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Program on Improving the Vietnamese Budget

The following report is based upon observations and consultations during the months of May and June 1956. It is submitted with the hope that it may help to provide a basis for the development of a program to help the Government of Vietnam in its stated desire to produce a more effective budget operation.

I. SUMMARY OF RECOMMENDATIONS.

- A. MSU should confine its role to teaching and training and should participate in actual implementation only in an advisory capacity and only when specifically requested.
- B. Improvements in Vietnam's budget and accounting operations should be sought by means of training of Vietnamese personnel to do the job themselves, rather than by a "crash-type" installation by a private management firm.
- C. A committee on Budget and Accounting should be established within the MSU group as a means of channeling all available skills on this assignment.
- D. A joint MSU-Vietnamese committee on Budget and Accounting should be established to promote better practices within the Government and to generate real cooperation from all agencies.
- E. It should be a primary objective of the training program to train Vietnamese to serve as teachers of others so that the program conducted by MSU can be terminated at a reasonably early date.
- F. Annually, about 5 to 10 carefully selected trainees should be sent to the United States for University training. These trainees should be the major group from which the future top budget and

accounting executives will come.

- G. Courses in budget and accounting should be regularly included in the curriculum offerings at the Institute of Administration.
- H. In-Service Training courses should be developed and given through the Institute for budget and accounting personnel of all agencies of the government.
- I. Arrangements should be worked out with USOM for training visits of small, carefully selected groups to the budget and accounting offices of the Philippine and Thai Governments.
- J. The Vietnam Budget Bureau should be reorganized, expanded and relocated into more adequate quarters.
- K. A central accounting office, closely related to the budget bureau, should be established within the office of the Presidency.
- L. All personnel having budget and accounting experience or skills should be identified and, if possible, moved into related positions.
- M. Budget and Accounting Officers should be established as staff assistants to heads of all agencies.
- N. The budget system to be worked out, for the Vietnam Government should be kept as simple as possible.
- O. Budget policy should annually be prescribed by the issuance of a presidential budget statement. The budget bureau should be responsible for its preparation and submission to the President for approval.
- P. The budget bureau should follow the presidential budget statement with a budget circular advising agencies as to how to proceed to prepare and submit requests.
- Q. The budget calendar should be revised so that the budget may be approved and put into operation by the beginning of the fiscal year.

- R. National and Local Budgets should be separated.
- S. The budget document should be revised to be made more comprehensive and furnish more program data.
- T. Budget preparation at the agency level should involve all of the supervisory personnel who will be responsible for its execution.
- U. Agencies should abide by presidential budget policy in preparing their requests.
- V. An allotment system should be established to control budget expenditures and, at the same time, place primary responsibility upon the operating agencies.
- W. Budgetary control records should be established and maintained by all agencies. Monthly reports should be submitted to the budget bureau. The central accounting unit should prepare periodic reports on the status of finance (revenues and spending obligations) to serve as guides to management authorities.

II. INTRODUCTORY STATEMENT.

A. Assignment.

The assignment given to the writer by Dr. Edward Weidner, in East Lansing, was to review the existing budget operation of the Government of Vietnam and propose a program of improvement that would be practical and feasible. It was recognized by Dr. Weidner and the writer that there would be little opportunity, or time, for any real implementation of any part of the proposals made during this very brief stay. Any noticeable improvement in an operation as complicated as that of a national government necessarily will require a very much longer period of time - even under the best of circumstances. These certainly do not exist in Vietnam.

Moreover, it is the firm belief of the writer that under no circumstances should MSU undertake the responsibility of implementing, by itself, any part of any program of improvement of the Vietnam budget and accounting system. That is, MSU should carefully restrict its role to showing the proper governmental officials the elements of a good

system and, upon request, helping these officials to install such changes as the official themselves decide they want. In other words, MSU should teach and train, but not operate. There are two basic reasons for this:

- 1) if MSU personnel actually do the job, the training value of doing it is lost to the Vietnamese; and
- 2) by assuming responsibility for the installation, MSU would automatically become the target for all the opposition to change that will inevitably develop within the next few years, if the government seriously pushes the suggested reforms.

B. Resumé and Activities.

Much of the time during the past weeks has been spent in meetings with the President, the Secretary of State for the Presidency, personnel of MSU, USOM, Budget and other related activities. Conversations with individuals, study of the few English language documents pertinent to the subject, plus intensive use of English translations of interviews, arretes, circulars, and budget documents have furnished the information upon which the conclusions and recommendations have been based. Any misinterpretation, of course, must be charged to the writer. The last few weeks have been devoted mainly to the preparation of this report and to the giving of a series of orientation or indoctrination lectures on the development of a modern budget system by the Vietnamese Government.

C. Acknowledgements.

Throughout this visit, it has been a real pleasure to receive the whole-hearted cooperation of nearly everyone with whom contact has been made. Within the MSU group this spirit of friendly helpfulness - even from those not directly concerned with the budget problem - has been particularly noticeable. Specific mention of individuals is difficult but the patience of Drs. Fishel and Smuckler and the ready assistance of Messrs Higbee and McKeen have been invaluable. Above all, the work of Wayne Snyder, in serving literally as the voice, ears and eyes of the writer in contact with the Vietnamese has been indispensable.

D. Plan of Report

In the following pages, the writer has not attempted to describe in detail all of the intricacies of the existing budget system nor its background. These have

been summarized upon the basis of the information contained in available publications.(1) The discussion places emphasis upon the things that might be done - by MSU and by the Government - in order to improve the budget operations.

Attention is directed to the fact that the report is concerned principally with budget administration, as distinguished from broad policy and strategy. Because of their importance and relationship to United States foreign policy operations in this part of the world,(2) the writer has deliberately refrained from becoming involved in these latter areas. Reference thereto is incidental and only when necessary to describe the operation of the budget system and its administration.

III. SUMMARY OF VIETNAM BUDGET PROBLEM.

A. The existing shortcomings in the Vietnamese budget administration - which, incidentally, seems to compare not too unfavorably with those of neighboring and nearby countries - are easily understood in view of its history under French control. Although Vietnam has a sizeable Civil Service, few of them had the opportunity to develop as top level administrative personnel. It seems to have been the policy of the French to use only their own personnel in the top administrative and supervisory positions.(3) With the attainment of independent status and the departure of the French "advisors", the country was left without a corps of top management people. Most of the civil servants knew well how to do a minute part of the operation; few, if any, understood the whole system. Consequently, one of

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- (1) See, for example: "A Public Administration Improvement Program for the Associated States of Indo-China", a report prepared for the Mutual Security Agency - By Public Administration Service 1313 E 60th Chicago; "Budgetary and Financial Administration in Vietnam" Supplement to report on Interior Dept - by W. Snyder, MSU (Jan 1956). See also the 1955 and 1956 Budget Documents of Vietnam.
 - (2) Interview - early May, with Messrs Palmer, Rhodes, and Freeman of USOM
 - (3) See P.A.S. Report, pp 3 and 17.

the characteristics of the current scene is an adherence to detail without a broad general understanding of the overall operation.

This passionate devotion to detail and the insistence upon perfection in form - while disregarding the substance of the operation - is clearly evident in the preparation and execution of the budget. Moreover, the budget seems to be prepared more upon the basis of past expenditure than in the light of current or emerging problems, and of the programs designed to meet them. Once a budget is approved (and this can be any time up to several months after the fiscal year is closed)(4), the entire process of execution becomes somewhat like an obstacle course in which the fiscal authorities seem to be defying the operating agencies to spend the funds.

If spelled out in detail, the criticisms of the present budget and its administration would take up a number of pages. However, because this picture is generally understood (the President and Mr. Chau appear to be not only conversant with the defects, but seem to be genuinely anxious to correct them) there is little to be gained by a further recital thereof. It is sufficient at this point, therefore, simply to list what appear to be the major defects in order to have them as points of reference when proposing a program for improvement.

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- (4) Dates for covering the budget preparation and approval periods since 1951, appear as follows:

<u>YEAR</u>	<u>STARTED</u>	<u>FINISHED</u>	<u>APPROVED</u>
1951	? ?	? ?	March 1952
1952	? ?	? ?	8 Aug 1952
1953	18 Sept 1952	? ?	13 Apr 1953
1954	Aug. 1953	? ?	4 Feb. 1955
1955	4 Dec 1954	30 Jan 1955	29 June 1955
			Revised 3 Feb 1956
1956	21 Oct 1955	15 May 1956	? ?

B. Defects of Present Vietnam Budget Administration

Essentially, the Vietnam Budget(5) problem can be described as follows:

1. An inadequate and poorly administered revenue system which fails to provide enough funds for even the non-defense expenditure needs.(6)

2. A budget preparation system that is built upon prior expenditures (with top priority to the salary requirements of the permanent civil service bureaucracy) and pays little or no attention to current and emerging problems and the government's program for meeting them.

3. A budget document that is:

- a) voluminous (1344 pages in 1956) but incomplete;
- b) clustered up with non-essential detail, but conspicuously short of meaningful (program) information;

(5) The following figures, furnished by the Treasurer General, reflect the violent fluctuations that have encompassed the fortunes of the Vietnamese Government in recent years:

Comparison of Estimated and Actual Budget Receipts and Expenditures (in millions of Piasters)

<u>Original Budget Estimates</u>			<u>Actual Operations</u>	
<u>YEAR</u>	<u>REVENUES</u>	<u>EXPENDITURES</u>	<u>REVENUES</u>	<u>EXPENDITURES</u>
1951	2,192\$	3,685\$	1,869\$	1,869\$
1952	4,602	4,602	5,416	5,070
1953	5,763	7,434	3,066	5,237
1954	16,984	16,984	15,156	11,710
1955	15,702	15,702	8,505	10,255
1956	13,626	13,626	-	-

(6) See report on the Revenue and Tax system by Professor Richard Lindholm, MSU staff, June, 1956.

