that have to do with the personnel of the public service.

Reorganization of the Government Departments. (B)

Our survey of the various government departments and bureaus has indicated that they should be regrouped and reorganized. The present organization is evidently of more or less fortuitous growth. It is axiomatic that activities should be grouped together for administrative purposes because they have similar duties, have the same general functions, or require for their administration the same general type of professional training or social background. Nevertheless, there are instances in the government of the Republic of Panama of activities totally unrelated to each other having been placed in the same department under the control of a single directing hand. What relation is there, for instance, between the construction of public works and the administration of welfare activities such as the public health? Are there any common administrative problems in the supervision of the judicial system and the construction and operation of the telegraph that are common to each other? And should not these government activities which are more or less independent of any coordinating head except the Chief Executive be placed under one of the Secretaries of State? These and a number of similar questions immediately present themselves to a person who examines the present organization chart of the government (Exhibit A).

A new plan for the grouping of the various government agencies is shown in the attached chart (Exhibit B) which it is believed would provide a sound basis for the economical operation of the government. The most important
### Proposed Organization of the Government of the Republic of Panama

#### Legislative
- Asamblea Nacional

#### Executive
- President

#### Independent Officials
1. Public Roads
2. Chiriqui R.R.
3. Lottery
4. Banco Nacional

#### Mohammad
- Foreign Affairs
- Treasury

#### Comptroller General
- Comptroller
  - Asst. Comptroller
- Bookkeeping
- Disbursing
- Auditing

#### Public Instruction & Public Welfare

#### Agriculture & Public Works
- V

#### Government & Justice
1. El Secretario
   - El Subsecretario
   - Administrative Offices

#### Provincial Govts.
- (A) Gobernaciones
- (B) Alcaldíes
- (C) Corregidores

#### Administration of Law
- (A) Admission of Courts
- (B) Procuraduría General
  - 1. Fiscalía
  - 2. Defensores de Oficio

#### Notaries

#### Registro Público

#### Registro Civil

#### Archivos Holes

#### Law Enforcement
- (A) Police
- (B) Coast Guard
- (C) Army

####Visa Services
- (A) Band of Republic
- (B) Arm of St. Blas Indians

#### Notes:
The departments from which a service or office is transferred is indicated by Roman numeral following the name of the service or bureau.
change suggested is the grouping of all engineering projects and these activities which are essentially of a business nature in the Department of Agriculture and Public Works and the transfer to the Department of Public Welfare of these activities of a social and altruistic nature. Under the plan proposed it should be possible to secure a man who is capable and qualified to administer all of the services assigned to a particular department. For instance, an engineer at the head of the Department of Agriculture and Public Works would be able to understand the technical problems connected with the administration of the telegraph system better than would the Secretary of Government and Justice who should be trained primarily in the administration and enforcement of the law. Similarly, an educator or physician at the head of the Department of Public Instruction and Public Welfare would be more likely to have the background necessary to coordinate the child hygiene and general health activities of the nation than would an engineer or business man at the head of the Department of Agriculture and Public Works.

The Postal Service has been placed in the Department of Agriculture and Public Works, first, because it is essentially a business, and secondly, because it is intimately connected with the development of roads. The care of the roads now comes under the direction of the Central Road Board (Junta Central de Caminos) and on this board the Secretary of Agriculture and Public Works is represented. Being primarily a business enterprise the Postal Service should be administered by a man schooled in the ways of business.

It is our opinion that a regrouping of the agencies of government along the lines suggested will eliminate duplication and overlapping of effort, expedite the public business, and result in important savings of time and money.
General Business Administration (3)

Office Procedure and Equipment (3)

In our survey of the several government departments we have noted that in many instances a great deal of thought has been given to ways and means of expediting the work of the office and eliminating unnecessary operations. Further progress along these lines, however, seems possible. In certain offices records and statements are being copied by hand while the might be more expeditiously copied with the help of typewriters. There is a lack of modern labor-saving devices in several departments, particularly in the Post Office. Indexes of records, employees, and accounts are frequently kept in bound books instead of on cards as is the usual modern practice. The arrangement of the files and furniture in some of the offices, particularly in the Department of Public Instruction, is excellent; in other cases efficiency and economy could be promoted by a general housecleaning. Perhaps this can best be accomplished by thorough inspection of the offices on the part of a representative of the chief executive.

Rent of Buildings (3)

The Government is spending a considerable sum of money annually for the rent of buildings. It rents offices in the city of Panama and it rents offices for the governors of the provinces and for the alcaldes, corregidores, and court officers of the municipalities. It rents quarters for police stations, for post offices, and for schools. In some instances the renting of these offices and quarters is necessary but from the information which was furnished to us it would seem that in some cases this rent money is disbursed chiefly for the purpose of increasing the compensation of the officer who is entitled to the use of the office. We recommend a review of all leases by a competent person.

It is believed that all the leases should be reviewed periodically.
quarters, if every effort were made to utilize space in existing public buildings. A judicious rearrangement of the Post Office in Panama City, for instance, ought to provide space for housing the parcel post office (encomiendas postales) which now occupies space in a rented building opposite the Post Office.

The obvious remedy for the entire rent situation is, of course, to provide as rapidly as possible government-owned buildings wherever permanent quarters are needed and do not exist. Without waiting for this, however, much can be accomplished towards conserving the public funds by the adoption of two new policies in the matter of rents; first, by refusing to allow rent to government officers who have their offices located in their homes; and, second, by renting quarters only upon the execution of a formal lease or agreement on the basis of the space used, this lease to be entered into only after public bids have been solicited, to run for only one year, and to be approved by the Executive Power or the Fiscal Agent.

**Purchase of Supplies (C)**

In the main, the Republic of Panama has the fundamental feature of a sound system for the economical purchase of supplies and materials needed by the Government. In theory all of the purchases are made by the Purchasing Office (Sección de Compras y Materialies) which receives requisitions for supplies from the several offices, solicits prices and makes the purchases. It also buys some materials for its own stores and issues them to the several departments on requisition.

There are, however, many ways in which the present purchasing practices could be improved. While in theory the purchasing is done centrally, the fact is that many of the government departments are making direct purchases of supplies without reference to the Purchasing Office. Many reasons, some of them good, are given for a departure from the general rule, but often the reason is
the desire to avoid the restrictions which surround the making of purchases. Very few such purchases are made on competitive bids or after soliciting prices from a number of merchants. There are no standing contracts for supplying commonly used articles or for purchasing them in definite quantities. Such purchasing is done in small quantities from local retail merchants. Adequate specifications or descriptions of the quality, size, color, or other characteristics of the article to be purchased are seldom given. It follows from this that there is inspection of the goods to see that they are of the size, quality and character ordered. There are certain other minor defects in the purchasing system.

In any system of public purchasing it is of fundamental importance that there be definite standards or specifications for each article or supply purchased. These specifications or descriptions of the quality, size, color, type and so on of the articles to be purchased should then be sent to all of the firms which handle such articles with the request that the latter indicate the lowest price at which these can be furnished.

One of the difficulties with this scheme, however, was the amount of paper work and delay which it caused. To avoid this delay and extra work a schedule or catalogue of all commonly used articles should be prepared annually or semi-annually and the merchants asked to indicate the prices at which they will supply these articles during the ensuing year. An estimate should of course be given at the time bids are solicited, of the approximate quantity of the supplies which will be needed. Contracts should then be made with the lowest bidder for supplying the articles upon a properly approved order.

It would be neither difficult nor expensive to prepare such a schedule of supplies for the use of the Republic of Panama. The advantages of having such a schedule are many. This schedule would not need to be large or