

DETROIT BUREAU OF GOVERNMENTAL RESEARCH, Inc.

542 GRISWOLD STREET
TELEPHONE, MAIN 1977

THE DETROIT BUREAU OF
GOVERNMENTAL RESEARCH IS A
NON-POLITICAL ORGANIZATION
OF CITIZENS.—

1 TO COOPERATE WITH OFFICIALS
FOR INCREASING THE EFFECTIVE-
NESS OF DETROIT'S GOVERNMENT

2 TO KEEP CITIZENS INFORMED
ABOUT THE CITY'S BUSINESS

April 30, 1921

To the Trustees,
Florence Crittenton Home,
Detroit, Michigan.

Gentlemen:

Complying with the request of the Detroit Community Union, this Bureau made an audit of the accounting records of the Florence Crittenton Home for the nine months period ended December 31, 1920.

Because of the condition of the books of account, the Bureau enlarged the investigation to include the procedure in handling and recording all financial transactions, and the results of this inquiry are presented herewith.

Very truly yours,

L. D. Upson

Director

FLORENCE CRITTENTON HOME

FINDINGS

General Comment

The scope of the audit that should be made of the accounts of the institution was not definitely set forth, and accordingly the Bureau was guided by the report of the next preceding audit, made by the Detroit Trust Company for the year ended March 31, 1920, and further by its observation of the general conditions affecting the books of account.

It is generally agreed that there are at least two kinds of audit,—one, a detailed audit, wherein every transaction during the period to be covered is rigidly scrutinized; and two, a general audit, the purpose of which is to review the general system of accounting and make test checks to determine upon the regularity of handling transactions, the integrity of those responsible for conducting the business, and the adequacy of the records.

The second was the method followed, in lieu of the detailed audit formerly made. In fact, the condition of the accounting records precluded making a detailed audit. To extract from the books a statement of the assets and liabilities of the institution at the close of the year 1920 was impossible, as they are neither complete nor current. Further, the title of certain general ledger accounts is meaningless, and one member of

your Board and your Secretary were unable to explain their nature. Entry against some of these accounts has not been made for years, and owing to changes in bookkeepers, they will continue to be inactive. Even the adjusting entries and balances reported in the last audit of the books were not entered upon the general ledger.

Sufficient tests were made of the procedure that was followed during the period in handling and recording receipts and disbursements to assure that in general these transactions were regular and entered of record. It is felt that, under these circumstances, and in the absence of any suspicion of irregularity by employees, an item by item re-check would not have produced results worth the expense in time.

It is believed that the future, rather than the past, should have our consideration. There has been substantial progress made during recent years in business methods, and in analyzing the conduct of private and quasi-public activities to determine how far modern and more effective methods might be adopted.

The system in operation in the Home was designed on the double entry principle, but is so complicated that only a specially instructed bookkeeper can maintain it. Evidence of this statement is the fact that it is not operated. It probably served its purposes when operated by the person who installed it, when the institution stood as an independent

agency, acquiring property and conducting its activities on funds raised solely as a result of its own efforts. It could expand or retrench upon the action of its Board of Trustees, in accordance with the success achieved in enlisting financial support.

Now, conditions are different. This institution is one of more than sixty that receive at least a part of their funds from a central collecting agency, the Detroit Community Union. Based upon the history and experience of the institution during recent years, the probable scope of its activities during the ensuing year is laid out, and a careful estimate of the cost of these activities prepared.

The income from all sources that will be needed to meet the estimated program of expenditures is carefully estimated, and the amount that it is desired the Community Union shall allot to the extension from its total budget is determined.

This amount, with similar estimates of requirements of all the other agencies associated in the Community Union, comprise the total budget that the Union must ask the people of the city to contribute for the year. These estimates, obviously, must be arrived at before the Union puts on its campaign.

Dependent upon the success of the fund raising campaign as a whole the program of each institution may be carried out. Should the entire

budget be raised, the programs as originally contemplated, may be allowed to stand. In event the entire amount requested is not raised, the program of some or of all of the associated agencies must be curtailed. Such retrenchment is decided upon by the officials of the Community Union. At the close of the campaign each agency is notified by the Community Union as to the allotment that will be made for its work during the year. It is apparent that the work of each agency must be limited so far as possible to that program insofar as it is to be financed thru the central office.

The Budget Principle

This means that the institution must operate upon a budget basis. The expenditures requested in the budget submitted to the Community Union are itemized according to an established classification, by objects of purchase. Records must be maintained that will keep those responsible for the conduct of the institution informed at all times as to the relation of actual expenditures to the estimated or budget requirements. Likewise, the relation of accrued income to estimated income at any time after the beginning of the year must be available for the guidance of the administrative officials. This information is indispensable also to the central financing office, in order that the charitable and social program of the city as a whole thru the several agencies may be properly

coordinated and conducted with a minimum of disturbance to each.