- c) prepared essentially at levels above actual operations and consequently is not understood by operating personnel;
- d) prepared and issued long after the fiscal year has started (if not actually ended) and finally,
- e) designed as an instrument for the control of spending, but which fails to prevent deficits;

4. A budget execution system that seemingly is more concerned with recording authorizations to spend than with what is being (achieved with what is being) achieved with the expenditure.(7)

5. Almost complete lack of personnel - below the very top level - with any understanding of the function of the budget as a means, or tool, for effective management of the government's business(8), and finally.

6. No apparent plan for improvement, other than

(7) As charted by Wayne Snyder, "Budgetary and Financial Administration in Vietnam" MSU Jan 14, 1956, it takes as many as 22 separate actions to pay a supplier for service or materials rendered.

(8) The 1956 budget reportedly was prepared by one man, Mr. Tai, with the assistance of one or two clerical people from the Budget Bureau. The Director and the rest of the Bureau Staff, meanwhile, were wholly engaged in miscellaneous activities, few of which related to budgeting. In a sense, the 1956 budget was prepared in a vacuum, although Mr. Tai declared that he "had a long talk with the President and knew exactly what he wanted in the budget", and as noted below, the 1956 document represented a considerable improvement over its predecessors. This tending to try to improve the budget is good on the surface; yet it may very well complicate the job of assisting because there seems to be an attitude on the part of some that they are now doing better than any "outsiders" can tell them.

the repeated statements of the President and Mr. Chau that they are anxious to move ahead, if some will tell them "what" and "how".

IV. ALTERNATIVE APPROACHES TO PROBLEM.

There are two principal ways in which the problems listed above can be attacked. The job can be done on either a "crash-type" or a "do-it-yourself" basis. In the former approach, a private management firm is hired to come in and install a brand new system, complete with forms, operating procedures and manuals. Although this approach has the seeming advantage of speed, and in spite of the fact that it does work under the proper conditions (usually a situation where all other factors are satisfactory) there are some definite disadvantages especially in situations such as prevails here in Vietnam.

The major arguments against this "crash-type" approach are: 1) the cultural differences between an American governmental operation and that of Vietnam; 2) the difficulty in getting the contractor to take the time to train the native personnel to the point that they will be able to operate it successfully after the contractor has gone; and 3) the relatively high cost.

Although the "crash-type" operation is spectacular and seems to be easy to measure "accomplishments", experience in some jurisdictions points to its long-range failure to achieve a successful grafting into the overall governmental operation. What seems to develop is a system wherein the personnel go through the standard motions, as prescribed by the operating manuals, but fail to achieve the soughtfor goals of more meaningful and effective budget operation.

On the other hand the "do-it-yourself" type of program, although unspectacular, and slower, is built upon the solid rock of progress through understanding on the part of the native personnel. In other words, by making the government's own personnel undertake such changes or improvements as are to be attempted, there is no subsequent problem of lack of training. The training part is undertaken first and then, when the personnel are conversant with the objectives and are able to handle the techniques, they do it themselves. It is clear that the rate of progress (change or improvement) is such slower under this type of approach. But, in addition to the advantage of having the rate of change controlled only by the knowledge and ability of the permanent native personnel, there

sometimes is an added value in the form of variations and adaptations to fit the local customs.

In the final analysis, the top people in the government should make the decision as to which type of approach should be undertaken. Depending upon the standards or requirements used to evaluate the situation, either approach might justifiably be selected. Thus, if the President decided that the most important goals were: 1) the quick elimination of all possible remains of the French system; and/or 2) the speedy installation (or honest attempt thereto) of a complete and modern system of budget and accounting (primarily to satisfy USOM that all possible efforts were being made to control expenditures and currency); the logical approach is the "quickie" results of the "crash-type" operation by a big-time firm of management specialists.

If, however, the desire is to carefully develop a sound and effective system operated by intelligently trained personnel, who understand not only the mechanics but the rationale of the system, then clearly the "do-it-yourself" approach is indicated. Although there has been no definite indication of top level desires on this point, the writer-guided chiefly by his own evaluation of the situation, and partly on the advice of others - is assuming (and recommending) this latter approach. All of the following recommendations are based on such a program.

V. PROPOSALS FOR IMPROVEMENT

In drafting the following proposals for the development of a program for improving the Vietnam budget operation, it is assumed that MSU will have the services of Mr. Marvin Murphy, as budget specialist; a qualified specialist in governmental accounting system; and Mr. Wayne Snyder, as analyst and interpreter. These three professional people should be supported by at least one full time stenographer who is able to take dictation, and a full time (and qualified) translator, who can translate large quantities of English language reading material to Vietnamese and, vice versa, Vietnam budget and accounting documents to English. Such a team should function for a period of at least two years in order to accomplish a reasonable measure of improvements, along the lines indicated below. Also, as noted subsequently, this budget and accounting team occasionally will need the support and active cooperation of many of the regular MSU personnel.

Turning now to specific suggestions most of which have already been presented to you orally, and in part by memo, it is noted that any and all of these ideas are subject to and susceptible of refinement and improvement as experience develops. The writer is certain that if he were to re-do this memo after an actual trial run, there would be many revisions, and, possibly, some deletions.

These suggestions fall into two groups: A - those relating to training; and B - those having to do with administrative reform.

A. Suggestions Relating to Training.

1. Establishment of Committees.

As a means of providing coordination and channeling of all possible skills and efforts of personnel within the MSU group, it is recommended that there be established a Committee on Budget and Accounting. This committee, which should be chaired by the Chief Advisor, should include: Mr. Murphy, budget specialist; the accounting specialist; Mr. Snyder, analyst and interpreter; Mr. Fox, representing the Institute; Mr. Wickert, for In-Service training; Mr. Lindholm, as Fiscal Policy advisor; Mr. Rosenfeld, the Organization and Methods specialist; Mr. Smuckler, as Research and Statistics specialist; and possibly, Mr. Mode, as a representative of agency viewpoints.

It should be the function of this committee periodically to review, evaluate, appraise and criticize the program and work of the budget and accounting unit. The committee, as such, should have no direct operating responsibility although individual members will necessarily be involved in various phases of the work of the unit. Thus, for example, Mr. Fox and Mr. Wickert should participate in the administration of the training program; Mr. Lindholm's advice and assistance will be invaluable in the development of a section on Fiscal Policy within the reorganized Budget Bureau; similarly, the advice and assistance of Messrs Rosenfeld and Smuckler will be helpful in the building up of sections on organization and methods and research (Legislative Reference).

In order to insure smooth working relationships between the budget and accounting unit and the budget and other offices of the Vietnamese government,

it is recommended that a joint MSU-Vietnamese Committee on Budget and Accounting be established. Such a committee should probably be limited to not more than eight members, with four from each party. It might consist of: The Secretary of State for the Presidency, as Chairman; the Budget Director; an Agency Budget Office; and the Vietnamese equivalent of an Accounting Director; along with the Chief Advisor and the three professional members of the MSU budget and accounting unit.

It should be the responsibility of this Committee to promote the development of better budget and accounting practices within the government. Specifically, this Committee, with the prestige of Mr. Chau, should be able to develop a spirit of genuine cooperation on the part of all agencies of the government.

It is important, also, that the services of the already existing Committee on In-Service Training be utilized as much as possible in developing and carrying on a program of in-service training for the rank and file of budget and accounting personnel, as discussed below.

2. Development of training program.

Over the long pull, the most important contribution to the improvement of budget and accounting that can be made by MSU will be that achieved through a carefully prepared and sustained program of training. There is absolutely no substitute for intelligent and well-trained personnel. Given this, any government can operate any system - no matter how bad - and achieve some sort of satisfactory results. Without such trained personnel, no system - no matter how good - will work.

To be successful over a period of years, a training program should cover all types of personnel and should be flexible enough to adjust to changing requirements. As of the present there is an obvious need for training on just about every level ranging from broad orientation discussions for top-level administrators down to detailed courses in the mechanics of budget preparation and execution for operating personnel. It would probably be helpful if the top government officials made public announcement of their full support of this training program.

Without necessarily exhausting all possible needs,

it is recommended that a program be established to cover the following specific kinds of training: a) formal university work in the United States; b) formal course in budget and accounting in the Institute of Administration; c) In-Service Training for budget and accounting personnel, including those of the operating agencies; and d) informal training by observation of budget and accounting systems in nearby governments.

Throughout this entire program of training, it should be a primary objective to train individuals with the capacity to serve as teachers of others so that the program conducted by MSU can be terminated at a reasonably early date. In this latter connection, it would seem reasonable to believe that the MSU program could be diminished in two more years and terminated at the end of four. If this proves not possible, it probably will be prima facie evidence of a major failure to achieve the projected results. In such event, an alternative method might be indicated.

a) University Training in the United States.

There should be no difficulty developing this part of the program in view of the operation that is currently under way as part of the general MSU effort. Specifically, however, there should be an attempt annually to select and train about five to ten individuals who will definitely return to Vietnam and spend a reasonable number of years in budget and accounting positions of the government. These should be looked upon as an elite group from which the future top budget and accounting executives will likely (although not necessarily) be drawn. Accordingly, great care should be exercised in their selection. Subject to modifications dictated by availability and time, the most necessary qualifications of such trainees should be: 1) Education, at least through the National Institute of Administration; 2) Experience, preferably at least two years in governmental administration; 3) English language, ability to read and speak in sufficient skill to communicate; and, 4) Age, neither too young (preferably above 23) and not too old (not over 35). Ideally, these trainees should be selected to cover the full range of activities carried on in budget and accounting administration. A combination of university study of public administration with a period of internship in a competent budget and/or accounting office should provide a good training for this group. In the

implementation of this part of the program, the advice and assistance of Messrs Fox and Cole will be invaluable.

b) Formal Courses in Budget and Accounting in Institute.