A budget means that the activities have been carefully planned, and the cost of each has been estimated; and that the proposed program of expenditure has been limited to the income available to pay these costs.

Appropriation Accounting

It is no less essential that, having budgeted the plans for the year, these plans should be painstakingly adhered to. An essential corollary to any budget is an accounting procedure that is so devised and maintained that it will furnish information currently as to both income and expenditures. Not only must cash collections from all sources be recorded, but the income accrued and not collected must be known. Cash disbursements must be recorded, and also accounts payable and contingent liabilities on account of orders placed must be controlled. The present system of accounts makes no provision for an accounting with the budget as approved by the Community Union. Such appropriation accounts are not at present maintained.

General Ledger

A general ledger is merely a general book of control into which are gathered all the accounts pertaining to the business. The name or title of each account should mean something very definite and understandable

by all those required to operate the books and by those concerned with any financial statement extracted from them.

It is quite impossible to prepare a financial statement from such accounts as “Debt Fund”, “Detroit Community Union–Hartwell Account”, “Capital Invested”, “Income over Expense”, “Endowments”, “Premium Account”. Which of these accounts is an asset, and which a liability; which is an income, and which an expense account?

As instances of the inadequacy of the present ledger, the following accounts are cited, together with the date of the last entry against them:

<u>Account</u>	<u>Last Entry</u>
Laundry Machinery	Nov. 1919
Furniture and Fixtures	Nov. 1919
Land	Jan. 1, 1916
Investments	Nov. 1918
Inventory	March 1919
Capital Account	March 1919
Reserve for Depreciation	March 1919
Reserve for Doubtful Accounts	Nov. 1919
R. E. Ferguson Purchase	Oct. 1916
Debt Fund	Nov. 1918

The lesson to be learned from a study of conditions is that the accounts in general should be simplified, so the ordinary bookkeeper could comprehend them.

It is probably to be preferred that the Detroit Community Union should take over the operation of the books of this institution. The advantages of each central direction of bookkeeping of a large number of agencies are several:

1. A uniform system of accounts and records could be installed for each institution.
2. More nearly comparable statements of operation could be secured for similar institutions.
3. The expense of employing a chief accountant and the necessary assistants at one central office would prove less than the cost of each institution maintaining its own bookkeeper, in cases where the institutional bookkeeper does not spend full time on the books.
4. The work of bookkeeping would be an uninterrupted activity of a minimum number of persons, whereas the present bookkeepers in the several agencies are required to perform other duties.

In the case of this Home, the bookkeeper and office assistants would seem to have sufficient work to do in meeting the public, answering questions, and maintaining the necessary statistical records of the institution. The study did not, of course, include an enquiry in personnel and the entire scope of administrative activity.

Trial Balance Statements

Each month a “trial balance” of the general ledger is extracted, and with a current list of accounts receivable, made available to the officials of the Home. This trial balance is logically divided into four sections,— assets, liabilities, income and earnings, and disbursements. Theoretically, the preparation of such financial statement currently is a commendable procedure. In practice, however, in this case, the statement means little if anything. One of the Trustees and the Secretary were unable to answer fundamental questions concerning it. This condition is due to the fact that the accounts in the general ledger, from which the trial balance is prepared, have not been active in some cases for several years, and some accounts have not been closed for a similar length of time.

Obviously, a current statement of income and expenditure accounts is valueless unless the figures represent the financial transactions since the beginning of the current fiscal period only. The balance sheet accounts are of value only provided they represent the present status of the several accounts of assets and liabilities as a result of these transactions. Until the accounting procedure is revised and kept so that the accounts comply with these conditions, the trial balance statement will prove of little value.

RECEIPTS AND DISBURSEMENTS

Following is a statement of the receipts and disbursements of the Commercial Account of Home for the period April 1 thru December 31, 1920, and the opening and closing cash balances, as shown on the books of account:

RECEIPTS

Donations—Detroit Community Union	\$29,552.59
Donations—Sundry	374.82
Accounts receivable	9,640.36
Board	967.59
House	1,299.68
Sundries	<u>5,185.83</u>
Total receipts	\$47,020.87
Cash balance, April 1, 1920	<u>\$ 1,094.27</u>
Total	\$48,115.14

DISBURSEMENTS

Salaries	\$28,908.25
Food	10,642.01
House supplies	2,149.20
Drugs	832.05
Repairs	2,755.27
“General ledger”	492.56
Laundry	618.92
Engineer’s supplies	255.06
Shop expenses	130.05
Repayment of loan and interest	<u>1,256.27</u>
Total disbursements	\$48,039.64
Cash balance, December 31, 1920	\$ 75.50

In submitting this statement to your Board it is realized that it affords but little information to you. Desirable financial statements could not be prepared from the books, as is explained later in the report.