It has already been agreed that a course in budget administration will be a regular part of the Institute curriculum, beginning with the next term. Mr. Murphy will be responsible for handling this course. To assist him in getting started a preliminary draft of an outline for a 30-hour-course(9) has been prepared. Mr. Murphy has a copy of this and, presumably, will be prepared to begin the course when he arrives next month. A similar course in governmental accounting, with heavy emphasis upon accounting for budgetary purposes, should be developed and undertaken as quickly as possible. This will be the responsibility of the accounting specialist.

Although designed essentially for the regular students of the Institute, an effort should be made to enroll selected budget and accounting personnel of the government. These individuals should be assigned to take the courses as part of their regular duties and should be carefully checked, from time to time, to see that they are taking full advantage of the opportunity to acquire extra knowledge and skills. Any evidence of malingering should be grounds for dismissal from the course and, additionally, an obstacle to future promotional opportunity.

c) In-Service Training

For the short run, the in-service training effort will undoubtedly be the most important part of the training program. It is through this medium that the majority of budget and accounting personnel of the government will be most quickly reached. This part of the program, which should be worked out in cooperation with Mr. Wickert and the In-Service Training Committee, should be open to all individuals in budget and accounting positions at both the staff and operating levels.

The objective of these in-service training courses should be two-fold: 1) to re-orient the thinking of the government personnel to a new concept of budget and accounting and, 2) to give them an understanding of the

(9) A copy of this outline is attached as Appendix "A"

rudiments of a modern approach to these operations. Of the two, the first is undoubtedly the more important. Unless the Vietnamese have a real understanding and appreciation of what is being attempted, there is little point in trying to teach techniques.

There is no set pattern for covering this type of training. Only experience can dictate the final form of a successful approach. However, in an attempt to facilitate the operation, a rough outline of a short course in budgeting has been prepared.(10) This short course is designed for small informal discussion groups (of 10 - 15 persons) meeting about six to ten 2-hour sessions. The first, second, and sixth parts are designed for general orientation purposes and the other three are designed to cover the mechanics of budget administration.

d) Informal Training by Observation.

The fourth approach to the training program is that of arranging opportunities for selected budget and accounting personnel to observe similar operations in neighboring countries. On the theory, that a picture is worth ten thousand words, very preliminary contacts for this purpose have been made in the Philippines and Thai. In both of these countries (although much more so in Manila than in Bangkok) the budget and accounting operations can be used not only to demonstrate the systems, but, quite importantly, to underline the fact that there is nothing mysterious about them. In the writer's opinion, a demonstration of good budget and accounting by people of similar culture and racial characteristics here in the orient will be a most effective method of convincing the Vietnamese that they too can do the job.

In the Philippines, as you know, a seemingly successful "performance" budget installation has just been

(10) Attached as Appendix "B"

completed by a private management firm.(11) The budget operations of the Philippines as conducted by the Budget Commissioner (Dominador Aytona) are sound and increasingly well administered. Moreover, both Filipino and USOM officials in Manila indicated enthusiastic approval of a proposal, that they receive and instruct budget and accounting personnel from Vietnam.(12)

On a recent trip to Bangkok, as also reported previously, the writer was advised by representatives of Public Administration Service (which has contracts covering budget and accounting installations in both Thai and Burma), that shortly after January 1, 1957 they would be in a position to undertake demonstrations for visitors. This would fit into the local schedule quite nicely because by that time (January, 1957) Murphy should have been able to select a number of budget and accounting personnel who could profitably participate in such a trip.

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- (11) The installation is described as "seemingly successful" for the reason that it still remains to be seen if the contractor succeeded in imparting an adequate understanding of the full implications of "performance" budgeting. Even if this proves not to have been done the Philippines budget administration is about the best in this part of the world (writer's opinion.)
- (12) No definite plan has been worked out. Preliminary contacts with USOM (Saigon) indicate likely approval. This should be one of Murphy's first assignments this fall. As reported in the writer's memo of 11 June, a further possibility for training was discussed with Mr. John Moore, Public Administration Advisor at USOM, Bangkok. Briefly, this contemplates joint action by Thai, Burma and Vietnam in sending trainees to the Institute of Public Administration at the University of the Philippines in Manila. Using the Philippine Budget Commission as the laboratory, the Institute could put on a first class program of training for other South East Asia countries. It is strongly recommended that this be further explored in cooperation with USOM officials and with Mr. Moore at Bangkok.

It is recommended therefore, that early attention be devoted, working through USOM, to setting up a program for sending carefully selected groups of Vietnamese to either Manila or Bangkok for demonstration. Details of such trips will have to be decided in terms of availability of personnel, financing arrangements and other, as yet, unconsidered factors.

In general, however, it is suggested, that such visits be limited to groups of not to exceed 3 or 4 at a time for not more than two or three weeks each. One absolute requirement, for such visits should be that each person sent must submit a report covering his observations as to what he did or what he did not learn. Such a requirement should help in two ways: 1) it should tend to dispel the idea that the trips are simply junkets; and 2) the reports, if seriously followed up, will help to guide future coverage on these trips.

B. Suggestions Relating to Administrative Reforms.

In this group of suggestions it is repeated that the role of MSU should be confined to helping the proper governmental officials once they have made the decision to undertake the reforms. MSU already has been called upon to describe what improvements are indicated and to this extent it is certainly free to advise the government concerning demonstrable defects in existing organization and practice. What we must avoid, however, is even the appearance of doing the actual implementation. This may seem to be a too timid approach, but in the setting it is the only way to avoid suspicion, that MSU "is running" the show and, consequently, to be blamed if anything goes wrong.

1. Reorganization and Relocation of Budget Bureau.

Evidence of the President's desire and intention to strengthen and expand the role of the budget as an instrument of executive management, may be seen in his action moving the budget bureau from the Ministry of Finance to the Presidency.(13) The next two steps which logically follow from this action and which should be

undertaken as soon as personnel, space, and operating work-loads permit, are: a) reorganization of the internal structure and expansion of the staff, and b) its relocation to more adequate quarters.

a) Reorganization and expansion of Budget Bureau

The budget bureau presently consists of about 28 persons who are organized, under a Director and Deputy, into four main units; National Budget (with their subunits - Defense Budget and Government Receipts; Administrative and Political Expenditures; and Economic and Social Expenditures); Other Budgets (with two subunits - Municipal, Provincial and Village Budgets; and Autonomous Budgets); Research (with two subunits - Research and Statistics; and Investigations); and Administration. The actual functions of the several parts of this organization, as presented in the Arrete which affected its supposed reorganization on May 8, 1956, differ from those described by the staff members in a series of interviews conducted during the period May 5 - 17, 1956. Moreover, there were conflicting statements as to who did what from the several interviewees. Over and beyond this, of course, is the very confusing role of the special advisor, Mr. Tai, who apparently put the 1956 Budget together almost singlehanded and expects to do the same for 1957.

The recent moving of the Budget Bureau from the Department of Finance to the Presidency has not apparently increased its prestige, because one gets a very strong impression that the rest of the Government is not too impressed with the Bureau. There seems to be evidence that the agencies headed by relatively "strong" Ministers either ignore the Budget Bureau completely or have little hesitancy (and considerable success) in going over its head to get their own way.

A reorganization of the Bureau will not, of itself, completely change this situation, if it is as indicated above. Nevertheless, such a reorganization is necessary as a part of a re-orientation of the entire budget administration unto its role of all effective aim of management. This reorganization, however, should not be undertaken unless and until a new director is selected and ready to take over the active control and operation of the Bureau.

The proposed reorganization is predicated upon the assumption that the Budget Director is going to be a person of stature who has the confidence of the President and who can and will work harmoniously and closely with the Secretary of State for the Presidency. It is imperative that this person be strong enough to avoid subvience to the Secretary, but capable of working amicably even when there develop differences in points of views. He, like the Secretary, must be guided by the policy decisions of the President.

The type of organization proposed for the Budget Bureau is detailed in chart form.(14) This proposal has been submitted to the President through the Secretary of State for the Presidency. The latter advises that the proposal has been approved and its implementation is waiting (as recommended above) upon the selection of a top level person to head such a revitalized unit.

The proposed organization chart well speaks for itself and needs little elaboration. The principal duties of each office or unit may be listed as follows:

Reference Legislative

1. Review proposals for legislation from agencies to see if in line with President's program.
2. Review other legislative proposals and report on the probable effect, if enacted.
3. Pending development of full-scale Legislative operations to carry on research and statistical studies as assigned, by Director.
4. Assemble and operate library of preference materials.

Organization and Methods

1. Study and evaluate organization and procedures of governmental agencies.
2. Prepare plans for reorganization and improved operation procedures of the several agencies.

Politique Fiscale et Analyse

1. Study and analyse economic trends.
2. Evaluate likely impact of such trends upon budget

(14) Copies of this chart are available and will be left in Mr. Fishel's office.

and vice versa.

3. Review revenue estimates of Treasury Department.
4. Prepare Budget Message.
5. Forecast future budget outlook to serve as guide to development of budget policy.

Administration

1. Handle all "housekeeping" function - personnel files, space, supplies, accounting etc. - of the Direction General du Budget.
2. Reproduction and distribution of budget forms, memoranda and documents.

Directeur Adjoint

1. Represent directeur General in his absence, or upon delegation.
2. Supervise and be responsible for work of operating units in reviewing, preparing and executing budgets.

Services Pour le Fonctionnement

1. Represent the Directeur General du Budget in all matters relating to assigned agencies.
2. Study organization, programs and operations of such agencies in the light of executive budget policies.
3. Review and analyse annual budget requests.
4. Prepare recommendations for inclusion in annual budget.
5. Such other tasks as assigned.

Budgets Divers

(Same as Services Pour le Fonctionnement.)

In passing, it might be worth while to note that the basic concept is one of clientele, rather than process.

Under the proposed organization, the individual budget examiner, who is assigned responsibility for a particular agency is the key. He should be the principal and usual channel of communication with that agency and should be truly in charge of all budget operations pertaining thereto, subject, of course, to the higher authority of his superior within the bureau. Under no circumstances should any personnel of the staff units within the budget bureau have regular contact with agencies except and unless such has been requested or approved by the budget examiner responsible for such agency. This limitation is suggested in order to avoid the conflicts and confusion which seem inevitably to arise when two or more people from a central administrative agency have contact with a particular operating agency. This was demonstrated in the United States Bureau of the Budget and was primarily responsible for the reorganization of that agency in 1952.

As indicated above, there are about 28 persons in the Budget Bureau. Under the proposed reorganization, this number would be increased eventually to about 75 or 100. With the present scarcity of trained personnel the achievement of this reorganization will take some time. Nevertheless, it should be pushed as vigorously as possible utilizing even half-trained personnel. There is a very great amount of "on the job" training that can be accomplished during the next few years. Learning by doing may, at times give rise to some serious errors but it does separate the capable from the incapable in a hurry. Only by experience will it be possible to determine the precise number of employees needed in the central budget bureau, but, as a tentative guide, the following staffing patterns are suggested: The Director will need a couple of senior administrative assistants and corresponding secretarial persons. Similarly, the Deputy should have at least one personal assistant of junior grade, and a secretary. The staff units (Legislature Reference, Fiscal Policy and O and M) should probably be set up with three to five positions initially, with the future availability of the specialized skills required dictating their eventual size. It should be remembered, that these units should never be allowed to become so large as to dominate the Bureau. They should always be relatively small and be confined to advisory roles. The Administrative office will probably be the largest single unit because it will need a number of clerical and non-professional people to do the "housekeeping" chores of the Department. Initially, about 15 positions should be enough to get this portion of the operation underway.

The eight operative units will have variable needs for personnel, in accordance with their work loads. Generally, however, an attempt should be made to keep these units fairly equal, adjusting assignments (and the number of such units) to achieve this. On that basis, it is suggested that the units should have from five to seven positions each, although this may well prove to be inadequate.

Finally, the miscellaneous budget units, which is admittedly a vague grouping of the autonomous agencies and the relationships with the local budgets, might be staffed initially with about ten positions.

b) Relocation of Budget Bureau

The present location of the budget bureau on the palace grounds has the very great advantage of being close to the Secretary of State for the Presidency and the President. This helps to facilitate close day-to-day contact so that the policy decisions can be readily reflected in budget recommendations and operations. Nevertheless, the space presently occupied is totally inadequate even for the existing staff of some 28 persons. If, as recommended, the unit is reorganized and expanded to three or four times its present size, it is obvious that larger and more adequate space must be obtained. This is so patently indicated that further discussion and justification is deemed to be unnecessary. Therefore, it is recommended that the Budget Bureau be relocated in larger and more adequate quarters.

2. Establishment of an Effective Central Accounting Office.

One of the essential steps in the development of an improved system of financial administration is the establishment of an effective central accounting operation. This is an absolute necessity for making the execution of the budget meaningful. That this is long overdue is seen from the fact that in 1952, Walter SHARP wrote that "Stem's Controller has struggled valiantly for months to secure workable procedures for the fiscal administration of American aid moneys.(15) After four years of presumably continuing efforts on the part of STEM and its successor agencies, this is still an unsolved problem, as evidenced by the recent memorandum from USOM's director, Leland Barrows.

It should be clear that there is no pat scheme or

magic formula that can be proposed upon the spur of the moment and which will automatically control and prevent excess spending by the Vietnamese (or any other) government. As indicated previously, there is no chance of stopping this unless the Government wants to do so and, if it does, it does not use any new system. All the arguments as to why it is unable to do so are simply time consumers. If the United States is upset over the size of these "un-anticipated deficits" it has a very effective final way of stopping them - simply curtail or stop giving aid.

Of course the foregoing is not seriously suggested, because as noted earlier, it is not within the scope of this survey to indulge in speculation or advice on broad strategy - which USOM has reserved unto itself. Moreover, the writer is not an accountant and is reluctant to engage in prescribing accounting reforms (see discussion of Budgetary control system, below) to correct the present defective operation. This should be an assignment to be given to the accounting specialist who is to join the staff and be a part of the budget and accounting unit.

In the meantime, however, in order to get a fast start on what is going to be a difficult assignment for this accounting specialist, it is recommended, that Wayne Snyder devote part of his time, before Murphy arrives, doing a description of the Treasury's operations in respect to obligation accounting and control. It appears that the Treasury is the key agency through which the Government could control its spending. If Mr. Snyder could be given access to the inner operations, he could prepare a factual description of how matters are currently being handled. This would be invaluable to the accounting specialist. It is further suggested that USOM might want to assign some competent analyst to work with Mr. Snyder on this task. It might be helpful to USOM to obtain a clear factual picture of such an operation.

One final point in reference to the central accounting office. Such an office should be located - procedurally and physically - close to the budget bureau, preferably in office of the Presidency. It should be organized, staffed and equipped to the end that it can turn up periodic (weekly to monthly) statements of financial status of the Government. Such information will be essential, as the basis of budget preparation and operating decisions, at both the agency and budget bureau levels.

3. Establish Budget and Accounting Officers in all Departments.

One of the early steps that should be undertaken is the establishment of the position of Budget and Accounting Officers in each separate department or other independent agency of the government which does not now have such. Even where this ^{position} or a similar position now exists, it may be necessary to relocate and reestablish the position to conform to the new patterns of budget and accounting administration.

It is important that the agency budget and accounting officer be technically trained and competent so that he can advise the head of his agency as to the requirements in respect to budget and accounting procedures. But, and this is of overriding importance, such officers must be kept in positions subordinate to that of the operating heads of their agencies. In other words, these budget and accounting officers must function as staff to the operating officials who have the final responsibility for all phases of their operations, including budget and accounting. It would be a serious mistake to ever let a budget and accounting officer dictate to the operating head of the department; in such case he would, in fact, be the head. The agency budget and accounting officer will naturally need a number of assistants. How many and of what kind can not even be guessed at this moment. Certainly the number will eventually exceed the present supply and will have to be developed via the training program.

4. Personnel

It is quite clear that with an expanded Budget Bureau and a Central Accounting Unit, along with the enhancement of the budget and accounting positions within the operating agencies, there is bound to be a heavy demand for qualified personnel. It is also clear that, in the main, these personnel will have to be produced by a system of training such as described above. This process, however, is going to consume several years even under the most favorable circumstances. Consequently, there is a maximum value that attaches to any persons who already have abilities in either budget or accounting operations. A serious and determined effort should be undertaken immediately to uncover such personnel already available in the Civil Service and expedite their transfer to these budget- and accounting positions.

It is recommended therefor, that the director of the Civil Service be stimulated by whatever means necessary (including a direct order from the President) to prepare a list of all present personnel with the sought for qualifications. Special attention might well be directed to such agencies as Finance, Defense, Interior, the National Bank and other autonomous units which might have personnel with the proper training and skills.

A precise and detailed prescription of the qualifications needed is impossible because the functions to be performed in the budget and accounting jobs are varied and call for different skills. While there is a definite need for a number of persons with specialized skills in economics, organization and methods techniques, research and statistics and accounting theory, the great majority can, and preferably should, be more or less generalists. Among the principal qualities that all these individuals should have - and, again, the training program should be directed towards their development, - are: loyalty, willingness to serve anonymously; honesty; initiative; inquisitiveness; and tactfulness.

To be really successful, a budget examiner, or an accountant, should have a liberal amount of all of these qualifications. He must be loyal to the institution of the Presidency so that he can faithfully carry out the policies and programs of the President - even though he might personally find them to be distasteful (In such event, he can always resign and be free to criticize; something he should not do while a member of the staff.) He must be the type of person who gets his personal satisfaction from a job well done - even while others (his superiors) get public credit. Impeccable honesty of course goes without saying; honesty, intellectual as well as moral. The examiner and/or accountant must also have the ability and willingness to take hold of a problem and wrestle it through to a conclusion while asking all possible questions concerning it. Tactfulness is the quality that will enable him to obtain information and still receive a friendly greeting upon a subsequent return. Such, in brief, are some of the qualifications needed. It is not sufficient that the individual have the skill at adding figures or checking laws. He must be able to think through problems and understand the whys and wherefores so that, when required, he can prepare and present an intelligent evaluation and recommendation concerning any activity of the government. This is why it is so important that some of the best brains in

the government be channeled into these budget and accounting positions.

5. The Nature of the Budget System.

It is well here to note, briefly, the nature of the budget system that should be developed. In contrast to the existing object - code, line-item budget currently in vogue, the President has indicated a desire to have one in which he can effect changes in programs. As he put it, "I want to be able to contradict the propaganda of the Viet-Minh who say we are not doing anything for the people. Through the budget, I want to be able to direct so much for Health, Education, Land reform, and so forth and not have them lost in the maze of figures on personal services and materials".

There should be no confusing of the picture by the employment of catchphrases such as "performance budgeting". This, as yet, remains largely an abstract concept that has not been crystallized in any complete budget. Moreover, even in principle it is recognized, that to be achieved such a concept requires an elaborate cost accounting system. In the absence of reliable work load and cost data, such a system would be utterly impossible in Vietnam. Therefore, it is recommended, that the budget system to be proposed for Vietnam - regardless of what it is called be kept as simple as possible. It should probably be a combination of object-code, lineitem arranged by programs within a functional classification. This, however, is something that only time can tell and the writer would urge that the Vietnamese be encouraged to work out their own patterns along lines best suited to produce the kind of budget desired by the President. The important thing is that the budget be arranged to reveal what the Government is doing rather than for what things it is spending its money.

6. Major Provisions of Proposed System.

The principal features of a modern budget system have been outlined in the paper (16) recently given as part of the Presidential Lecture series. Although this is a very generalized and non-technical presentation, it serves to illustrate the basic outline of such a system and eliminates the necessity of a description in this report. On the strength of that paper, several recommendations have been incorporated into the series at the beginning of this report.