It should be stated that the record of cash receipts and disbursements since January 1, 1921, has been revised by the installation of a new book. The activities of the home have been enumerated,—as Hospital, Clinic, Administration, etc.,—and the receipts and disbursements on account of each activity are recorded separately. The result should be more informing financial records for administrative guidance.

Deposit of Cash Receipts

It should be recorded that cash receipts are deposited in the bank more nearly currently than was the practice in the past, and the present procedure is deemed satisfactory.

Cash Disbursements

The procedure with respect to making disbursements was improved early in 1921, by the adoption of a voucher check. On each check is noted the date and amount of the vendor's invoice being paid by the check, and endorsement of the check is accepted as a receipt for the invoice as noted. This procedure makes it necessary to return to each vendor his original invoice for receipt, and thus eliminates the loss of many invoices, as so frequently occurred under the former practice.

These are a few of the improvements in procedure it is contemplated should be made at the institution. Subsequent revisions await the favorable action of the Board and the Detroit Community Union.

Cash Account

The cash balance as of March 11, 1921, was arrived at by reconciling with the bank balance of that date, with the following result:

STATEMENT OF CASH, COMMERCIAL FUND, MARCH 11, 1921.
RECONCILIATION WITH NATIONAL BANK OF COMMERCE ACCOUNT.

Bank balance, March 11, 1921		\$1,006.93
Less: Outstanding checks		
<u>No.</u>	<u>Amount</u>	
3100	\$15.23	
3101	25.00	
3102	40.00	
3103	4.00	
3104	4.51	
3105	16.47	
3106	63.80	
3107	10.10	
3108	160.81	
3109	7.17	
<u>3110</u>	<u>110.00</u>	<u>457.09</u>
Cash balance, check book, March 11, 1921		\$ 549.84
Cash on hand, March 11, 1921		\$ 10.00
Cash, check book balance		<u>549.84</u>
Total Cash, Commercial Fund		\$ 559.84

Note: Accounts payable by checks numbered 4007 and subsequent thereto are considered as Accounts Payable, not as outstanding checks.

The adjustment of the Cash Account as of the above date with the balance as of December 31, 1920, has not been made. This adjustment requires the audit of transactions between the two dates, and will be made dependent upon action taken to install a revised set of records effective as of January 1, 1921.

This cash balance as of March 11, 1921, was reported to the bookkeeper, and it was suggested she accept it for her records. Since that date the bookkeeper is deducting from the balance the amount of each check as drawn, and thus is at all times informed as to the availability of funds for disbursements. No overdrafts of the current account should result, under this procedure.

Outstanding Checks

The reconciliation statement shows two old checks outstanding,— #3100, for \$15.23, and #3165, for \$25.00. Correspondence with the vendors in both instances resulted in the information that the checks were received and deposited regularly by them. Therefore, the only reason the items are carried as outstanding items is that the cancelled checks are lost. The bookkeeper was advised to add the total of the two items, \$40.23, to the checkbook balance of cash, and eliminate them

from the list of outstanding checks. This was done in April, 1921.

It was suggested to the bookkeeper that she reconcile the checkbook balance of cash with the bank statement, on the first working day of each month, in order that the exact status of the institution's cash may be known currently. This suggestion is being followed.

Imprest Cash Fund

The imprest cash fund of \$200 was counted on March 11, 1921, and the total amount was properly accounted for in currency and vouchers.

It is worthy of comment that the bookkeeper is compelled to keep this fund in a cigar box.

Savings Fund

The National Bank of Commerce reported a balance of \$3,257.51 at the close of business March 11, 1921.

H.R. Crusoe, Secretary, Fund

The balance in this fund on March 11, 1921, was \$249.25, per the statement of account of the National Bank of Commerce.

The account with this fund was not found on the general ledger.

Girls' Deposits

The deposits of cash with the bookkeeper by the girls at the Home totaled \$368.68 on March 11, 1921, according to the register of these accounts. Of this total, \$198.68 was accounted for in currency in the hands of the bookkeeper. It was stated that the balance, \$170.00, is deposited with the Detroit Trust Co., but no record acknowledgment by the Detroit Trust Co. of this deposit was found in the books or among the miscellaneous papers of the Home.

This fund is not carried in the general books of account, and it is believed proper to carry it in a separate record.