7. Specific Steps Toward 1958 Budget.

It is clearly too late to have any serious impact on the 1957 budget. At most, about the only thing that might reasonably be accomplished this year is to stimulate the government to get the budget prepared and approved in advance of the fiscal year (January 1, 1957). It might also be possible, if the accounting specialist is available in the early fall, to help them devise and set up a budgetary control system (see discussion below) to more effectively administer the expenditure program and, by keeping it in line with revenues, avoid any unanticipated deficit. Attention should therefore be directed to the early accomplishment of those specific steps that might help to improve the 1958 budget. In such undertaking, of course, action should be limited to helping the responsible officials rather than doing the jobs for them.

Among the several particular actions which might be suggested to the Vietnamese in connection with their 1958 budget are: a) Preparation and announcement of presidential budget policy; b) Preparation and issuance of budget circular to guide agencies in submission of requests; c) Revision of Budget Calendar; d) Separation of National and Local Budgets; e) Revamping of Budget Document; and f) Create an effective budgetary control system.

a) Presidential Budget Policy

If the budget is to be made an effective instrument of executive management, a prerequisite is the development and issuance of a statement of goals and objectives by the President. It should be stressed time and again, so that there is no possible misunderstanding, that the development of a modern budget system does not, of itself, automatically (and painlessly) solve all the problems. Rather, all the budget can do -if operated properly - is to develop and pose the basic decisions. These, however, must be made by, or for, the president. As of the moment, seemingly, many of these are being made by default. What is now needed is a system where they can be done positively by the proper authority - the President.

To this end, the attention of the budget bureau should be directed to a listing and definition of these major problems and their apparent priority of importance. These should be presented to the president as early as possible so that he can make an intelligent (and not too hurried) decision as to the program emphasis of the government for 1958.

Specifically, this problem should be approached by the development of 1958 budget forecast. To be done properly, it should include the most reliable information on the revenue yields and expenditure requirements, so that a determination can be made as to the over-all level of budget expenditures and the means of financing. It should be the responsibility of the budget bureau to prepare such a forecast, but it should have the full backing of the president in getting necessary information from other agencies (revenue estimates from the Department of Finance, for example). Through the services of qualified people like Professor Lindholm, MSU can render invaluable services in advising and assisting on such a difficult task, but in no event should it do the job for the government. It is only by doing, that the government and the personnel involved, will ever understand the many facets of the budget problem.

Once the forecast has been prepared, and presented to the President, it becomes his responsibility (and opportunity) to direct the government into those programs and policies that he wishes it to take. When his decisions have been made, they should be announced in the form of a policy statement that then serves as the basic guide to all agencies in the preparation of their budget requests. Agencies will be limited or stimulated to the extent that, the announced policies affect their respective programs and activities. So, also, this statement will be the yardstick by which the budget bureau measures and evaluates the several agency requests in its task of putting together a budget that is designed to carry out the President's program.

One final word on this point would be that MSU personnel should carefully avoid even an appearance of suggestions as to what the policies should be. To do so would be not only presumptuous but dangerous. What might appear to us to be a logical and sensible program, might be looked upon with extreme disfavor by the government. Because it is their budget we should not try to impose our views.

b) Budget Circular.

After the presidential budget policies have been announced, they should be followed by a circular from the budget bureau advising the agencies as to how to present their requests. The present budget system includes the issuance of such a circular, and the last one issued(17) (by the Minister of Finance) was not too

bad, although somewhat limited in scope. As a sample of what might be done, a new type of circular has been prepared and is attached(18) to this report. This is frankly an adaptation of the 1957 Philippine circular. It should be revised further to better fit the Vietnamese situation. In this connection, there should be considerable revision of the Vietnamese budget forms in order to facilitate the development of program data. Mr. Snyder has been working on this problem and should continue to do so in cooperation with the personnel of the Budget Bureau. To minimize the problems of transition, an effort should be made to utilize the present type of forms, modified to conform to the program presentation.

c) Revision of the Budget Calendar

If the fiscal year is going to remain synonymous with the calendar year, there must be a considerable change in the budget schedule. This will be particularly true if, as and when, the legislative body gets involved in the budget review and enactment process.(19)

It is suggested that the Budget Bureau and the President be persuaded to start the process not less than one full year from the beginning of the year being budgeted. No attempt is made here to prescribe time allotments for the several phases. This can best be done as experience unfolds. What is important, however, is that there be sufficient time for each phase so that the budget can be prepared, reviewed, and submitted and enacted sufficiently in advance of the fiscal year to allow for the setting up of allotment and accounting controls.

d) Separation of National and Local Budgets.

One of the most needed reforms in the present budget operations is the separation of the national and local budgets. The present situation wherein the several provincial and other local authorities are able to spend - without effective supervision and control - with the national treasury responsible for covering any excesses, is intolerable.

A start along this line has been made by the abolition

(18) Appendix "E".

(19) See footnote (4) above.

of the regional organization and budgets.(20) As soon as possible, the budgets of the other local units should be completely separated from the national budget and the respective governmental jurisdictions made responsible for the major part of their own financial support. Because it would probably be impossible to do this abruptly, and because national interests would probably be best served by keeping some control over the functions and finances of these local units, it is suggested that a system of grants-in-aid for specific purposes be established. These should be spelled out clearly and simply. The national government should specify the purposes for which such grants will be available, the standards that must be met as a prerequisite to being eligible thereto and the amounts that will be provided. Such amounts should be established annually along with other parts of the national budget and should be determined in the light of the overall budget picture and their relative importance therein.

e) Revamping the Budget Document.

The present budget document (1344 pages for 1956) represents a distinct improvement over those of recent years. It is a tribute to the good and conscientious effort of Mr. Tai and attempts to provide some explanations as to what the overall budget picture is and what is being attempted. Good as it is in comparison with earlier documents, the Vietnam budget is in need of further overhauling and revamping. It can be made more comprehensive by telling and the fiscal facts, unpleasant though they may be, in ample and readable fashion.

The budget document should begin with a budget message(21) which should clearly and completely tell the overall budget story. This should include a clear presentation of the current fiscal situation along with the best possible assessment of the period being budgeted. It should spell out the objectives of the Government and how it proposes to try and reach them and at what estimated costs. It should also indicate how these anticipated expenditures would be financed and clearly show all of the revenue from existing and, if necessary, proposed sources. All of this should be done in terms of the programs, activities,

(20) It is speculative as to how effectively this order has been implemented. One hears reports that the regional operations have continued, in spite of the decree. If so, the question might well be raised as to how they are being financed.

(21) A rough outline of what such a message might cover is included as Appendix "F"

projects or services which the government expects to carry on. This presentation should not be in such proliferation that no one can understand. If it is decided to continue a very detailed (line-item, object-code) type of budget, there should be prepared and issued a "budget-in-brief" which reveals all of the essential information noted above. Unless the government is willing to divulge its financial operations to its citizens, and to the world, there must inevitably be a suspicion that something is wrong.

During the course of the fall and winter, Messrs Murphy and Snyder should work with Budget Bureau personnel in laying out the style and format of the budget document. Meanwhile, as the budget process develops, the Budget Director should concern himself with the task of preparing a budget message.

f) Budgetary Control System.

Practically everyone with whom the writer has discussed the Vietnam budget has testified to the urgent need for an effective system of controls that will prevent deficits. This testimony is so general and so insistent that the writer fears there is a gross misunderstanding of the capacity of any system - no matter how good - to function so effectively. As indicated above, the system, itself, is not as important as is the desire and intent of the government officials who operate it. If the French budget system lays stress on any particular aspect or phase, it is expenditure control. This same trait has been inherited and retained by the Vietnamese(22). Yet, in spite of these excessive precautions, the system does not really control. All it does, in fact, is breed confusion as to who is responsible for decisions and cause delay in the processing and payment of expenditure documents.

There is little point to developing and installing a system of control unless there is something to control. In brief, but certainly not to coin a phrase, "first things come first".

Logically, there should be no attempt to establish the kind of budgetary control system described below until the budget preparation job has been successfully undertaken. However, as a possible means of providing a little earlier relief, the budgetary system might be attempted in connection

(22) See Wayne Snyder's description, op. cit. supra.

with 1957 budget. One of the difficulties that will be encountered is the establishment of controls for the present large number of "appropriation accounts".(23) It would be helpful if these could be reduced in number. The philosophy of modern budget administration is a budget document that contains all the information in whatever detail the authorities (usually legislative) desire, but appropriation bills with a relatively small number of "lump-sum" accounts. This facilitates the accounting task and, at the same time, provides a sort of "built-in" flexibility which is necessary to enable the operating units to shift rapidly to meet changing conditions.

Assuming for the moment that we had either "program" appropriations or "lump-sum" amounts for personal services, materials and special items, the following is a brief description as to how the budgetary control system works.

First of all, each agency keeps a complete accounting of all obligations on a budgetary control record that is prescribed by the central accounting office on a uniform basis (and in cooperation with the budget bureau). The budget is prepared in terms of standard accounts so that, when enacted, the budget items correspond to the accounting classifications. As soon as the budget is enacted into law, the central accounting office proceeds to establish a separate account for each and every item of appropriation. Meanwhile, the budget bureau sends out to each agency an allotment schedule on which it lists the total annual appropriation for each account. These allotment schedules are designed to show quarterly or monthly allotments of the annual appropriations. Each agency prepares its own schedule and, by not later than a date indicated, returns the original and 2 copies to the budget bureau.

At this point the budget examiners review the proposed rates of spending and the explanation as to how the agencies expect to operate. This review is to make sure that the funds are distributed realistically over the year, to accommodate each agency's peculiarities of operating needs and that, at the same time, the agency will not run out of money. If these appear to be in order, and if the examiner sees nothing wrong in the proposed operating statement that accompanies and describes the allotment schedule, the Budget Director approves. He sends the original to the central accounting office, one of the copies to the agency and retains a copy. This approved allotment schedule is the agency's authority to spend. It can proceed to pay its employees or buy goods and services etc., in accordance with the plan reflected in the budget and the allotment schedule.

All spending documents (payrolls, invoice-vouchers etc) originate in the operating agency on forms prescribed by the central accounting office but must pass through the central accounting office where they are "encumbered" against the allotment. As long as there are allotted funds that are unencumbered, the central accounting office will pass the spending documents to the officer who issues the checks (usually the Treasurer).

Responsibility for the wisdom, or lack thereof, in the expenditure belongs exclusively with the operating agency, it gets the credit or the blame. If a spending document arrives at the central accounting office and, in the process of "encumbering" the allotment, it is found that there is not enough unencumbered balance of allotment, the accounting office refers the document back to the originating agency or to the budget bureau. When there is no available balance, the obligation is not processed so that, unless some way is found to cover it, the originating officer (the head of the particular agency) is personally responsible.

It might well happen that this situation occurs before the end of a quarter other than the 4th, or last. In such cases, the agency - if it has a convincing case - may be able to get an adjustment by moving a sufficient part of a subsequent quarterly allotment up to the current quarter. Such practices are dangerous because, if allowed indiscriminately, they would vitiate the whole process and fail to prevent exhaustion of the annual appropriation before the end of the year.

The advantages of this form of control are obvious. Each agency is required to keep its own accounts so that it can know the exact condition of its own affairs. It does this by posting all obligations to its own budgetary control records as they occur. At the end of each month, it prepares a report showing the exact status of its accounts and forwards this to the Budget Bureau where it is analyzed to see if any danger signals are flying. If the examiners believe so, they call the agencies in for a review and to see what steps should be taken (by the agency) to correct the situation. Upon the basis of these monthly reports, the budget Bureau can determine the rate of obligation or expenditure and, comparing this with the monthly report of actual versus estimated revenues, whether the Government is operating in the "black" or "red". On the basis of such comparisons the indicated actions can be taken to avoid a year-end deficit. If revenues are below estimates, allotments can be reduced.

Such, in extremely brief fashion, is a rough outline as to how a good, simple budgetary control system should operate. To establish such a system will take months of painstaking work designing forms, writing manuals of procedures, installing individual agency records and other related tasks. Over and above all of this, and assuming it were successfully and completely installed, its effective operation would depend entirely upon the technical competence of the personnel and the willingness of the administration to enforce its sanctions. The most drastic of these sanctions is the complete cessation of an agency's operations, if, as and when it over-spends. The medicine is bitter, but effective.

VI. SUMMARY AND CONCLUSION

By way of summary, it is reemphasized that the primary role of the budget and accounting unit should be the development of all phases of the training program. The unit should be available to advise and consult with the government at its request on specific phases of improvement to operations. It should not be allowed to take the responsibility for such operations, but should be restricted to advice and counsel with the proper government officials always being responsible for any and all actions undertaken. If this policy is adhered to MSU will be able to make a positive contribution without running the risks of incurring the displeasure of the Vietnamese by seeming to push its ideas and views onto an unwilling government. Whoever tinkers with the reform and modernization of the budget and accounting system, will be striking deep into the heart of the governmental operations and will inevitably arouse strong opposition. MSU should not let itself be maneuvered into the position of becoming a target of that opposition.

APPENDIX A
PRELIMINARY DRAFT

OUTLINE OF COURSE IN BUDGETING

General Plan: 1/2 to 3/4 hour lecture and 1/4 to 1/2 hour discussion).

FIRST WEEK

FIRST CLASS:

1. General orientation and announcements
 2. Description of material to be covered
 3. Definitions and brief history
- Ref. - See Charlesworth P. 321 - 323

SECOND CLASS:

1. Theory and Purpose
Ref: - V.O. KEY "Lack of Budgetary Theory"
H.D. Smith "The Budget as an Instrument
of Legislative Control and Executive
Management"
H.D. Smith and others: "Symposium on
Budget Theory"

SECOND WEEK

TWO CLASSES:

1. The Budget Process and Philosophy
Ref: - A.H. Holcombe "Overall Financial Planning
through the Bureau of the Budget"
Allan D. Manvel "The Philosophy and
Essentials of Budgeting"
Arthur Smithies "The Budgetary Process in
the United States"

THIRD WEEK

TWO CLASSES:

1. Budget Organization
 - a. In the Total Governmental Structure

- b. Internal Organization of Budget Agency
- c. Budget Units in Operating Agencies
 Ref: - A.E. Buck - "The Budget in
 Governments of Today"
 Norman Pearson - "The Budgeting Function
 in the Department of Agriculture"

FOURTH WEEK

TWO CLASSES:

The Budget Document Ref: - Use several actual budget documents including Vietnam - to bring out standard points

FIFTH WEEK

FIRST CLASS:

Development of Budget Policy
 Ref: - Pfiffner and Presthus - "Public Administration"
 P. 357 - 440
 Fritz Morstein Marx - "The Bureau of the Budget.
 Its Evolution and Its
 Present Role"

SECOND CLASS:

Budget Classifications and Types
 Ref: - Charlesworth "Governmental Administration" P.
 338 - 343

SIXTH AND SEVENTH WEEKS

THREE CLASSES:

Budget Preparation
 A. Guidance by Central Budget Agency
 (1) Policy Advice
 (2) Forms and Instructions

EXAMINATION - 1/2 hour

SEVENTH AND EIGHTH WEEKS

THREE CLASSES:

Budget Preparation (Continued)
 B. Action by Operating Agencies
 (1) Program planning
 (2) Development of Cost Estimates
 (3) Development of Work Units

NINTH WEEKTWO CLASSES:

Budget Review

A. Within Agencies

B. By Central Budget Agency and Chief Executive

TENTH WEEKTWO CLASSES:

Budget Authorization and Enactment

Ref: - E.C. Banfield - "Congress and the Budget -
a Planner's Criticism"

ELEVENTH WEEKFIRST CLASS:

Budget Execution - General Discussion

Ref: - Municipal Finance Offices Association "Municipal
Budget Procedures and Budgetary Control"
A.E. Buck "The Budget in Governments of Today"

SECOND CLASS:

Allotment Systems

Ref: - Michigan Allotment Forms and Practices

TWELFTH WEEKTWO CLASSES:

Budgetary Control

a. Decentralization of Responsibility

b. Kind of Records

c. Operation

Ref: - Michigan Budgetary Control Forms and Practices

THIRTEENTH WEEKFIRST CLASS:

Central Accounting

Ref: - Lloyd Monney and Orval W. Diehl "Municipal
Accounting"

SECOND CLASS:

Pre-Audit

Ref: - Hoover Commission Reports on Budgeting and
Accounting

FOURTEENTH WEEKFIRST CLASS:

Revenue Accounting

SECOND CLASS:

Financial Statistics and Reports

FIFTEENTH WEEKFIRST CLASS:

Post-Auditing

Ref: - Lent D. Upson "A Municipal Auditor-General"

SECOND CLASS

Final Examination

SUGGESTED BIBLIOGRAPHY ON BUDGETING

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APPENDIX "B"
PRELIMINARY DRAFT

OUTLINE OF SHORT COURSE IN BUDGETING

(IN-SERVICE-TRAINING)

(Classes of 10 - 15; Six to ten, 2-hour Sessions)

- I. The Role of the Budget
- II. Budget Classifications
- III. Budget Organization
- IV. Budget Preparation
- V. Budget Review, Enactment and Execution
- VI. The Role of Budget Personnel

The Role of The Budget.

- Not only to control expenditures
- but also to serve as the arm of the Chief Executive in managing the Government and its operations.
- Discuss "Traditional" pattern of control, in the sense of limiting expenditures. Point out that the system does not work when emphasis is upon recording authorization rather than really governing and regulating expenditures by determining how much can be spent for various services and then making sure that the tap is turned off when allotments are used up - even if the agency personnel go unpaid.
- Budget can be an effective instrument of expenditure

1 - by management)	control if the budget prepa-
2 - by legislative bodies)	ration is properly done and
		budget is well and effectively
		executed.
- Budget, used as a tool of executive management is best means of expenditure control. Difference is that job is done positively instead of negatively.

II. Budget Classifications

- Traditional Kinds
 - 1) Function; 2) Organization; 3) Fund;
 - 4) Character; and 5) Object.
- Discussion of Advantages and disadvantages of each.
- Program Budgeting - New Classification - Background
 - Hoover Commission - Performance
 - Good Idea - Difficult to Achieve
 - Need tremendous volume of workload data and cost accounting
 - Actually idea is old and has been used in municipalities on certain kinds of activities for many years. Forest service used ideas.
- Less difficult is program budgeting where work to be done is described in overall end-product type of program, or activity, or project rather than solely in terms of object code
- discuss advantages and disadvantages.
- transition to Program Budgeting

- should be gradual but steady; usually more difficult where legislative body is used to object-code.
- Discuss tendencies of committees to get lost wrangling over minutiae of positions and telephone bills etc. Instead of important things like services being provided or purchased.
- Vietnam has wonderful opportunity to get legislative body off to good start. Give it budget that makes it easy to see what Government is actually accomplishing.

III. Budget.

- 1) Location of Budget Agency
- 2) Relationship with Chief Executive
- 3) Relationship with other agencies
- 4) Internal Organization
 - a) Present
 - b) Proposed (use chart)

VI. Budget Preparation:

- A. Budget Policy
 - 1) Formulation
 - 2) Announcement
- B. Budget Circular.
 - 1) Forms and Instructions
 - 2) Budget Calendar
- C) Action by Agencies:
 - 1) Conformance to Policy
 - 2) Goal and Objectives
 - 3) Participation by Supervisors
- D) Action by Budget Agency.