It is worthy of comment that the bookkeeper is compelled to handle this sum of money loose in large manila envelopes.

Private Funds of the Superintendent

The institution receives certain small collections which are not reported to the Detroit Community Union. These moneys are handled by the Superintendent, who keeps them in envelopes in her safe and makes a memorandum record of the receipts and disbursements.

The receipts are from three sources,—Sunday school collections “children’s fund” (mite collection boxes of the Home), and donations by the Florence Crittenton Circle. The receipts from the first two sources

are less than \$10 annually, and the penny collections and donations for special purposes by the Circle, which meets at the Home one afternoon each second week, vary according to the demands of the moment. For the year ending April 12, 1921, this fund shows the following:

Cash balance, April 1, 1920	\$ 53.00
(as transferred from the Acting Superintendent to the Superintendent)	
Receipts, from penny collections	48.06
Receipts, for house furnishings	112.45
Receipts, for girls' outings	<u>25.00</u>
Total	\$ 238.51
Disbursements, for baby clothes and shoes, furnishings, Railroad fares, outings, magazines, etc.	
	<u>190.30</u>
Cash balance, April 12, 1921	\$ 48.21

The nature of disbursements is indicated in this statement. The receipts from Sunday school collections and the hall boxes are similarly expended. The disbursements are made at the discretion of the Superintendent.

At the time of the audit (March 11, 1921) the Florence Crittenton Circle contained an imprest cash slip for \$25.00, which had been borrowed by the Secretary over a year before, according to the word of the Superintendent. The transaction is not recorded, and, owing to the absence

from the city of the Superintendent, these private funds could not be audited in the regular course. When the audit of these funds was made, (April 12, 1921) this loan had been repaid,—in other words, it was paid between March 10 and April 12, 1921.

It is, of course, accepted that no individual or group of people should be discouraged from donating money for a legitimate use to any recognized charitable institution. In addition to the invaluable assistance and support rendered an institution thru personal work and effort, financial aid is to be fostered. However, it is questionable whether such donors would continue the practice of making such donations were they to find that the money was diverted from the purpose for which they intended it. In the present case, the only assurance of the ultimate disposition of the money is the word of the Superintendent. So long as this condition continues, such donations will probably be received. No reflection is intended upon the present Superintendent, whose lengthy and continuous period of service is recognized as ample guarantee for her intelligent use of such funds.

In view of the fact that these items of income are not included in the budget, the question here raised is, how far shall the central collecting and accounting agency for all social agencies in the city be concerned at budget making time in the extent of such private donations? No at-

tempt is made to answer the question, as the principle of central financing seems to be involved.

Accounts Receivable

A statement is prepared monthly of the accounts receivable for the services rendered by the Home. This statement was not examined by the auditors, as to the amount that is collectable. It is believed that those handling these accounts can determine upon the amount to be set up as a reserve for uncollectible, if any is desired.

This reserve should need to be but a small one, as it should prove a simple legal process to enforce collection of, rather than write off as uncollectible, a charge once made.

Inventories

The inventory values carried on the general ledger are not of the current year, as a general rule. In some instances, a current inventory was not made by those in charge of stocks. No statement is included, therefore, of inventories.

Investments

Following is a list of the securities held by the Home, as on April 11, 1921. Owing to the late date of the audit, a statement of investments as of December 31, 1920, is not submitted here.

INVESTMENTS

April 11, 1921

Certificate of Deposit, No. 20500, Detroit Trust Co., dated May 13, 1920, (4%)	\$ 387.90
Certificate of Deposit, No. 21547, Detroit Trust Co., dated January 21, 1921, (4%)	104.05
Certificate of Deposit, No. 21548, Detroit Trust Co., dated January 21, 1921, (4%)	412.94
First Liberty Loan, Conv., No. 181474, (4-1/4%)	50.00
Second Liberty Loan, Conv., Nos. 1759131-2 (4.25%)	200.00
Fourth Liberty Load, Conv., Nos. 15798504-10; 15798571-73, (4.25%)	500.00
Detroit Edison Co. Bonds, Nos. 8596-8, (5%)	3,000.00
Detroit Edison Co. Bonds, Nos. 15826, 15845-7, (5%)	4,000.00
Detroit Edison Co. Bonds, No. 8009, (5%)	1,000.00
Detroit Edison Co. Bonds, Nos. 15848-53, (5%)	6,000.00
Detroit City Gas Co. Bonds, No. 3865, (5%)	1,000.00
Ea. Michigan Edison Co. Bonds, No. 361, (5%)	1,000.00
Swift & Co. Bonds, No. M-19181, (6%)	1,000.00
Ohio Light & Power Co. Bonds, Nos. M-871-2, (5%)	2,000.00
Portland (Ore.) Gas & Coke Co. Bonds, No. 1514, (5%)	1,000.00
Pacific Power & Light Co. Bonds, No. 1445, (5%)	1,000.00
Detroit Rock Salt Co. Bonds, No. 611, (6%)	500.00
Morgan Township (Okla.) Bonds, Nos. 4, 5 & 6, (6%)	3,000.00

Riverside Timber Co. Bonds, Nos. 422-3, (6%)	2,000.00
Port Blakely Mill Co. Bonds, Nos. 1441-2, (6%)	2,000.00
*City of Shawnee (Okla.) Bonds, No. 77	254.10

*Bond for \$500.00 was due September 15, 1918, and principal payments have been received of \$245.90

Gray Motor Corporation, Class A, pfd., 176 shares, @ \$10.00	1,760.00
Gray Motor Corporation, Class B, com., 88 shares, no par value	-
Hamilton Carhartt Cotton Mills, 51 shares, pfd., @ \$10.00	510.00
Truscon Steel Co. 200 shares pfd., @ \$10.00	2,000.00
Inter-State Fire Ins. Co. (Mich.) 40 shares, @ \$50.00	2,000.00
Standard Computing Scale Co. (Detroit) 17 shares, @ \$100.00	1,700.00
Packard Motor Car Co., 35 shares, pfd., @ \$100.00	3,500.00
Russel Wheel & Foundry Co., 2 shares, @ \$100.00	200.00
Michigan-Colorado Copper Co., 50 shares, com., @ \$1	-

One-half interest in the following investments, owned jointly with the Arnold Home,—

Second Liberty Loan, No. A02909296, \$50, (4-1/4%)	25.00
War Savings Certificates, Nos. 27543741-50, @ \$100.00	500.00
Detroit Rock Salt Co. Bonds, No. 612, \$500.00, (6%)	250.00
Riverside Timber Co. Bonds, No. 424, \$1,000.00, (6%)	500.00
Port Blakely Mill Co. Bonds, No. 1445, \$1,000.00, (6%)	500.00
Russel Wheel & Foundry Co., 1 share, pfd., @ \$100.00	50.00

Theatre DeLuxe Co. (Detroit) 20 shares, @ \$10.00 -

Bills Receivable, four months' note of Theisen Trunk Co. in favor of

George Anderson, dated April 8, 1919, for \$1200.00 \$ 600.00

TOTAL, all investments \$44,503.99

Bonds and stocks are listed at face value, in most cases; no attempt was made to determine the actual cost to the Home of those securities purchased.

Bonds numbered 15845-53, Detroit Edison Co., are hypothecated with The National Bank of Commerce, on a loan.

Property and Equipment

Inasmuch as no record is kept currently of additions and deductions in property and equipment, a statement of present investments in these classes of resources is not attempted in this report.

It is apparent from an examination of the ledger accounts that the values shown for the several properties and kinds of equipment do not represent the original cost price of each. This is deemed unfortunate, from the point of view of the desirability of a permanent record. The accounts have been credited for depreciation reserves. Of course it is wholly within the province of the Trustees to determine whether there shall be created depreciation reserves against the depreciable properties of the institution, but the principles governing depreciation are so complex it is believed that a general discussion of their applicability in the case of a charitable institution is justified in this connection.

Depreciation

A depreciation reserve may be established for any piece of property or equipment having a limited life of usefulness, and the amount of reserve is usually calculated to equal, at the expiration of the estimated life of the equipment, a sum equivalent to the original purchase price. An amount is set aside out of the income annually or at other periods, which, with accretions thru income from investment of the reserve fund,

will give this total. The questions arise, why should such reserve be created, and what use may be made of the reserve?

It is here advanced that, as a general principle, a non-producing agency such as a charitable institution need not create a depreciation reserve. It is recognized that the institution having our present consideration does in fact have some income accruing to it as a result of its operations. It is submitted, however, that the charges for the services rendered are not based, to any considerable extent, upon the use and depreciation of property and equipment. They are primarily a direct charge for personal services or for supplies furnished, the wear and tear on equipment being negligible.

When a reserve is established, and each year the amount is written off the controlling ledger account, as is done in the case of the Home, it is a short time before the original evaluation of the asset is lost. Granted that this shortcoming is due merely to faulty bookkeeping practice, the conclusion relative to the need for the reserve remains.