V. Budget Review, Enactment, and Execution

- A. Review by Agency
- B. Central Budget Agency
- C. By Chief Executive
- D. Enactment
 - 1) Form of Appropriation
 - 2) Need for Flexibility

APPENDIX "C"

SOME ASPECTS ON MODERN BUDGET ADMINISTRATION

Frank M. Landers

Given as part of a lecture series
for Government Executives of Vietnam

June 20, 1956

1426

Outline of Lecture

on

SOME ASPECTS ON MODERN BUDGET ADMINISTRATION

Five Propositions to Remember:

1. Staff Functions Are Aids to Management
2. Authority Should Accompany Responsibility
3. Decisions Made at Lowest Level
4. Operations Should be Simple
5. Personnel Should Be Informed and Should Participate in Program Development

Budget Administration Divides Into Five Categories:

1. The Budget Document
 - (a) Comprehensive
 - (b) Simplified
 - (c) Readable
2. The Budget Calendar
3. Budget Preparation
 - (a) Budget Policy
 - (b) Agency Preparation
 - (1) Responsibility of Agency Head
 - (2) Conformance to Executive Policy
 - (3) Statement of Goals
 - (4) Priority of Needs
 - (5) No Overpadding of Requests
4. Budget Review
 - (a) Within Agency
 - (b) At Budget Bureau
 - (c) By Legislative Body
 - (d) By Public
5. Budget Execution
 - (a) The Allotment System
 - (b) Agency Responsibility
 - (c) Central Accounting and Responsibility

Summary

- E. Budget Execution:
 - 1) Allotment System
 - 2) Budgetary Control
 - 3) Central Accounting
 - 4) Auditing

The Role of Budget Personnel

- A. Budget Examiners and Officers
- B. Qualifications:
 - a) Honesty
 - b) Loyalty
 - c) Inquisitiveness
 - d) Tactful
- C. Dual Role
- D. Knowledge
 - a) Legal basis of agency activities
 - b) Organization charts
- E. Power and Influence

SOME ASPECTS OF MODERN BUDGET ADMINISTRATION

The announced title of today's lecture is much too ambitious to be achieved in the limited time available. At the outset, therefore, I am taking the liberty of amending the title to read "Some Aspects of Modern Budget Administration."

Before undertaking this discussion of budget administration, I would like to list five propositions for you to keep in mind. These propositions, or principles, are applicable to all phases of financial administration. In fact, they apply to any phase of administration--public or private.

The five propositions are:

1. Staff functions, such as budgeting, exist not as ends unto themselves, but rather as aids to management in producing better operating results throughout the government.
2. Authority to make decisions and to take action should be vested with those responsible for program accomplishment.
3. Decision-making on operating problems should be done at the lowest possible level of administration.
4. Operating controls should be direct, simple and intelligent.
5. Personnel should be kept informed as to objectives and purposes and should be given the opportunity to participate in program development.

Think about these five propositions while I discuss some of the principal features of modern budget administration. Consider the extent to which these concepts exist in your budget administration. Try to evaluate their merits--if any--and see if you can come to any conclusions as to whether or not it would be wise to incorporate any that are not a part of your system. If you disagree, do not hesitate so to say. Remember the whole purpose of these lectures is to discuss and exchange ideas that might help to improve governmental operations.

The discussion of budget administration can be

divided into five major categories:

1. the budget document,
2. the budget calendar,
3. budget preparation,
4. budget review, and
5. budget execution.

1. The Budget Document

Modern developments in the field of budget administration point to a budget document that is (a) comprehensive, (b) simplified, and (c) readable.

To be comprehensive, the budget document must be complete. It must contain a budget message which spells out the entire fiscal plan of the government for the budgeted period. It must show all the facts--even those which are unpleasant from a fiscal or political standpoint.

In these days of conflicting international viewpoints, defense activities generally take the largest share of national budgets. Even so, it is poor budgeting to develop defense and non-defense needs separately because to do so destroys the over-all balance. The budget document should cover all revenues regardless of the sources and expenditure for every purpose from all funds. In short, it must reveal the entire financial operations and proposed work program of the government for the present and projected future. If it does less than this, it is fatally defective.

A budget document might do all the foregoing in a very complex and intricate fashion. In fact, it is not uncommon to find some budgets which do tell all the facts but which do so in such deliberate confusion that even the financial experts have difficulty understanding them. Modern standards require the document to be presented in simplified style. Thus, a document which proposes lump-sum appropriations for definite and described work projects and programs is much more meaningful than one which lists every personnel position and all the objects of expenditure without revealing the purposes for which

it will be spent.

For example, it is much easier to understand a budget which proposes to spend X number of piasters for Y number of vaccinations for malaria, smallpox, etc..., than one which simply states that it will employ so many doctors and nurses and will buy needles, sterilizers, etc...

Again, the document must be readable if it is to meet modern standards. Few citizens can afford the time to go through hundreds or thousands of pages of figures and complicated descriptions in order to find out what the budget document says. Therefore, many jurisdictions issue a "Budget in Brief," which is a short, easy-to-read summary of the detail in the main budget document.

2. The Budget Calendar

Although some phases of budgeted programs--such as capital outlay projects--will take more than a single year to effectuate, the year is the usual budget period. The important thing about the budget calendar is that the process should be started early enough so that the budget may be authorized, and in operation by the beginning of the fiscal period.

As governments assume more and more activities and their operations become more complex, the time required for a satisfactory completion of the budget cycle seems to grow ever longer. In a real sense, it can be said that the budget process is a permanently continuing one.

It is not unusual to find a particular jurisdiction working on three separate yearly budgets. Thus, the central budget agency might be closing the books on the fiscal year that just ended; it would be in the process of executing the then current budget; and finally, it undoubtedly would be undertaking the preparation of the next year's budget.

Even more complicated is the problem of the operating agency. It has or should have begun the planning of the work programs that will underlie the budget requests well ahead of the time the central budget agency sends out its call for the submission of the requests. This might be 18 months before the budgeted year begins. Normally, the central budget agency begins its collection of agency requests about a year in advance, and the finished budget

document is submitted to the legislative body about 3 to 6 months ahead of the start of the budget year.

3. Budget Preparation

The work of preparing the budget falls easily into two main sub-divisions; these are (a) budget policy and (b) agency preparations.

Budget policy is the exclusive prerogative of the Chief Executive. It is up to him to define the goals and objectives toward which he wants to direct the government. In arriving at these, he must, of course, give some consideration to the general economic, as well as the over-all international and domestic, situations. The economic conditions certainly will affect the revenue side of the budget. Similarly, it is his responsibility to establish and list the order of priority for the means of achieving these goals and objectives. This is specially true in situations, like that in Vietnam, where the prospective expenditure needs are greater than the indicated revenue yields.

The foregoing remarks should not be construed to mean that it is always necessary--or even desirable--to have a "balanced budget"; that is, in terms of income and outgo. As you well know, there are times in the affairs of nations when it is not only desirable, but necessary, to stimulate the economy by spending more than the revenues. The important thing is that these expenditures be wisely directed. This is why it is necessary that full control of the budget policy be vested in one person--the Chief Executive.

While the executive budget policy is the theme which provides the basis for a unified program, the key to the job is the preparation done by the several agencies. If the original requests are properly prepared, the chances are the resulting budget will be good. On the other hand, if the initial job is poorly done, no amount of effort by the central budget agency can completely overcome its defects.

The work of budget preparation by the several agencies can be described in five parts: (1) responsibility of agency head, (2) conformance to executive policy, (3) clear statement of agency goals and estimate of costs, (4) priority of needs, and (5) no over-padding of requests.

These several points are largely self-explanatory. Nevertheless, it might be helpful to underscore them with a few notes. First of all, it is essential that the head of the agency understands what is in the budget request. His signature on this request is, or should be, evidence that the submission represents his best judgement as to what his agency needs to comply with the policies enunciated by the Chief Executive in his budget policy message. Although the agency head may delegate to the agency budget officer the authority for getting this job done, he cannot divest himself of the responsibility for seeing that it is done correctly.

Second, the wise agency head will build his request by calling in all his supervisory personnel and making known to them the agency's goals and objectives, which are fashioned to conform to the over-all budget policy, and then directing each to spell out what he thinks he needs, in order to do his share of the assignment. In other words, the job of building the budget request is started at the lowest operating level, where the work of carrying out the agency responsibilities is handled. Most important is the fact that all the key personnel in the agency have a part in its development and therefore will tend to be more interested and intelligent in its execution.

Priorities can and probably should vary from year to year as the conditions at which the activities and programs are aimed also fluctuate. The annual budget preparation is the opportunity for the agency--as well as the Budget Bureau--to review the need for continuation of existing programs as well as the justification for establishing new ones.

By listing priorities, the agency is able to guide the central budget agency to which activities to cut, if such becomes necessary.

Finally, all requests should be for the amounts the agency honestly thinks it needs. Over-padding of requests in anticipation of cuts by the central budget agency is inexcusable. It is far better to ask for what one needs, present a strong case supporting this request, and insist upon a fair hearing if cuts are necessary.

4. Budget Review

In a society that has been fully developed along democratic lines, there are four clearly divided levels

of review in the process of budget administration. These are: (a) within the agency, (b) at the budget bureau, (c) by the legislative body, and (d) by the public.

(a) Within the Agency

To be most effective, the process of review within the agency should be carried on at the same time that the work of preparation is under way. In other words, the lowest operating units prepare their statements of what they need and submit them to the next highest level of supervision for incorporation into the request of the larger unit. At that point, in the process of pulling together several requests, the supervisor, say, for example, the head of a bureau, should review to see if they conform to the policy guidance.

This process is repeated up through the several levels until it reaches the head of the agency. If it has been done correctly and if the review at each level was honestly carried out in the light of the executive budget policy as well as that of the agency, the result should be a request that completely expresses the views of the agency head.

(b) At the Budget Bureau

The major job of the central budget agency is to review the several requests of the agencies and ascertain as to whether they (1) are in conformance with the executive budget policy, (2) can be financed by the revenues anticipated in the coming budget period, and (3) are actually achieving their projected goals.