The basis for placing a value upon the property of a charitable organization is, primarily, its utility,—i.e., its value as an object to be used in rendering the services furnished by the institution. For example, whether it is a building, a bed, or a laundry machine, each is worth as much during the entire period it is utilized for service as it was the day

it was acquired. The value is secondary to the use ability of the article, and need be changed only when the use is affected. Capital investment and depreciation thereon are not a basis for rate making,—they are not considered in fixing charges for services rendered. The main guiding principle in determining upon their replacement—elimination of value—is that their upkeep is a greater expense than the interest charge on new equipment.

There are other reasons for desiring to place a value upon all assets,—as for possible sale, insurance purposes, security for loans, taxation purposes, etc. Most of these, however, do not arise for consideration in the case of a charitable organization. For purposes of insurance, it is believed that the full original value should be adopted, upon the argument of its utility value.

It is apparent from the foregoing brief discussion that depreciation should be taken into account primarily only with income-producing businesses, whose product or service should be sold at a price one of whose elements is depreciation,—a charge for wear and tear of property or equipment required to render the service or produce the article.

The creation of a nominal depreciation reserve without creating in fact an actual reserve fund, by the inclusion of such a charge in the annual estimates of operation costs and the setting aside in a separate fund of

the allowance for this requirement, seems futile. The budget estimates of the Florence Crittenton Home include no request for such fund, and none has been created. The only result of creating the reserves appears to have been to complicate the keeping of the accounts. Instead, annually there is included in the budget a request for "repairs," which in a measure removes the necessity for a depreciation reserve; and also a report for "equipment," which may be considered in the same light. There is no indication from the records that either repairs or new equipment are ever made by a charge to the "depreciation reserve." The public who contribute toward the support of the institution are, therefore, in fact maintaining the property in as good shape at the close of the year as it was at the beginning,—dependent only upon the adequacy of the budgetary request for such purposes, and no reckoning need be had of depreciation.

It need not be added that the entire subject of depreciation is a very complicated one, involving the recognition of definite principles for its establishment for the several classes of depreciable assets, and the proper handling of a depreciation fund is likewise a matter requiring the services of capable fiscal officers.

Control of Equipment

It is believed that the primary use of a record of the equipment of a business is to afford control over the asset, by placing responsibility for its possession and use, and to prevent loss thru misappropriation. The property record, to be complete, should be prepared in a manner to show the kind, according to a definite classification, and a description to identify each piece; the location; date of acquisition; purchase price; present condition; and such other information as is desirable for control.

Additions within any class may be recorded on the proper sheet, and the time and manner of disposition be entered, currently, as changes are made.

This record may be checked up annually, or more frequently, by a physical inventory of the equipment. Such control is not now had of the equipment at the Home.

Insurance

The insurance policies covering insurable property of the Home were not examined. It is assumed that the officers of the institution are sufficiently alert to assure every precaution will be made to protect the interests of the Home. A statement of the details of insurance policies—as to name of company, amount of insurance, annual premium, date of

expiration, property covered, etc.,—is readily obtainable and easily verified; whereas it is deemed not within the province of the audit to determine whether such insurance is adequate for the protection of the insurable property of the Home.

Liabilities

The general ledger shows a balance in the account Notes Payable of \$2,477.73. The correct amount of this account, however, is \$2,500, for a note held by the National Bank of Commerce, due date July 7, 1921. A payment on account of interest was apparently erroneously charged to the account.

No record of current liabilities is carried in the books, but this is due to the fact that accounts payable, when duly acknowledged as such by the endorsement of the financial officers of the Home, are at once passed for payment, and therefore are included with cash disbursements.

No record is kept of contingent liabilities on account of contracts and open market orders placed and on which delivery has not been affected.

In the absence of control over these accounts, it is obvious that the officers entrusted with the management of the institution cannot have an exact knowledge of the operating results during any period. The actual income for a period must take into account the total amount receivable for the period, regardless of the time it is received; and the actual expenses must take into account the total indebtedness incurred, regardless of the time the accounts may be paid.

In this connection, it is noted that expenditures of \$1,400 were made in January, 1921, that were not on account of any items included in the budget for the current year, but were in the nature of deficits in the budget for 1920, for improvements and operating expenses. This means that a portion of the funds allowed to and received by the Home for the current year was diverted to other objects. Unless the operating costs for this year, as set forth in the budget adopted by the Board, are kept below the estimate by an amount at least equal to the amount so diverted, or other relief is had, an operating deficit for 1921 will result.

This is a matter which concerns not only the Board of the institution, but also the Detroit Community Union. The only sound financial procedure under central financing is that each agency or institution shall finance completely the activities of each year in accordance with the allowance granted by the central office.

Endowments

An item of \$16,000 is carried as a liability on the general ledger in the account "Endowment Fund." This item probably offsets the amount of assets in form of cash and securities that the institution has received from legacies and bequests, subject to certain conditions governing the use to which the principal and the income might be put. The last entry against the account was made in December, 1919.

There is nothing in the records to indicate definitely that this is the nature of the account, nor to show the conditions governing the endowments. Further, it is possible that additional endowments have been received since the time the last entry shows, and if this is the case this account should be credited with such items of income.

This account is a trust account,—not a "fund",—and any entries reducing the total should be fully explained upon the record, as a permanent record to show whether the conditions imposed by the donors were scrupulously observed by the officers accepting the endowment.

Budget Procedure

Enquiry was made of the Secretary and Superintendent relative to the procedure followed in preparing the annual budget requests. Definite conclusions could not be arrived at satisfactorily unless the meetings of the Board were attended at which the budget was considered. However, certain comments are set forth, based upon the casual enquiry made.

The Secretary prepares the first estimates, with the advice of the Superintendent and the House Committee relative to certain items. The estimates are classified according to the classification established by the Detroit Community Union, by objects of expenditure. The amount to be requested for the new year is based largely upon the reported expenditures of the preceding year.

These estimates are then brought before the Board of Trustees, and the several items discussed. Salary requests are given particular scrutiny. Adjustment may be made in any item, and the figures as revised are approved by the Board. Estimates of income, by sources, are also prepared, considered, and acted upon. The excess of estimated expenditure over income is the amount that the Detroit Community Union is called upon to furnish.

It is believed that a more effective budget procedure would result if the proposed program were based upon a consideration of the services that the institution might afford the community rather than emphasizing objects to be purchased. When the services were definitely determined upon, the requests for each could be detailed as to personal services and other, according to a definite classification as at present.

Under present conditions the relation of the Board to the budget seems to be largely that of a rubber-stamping agency, approving request provided they resemble the preceding year's figures rather than because they are the best expression of the new year's opportunity to furnish certain services to the community. It would seem expedient to confer with the operating heads of the branches of the service, to ascertain whether needs are going unmet, and if so, how they may be met. Such counsel does not seem to be sought at present, except as respects the maintenance of the physical property.

After the budget is adopted, and the program of work for the year determined upon, revised if necessary by the allotment made to the institution by the Detroit Community Union, it is believed that those charged with the executing of the program should be fully informed respecting the program. It was observed, thru conference with the employees at the Home at the time of the audit, that they were not fully cognizant of

the manner of proceeding in conducting affairs in accordance with the desires of the Board. Under proper management, each person responsible for a part of the program should know definitely how to proceed, and the entire program as laid down by the Board be carried out in a consistent manner.

RECOMMENDATIONS

Based upon observation of present conditions at the Home, and this Bureau's conclusions as to the procedure that should be effective, the following recommendations are made:

1. That the officials who are responsible for the conduct the Home should arrange for the installation of an adequate system of accounting records.
2. That such accounting system should include a general ledger, journal, cash receipts book, cash disbursements book, and appropriation ledger.

A revised form for recording cash receipts and disbursements was installed, for transactions since January 1, 1921. Forms for the other recommended books will be drafted by the Bureau, dependent upon the approval of the trustees.

3. The accounting procedure should be build up with a view to its serviceability,—as a medium of furnishing a complete record of the transactions occurring and affording complete and current information to those concerned in the conduct of the Home.
4. The general ledger accounts should be in the nature of controlling accounts, and the procedure should be simple enough to permit

the ordinary bookkeeper to operate it intelligently; titles of all accounts should be as nearly self-explanatory as possible, so that it is possible to determine the exact nature of any account.

5. The general ledger accounts should be posted monthly, and be closed annually.

This would permit of the extraction from the ledger of an intelligible and accurate statement of income and expense and a balance sheet.

6. The closing entries should be carried thru the journal, with such explanation of each entry as will afford a complete and understandable permanent record of its nature and purpose.
7. To obtain a satisfactory monetary value of the several asset accounts to be established in the general ledger,—as land, buildings, equipment, supplies, investments, cash—it is believed an appraisal and inventory, as of a fixed date, should be authorized by the trustees, to be made by persons thoroughly familiar with the facts about the Home during the past several years. Such appraisal and inventory should set forth the values against each item.

It is believed that the trustees or a committee of the board is fully capable of making such investigation, and that the expenditure of any funds for this appraisal by an outside agency is uncalled

for. The records relative to certain of these assets at the present time are too incomplete for use in establishing a new set of accounts.

8. It is suggested that the date of such appraisal and inventory might be set at January 1, 1921, and the values determined as nearly as may be of that date.

Original cost price should govern in most instances, so far as this figure is obtainable.

9. It is suggested that the new accounting system take effect as of the date fixed for the determination of the values of the several classes of assets and liabilities.
10. It is believed that general ledger control should be established over all funds of the Home.

This would cause the general ledger to be the only general book of control over all kinds of financial transactions occurring at the Home.

11. Exception to this general recommendation is made in the case of the "Girls' Deposits Fund," which it is believed may be carried as an independent record at the Home. A list of the open accounts should be made periodically, the total balanced with the cash, and the list filed separately to provide a permanent control over the fund.

12. It is believed that definite funds should be recognized for the accounts of the Home, and records be kept by such funds.

A fund is a “sum of money.” For convenience in conducting a business or institution, the various kinds of transactions may dictate the wisdom of recognizing several funds, each with its own accounting record. The possible funds of the Home, with the kinds of transactions affecting each, as analyzed by the Bureau, are the following:

1. General Fund (at present termed “Commercial”),—to record all transactions in connection with the current operation of the Home,—as boarding, rooming, office expense, laundry, hospital, nursery, repairs, etc.
2. Savings Fund,—to record all transactions in connection with moneys available only for investment,—as bequests and legacies, donations, etc.

It is understood that certain income from investments, ordinarily available for current operation, is now diverted to the Savings Fund, in order to reimburse the Investments Fund for a loan made from it.

3. Endowment Fund,—to record transactions in connection with donations, bequests, etc., received as a trust and to be maintained in accordance with the terms of such trust.
4. Imprest Cash Fund,—an amount advanced from the General Fund for the convenience of the officers at the Home, and which is replenished from time to time in the usual manner of handling such fund.

5. Girls' Deposits Fund,—to record deposits by the inmates of the Home and withdrawals from same.

13. It is suggested that the balance in the H. R. Cruseo, Secretary, Fund be transferred to the General Fund, and that account be closed.

This is suggested because the operation of the house adjoining the home appears to be an established part of the work program regularly adopted by the Home, and transactions concerning it made thru the General Fund.

14. It is recommended that purchases and orders for delivery of all goods should be made thru the office, upon a regular purchase order form.

This will permit of adequate control over the expenditure of funds, and prevent possible expenditure unless the purchase is to be made in strict accord with the budgetary program.

15. It should prove valuable to compile and maintain a record of equipment, classifying each piece and giving it a distinguishing mark, and record acquisitions and dispositions as made.

16. There should be prepared from the appropriation ledger monthly a statement showing, for each item of the budget of expenditures,—

1. The total appropriation for the period
 2. Expenditures to date
 3. Percent of expenditures to total appropriation
 4. Unexpended balance
 5. Encumbrances
 6. Unencumbered balance
17. In similar manner, the relation of actual income to estimated income, by sources, should be prepared monthly, in cumulated total.

This statement of income realized could be compared with that of expenditures, to serve as a guide to determine the soundness of the course being followed in conducting the affairs of the Home.

Tentative drafts of such statements were outlined for the officers at the Home.

18. It is believed the trustees should give more attention to the necessity for an “operation audit”—an examination of the activities and transactions with a view to determining their efficacy and economy—than to a mere financial audit.

The modern system of accounting usually provides for a sufficient internal check that it is unnecessary to incur the expense of an outside audit

merely to prove the accuracy of the records and the integrity of those maintaining the books of account.

It is desirable to ascertain periodically the effectiveness and economy of operation, and this may be done by the compilation of per capita or other unit cost figures,—as patient days in hospitals, number of operations, meals served, patients received and discharged, etc., etc., according to the services rendered by the institution. Comparisons of these figures with prior periods should prove invaluable. It might be worth while to keep a record of the number of applications for admittance that could not be accommodated. The details of the statistical information that should serve the needs of the officers could best be outlined by those fully informed as to the services performed by the institution, but they should be inclusive of all phases of activity.

19. The budgetary procedure should be revised with a view to making the activity or service the basis of the request, rather than a mere enumeration of amounts desired for each object of expenditure as a present. The program for each year should be outlined in the light of services it is planned to give, with unit costs in support of the request for each service, rather than basing the requests merely upon expenditures for the preceding year.

20. It is recommended that adequate strong boxes be furnished to the bookkeeper for the imprest cast fund and the girls' deposits fund, with a key for each person having authority to receive or disburse money on account of the two funds.

The deposit of \$170.00 on account of the Girls' Deposits Fund, as reported by the Secretary, is fortunate because the present manner of handling this money in the office is too loose to hold the bookkeeper responsible for it.

21. It is suggested that the trustees confer with the Detroit Community Union relative to the feasibility of the latter assuming the task of maintaining the accounting records of the Home.