To do these jobs, the central budget agency needs a staff that is (1) large enough to handle the volume of work; (2) well informed about the programs, organizations, and procedures of the agencies; and (3) trained to do the job of applying the policies of the Chief Executive.

It is difficult--if not impossible--to say precisely how large a central budget agency should be. This is something that develops pragmatically over a period of time. Parenthetically, let me note that it is my personal opinion that your present budget bureau is grossly understaffed. It should be substantially increased in size and given a considerably different orientation.

Most important of the requirements pertaining to the

central budget staff is that it be composed of personnel who really know and have a sympathetic understanding of the problems faced by the agencies. Modern thinking is that each budget examiner should be assigned a particular group of agencies or programs and should become well informed as to their problems. It should be the job of the examiner to try to help the agency fulfill its responsibilities. In a sense, he should be the advocate of the agency.

It is also his duty as the representative of the Chief Executive to criticize failures and to recommend the curtailment or elimination of programs or activities which are no longer important or necessary.

The final phase of executive budget review is, of course, that done by the President. If the initial job of preparing the budget, and the first steps of the review process have been carried out properly, the review by the President usually is perfunctory. Occasionally, however, some basic policy problems arise, and these are finally disposed of by the President in the last phase of review.

(c) Review by the Legislative Body

In governmental structures where the legislative body has been established and is functioning, one of its most important tasks is the review and enactment or authorization of the budget. It is through this process that democratic countries exercise a control over executive policies. By granting or withholding funds in the form of appropriations, the legislative body can approve or disapprove of programs and policies and influence the direction of the government.

Because of the complexities of modern-day governmental activities, this is an area that needs improvement in many countries. Too frequently, legislative committees get lost in the details of personnel and materials rather than limiting their review to broad policies and programs. This is one of the major reasons for a good job of budget preparation--spelled out in terms of programs. Let us hope that the Vietnamese legislative body avoids these pitfalls and develops a truly effective system of budget review.

(d) Review by the Public

Although not organically a part of the budget administration process as such, in countries where the press and other communications media are free from authoritarian

control, the citizenry are able to exercise the ultimate review of the budget. To the extent that the people like or dislike the programs and policies expressed in the budget, their votes may be influenced in subsequent elections. This, of course, is democracy working in its simplest form, for it gives the citizens a chance to exercise a voice in the country's affairs.

5. Budget Execution

Once the budget has been approved--either by action of the Chief Executive, usually with a council, or by the legislative body--the process of execution thereof begins. In many countries, including Vietnam, it would seem that this process is somewhat like an obstacle course. There are so many different kinds of pre-audit or authorization of expenditures that it is truly a miracle as to how the operating agencies ever get anything accomplished.

Modern thinking on budget execution indicates that the process should be as simple as possible in order to expedite the business of the government. This can be done without losing control and without opening the door to dishonesty. The three most important elements of a modern system of budget execution are (a) the allotment system, (b) agency responsibility, and (c) central accounting and reporting.

(a) The Allotment System

Although many government officials seem to think they have a license, and a duty, to spend all the money, an appropriation of funds is really only an authorization to spend as much as is actually needed. The main instrument in the modern way of expenditure control is the allotment system. This serves to (1) prevent overspending and (2) insure that the funds are spent for the purposes intended.

As soon as the appropriation has been authorized, the central budget agency sends out allotment forms. On these, the agencies then indicate the rate at which they expect to spend the funds and the broad purposes of such expenditures. Allotments usually are for quarterly periods, although some jurisdictions require them to be monthly. The allotment schedule must show that the funds are apportioned over the entire year, in order to prevent exhaustion thereof before the end of the year.

In addition to the time aspect, the allotment schedule usually indicates the purposes or objects of expenditure.

When the schedules are returned to the central budget agency, it analyzes them to see that funds are apportioned over the whole year and that the purposes or objects are in line with the programs spelled out in the budget statement. This latter review is necessary to make sure that the funds are actually spent for the purposes intended.

If the schedule is found to be in order, or when corrected, it is approved. Usually, the original is sent to the central accounting office and a copy is sent to the agency. This becomes the agency's authority to spend.

(b) Agency Responsibility

Once the allotment schedules have been approved, it becomes the responsibility of the agency to carry out its program. In modern budget administration, the operating agency has complete authority to spend, so long as it stays within its allotment of funds, and carries out its authorized programs.

Today, it is becoming increasingly recognized that an elaborate system of pre-audit and administrative authorization by a number of control agencies such as you have here in Vietnam simply slows down the processes and, in the long run, fails to effectively control expenditures. More importantly, it shifts authority from the operating agencies, which are responsible, to staff officers who are sometimes more concerned with form than with substance.

It is the view of modern students of budget administration that the operating agency should be allowed to make operating decisions and then be held responsible for its activities.

(c) Central Accounting and Reporting

The way in which the operating agencies are held responsible is through the device of a central accounting system. As indicated previously, the original of the allotment schedule is sent to the central accounting office. It then establishes accounts for each agency and each appropriation.

When the agency wishes to spend funds--say for a payroll or to buy supplies--it initiates a spending document which must clear through the central accounting office to make sure that funds are available and that the purposes or object of expenditure are as approved.

The central accounting agency's "pre-audit" does not concern itself with the wisdom or lack thereof of the expenditure. That is the responsibility of the agency. If the agency's account shows it has money for the purpose of the proposed expenditure, the accounting unit passes the document for payment. If, however, it believes there is something wrong, it does not substitute its judgement for that of the agency. Instead, it sends the document either back to the agency for an explanation or to the central budget agency for review and investigation.

The central accounting unit does not try to run the government. It simply develops factual data and reports such to the responsible management authorities. It does this periodically, so that the latter can have current facts upon which to base its decisions.

Summary

Such, in rather cursory fashion, is the modern concept of budget administration. It places responsibility upon the Chief Executive to develop the over-all goals and policies. The budget has become a positive instrument of executive management and control rather than simply a negative device for limiting expenditures. As such, it serves to assist the operating agencies which are given authority commensurate with responsibility and then held accountable for proper use of funds and achievement of results.

You will recall the five propositions which I listed at the beginning. I believe the discussion illustrated these concepts in a number of instances. Let me ask you now, does your present system operate in this manner? If not, do you think there are any features of the system which I have outlined that you would like to see incorporated into your system? What are the weakness--if any--in your present budget system? How would you go about correcting them?

APPENDIX "D"

C I R C U L A R

Concerning the establishment of the Budget Preparation for the year 1955

Fore words

By the circular No 33-Cir/Cab/F. of Aug, 25th, 1953, the Government has fixed a unified form for the establishment of the Budget Project for 1954.

These instructions proved to be very convenient when carried out; the Budget Projects in 1954 were presented in the same form and paper size. During to this, their study and statistical work were much more eased than in previous years.

The Budget Project for 1955 will be established in the form fixed by the above-mentioned circular, with some new regulations to fit the existing situation created by the Geneva agreements and the decree No 21 of April 4th, 1954, which abolished the personality of local administrations and incorporated the Budgets of the different parts (of Vietnam) into the National Budget, from January 1st, 1955 forth.

Therefore, for 1955, only the following budgets remain:

1. National Budget
2. Budget of the P.M.S.
3. Budget of Saigon-Cholon
4. Budget of Danang City
5. Budget of Haiphong City (from 1 - 1 - 1955 to 5 - 22 - 1955)

Chapter I

Momenclature of the Budget

As local budgets will be incorporated into the National Budget from 1-1-1955 forth, the different articles of the Budget for 1955 will be altered according to the documents included hereafter (the list of the articles of the National B

Budget for 1955 has been sent to the various bureaux, joined to the note No 3384-BTO/NS of 12-2-1954).

As has been the case for last year, the Budget for 1955 will be presented on 20/30 paper size.

The printing and distribution of the forms will be carried out by the Minister of Finance. The various Ministries, the Deputy Agencies, the town-administration, the Agency for the PMS are required to let the Ministry of Finance know the numbers of forms they need when they need when they send it their projects.

Chapter II

A. As for last year, the National Budget for 1955 include two kinds of documents:

1. law and various legislative statements.
2. appended documents

the establishment of these must be done by the Ministry of finance using the documents turned in by the ministries and bureaux concerned, made in the 1954 model, i.e. including:

- a) 3 lists of legislative statements:
 - list A: for civil expenditures
 - list B: for military expenditures
 - list C: for the repartition of expected receipts

b) Appended documents: 3 categories

1/ Category 1 for expected receipts, including:

- a) summary tables in chapters of expected receipts.
- b) detailed analytical tables in articles and paragraphs of the above-said expected receipts

2/ Category 2 for civil expense, including:

- a) recapitulative table
 - in sections and chapters of projected expenses
 - of expenditures for personnel (model C)
 - of expenditures for material (model D)
 - number of personnel
- b) analytical tables:
 - of expenditures for personnel (model I, Ia, Ib, Ic)
 - of expenditures for material (model 2, 2a, 2b)

- 3/ Category 3 for expected military expenditures including: 1 analytical table of expected expenditures and 1 summary table of expected expenditures.

The total of expected expenditures in the National Budget for 1955 will be determined later, according to the amount of allowances and aid from friend-countries and will be given the last touch jointly by the Ministry of Finance and the Ministry of Defense.

- B. Formalities applied to the establishment of appended documents for receipts.

These documents will be presented in the same paper-size as the summary tables (model F and G) and will be established by taxation bureaux.

The different lists of expected receipts have to be turned in to the Ministry of Finance before 12-15-1954.

Proposals to increase taxes or to change basic activity to increase national income must be presented with documentary arguments:

- 1 report
- 1 project document
- 1 estimative list of expected receipt for the whole year

About this subject, I would like the Agencies to note:

- a) The expected receipts previously listed in local budgets, according to the nature of taxes and the amount of receipts for each Ministry.
- b) the profits made by technical agencies taken over from French authorities since 9-16-1954

- C. Formalities applied to the establishment of appended documents concerning civil expenditures.

These expenditures include:

- a) expected expenditures of the various Ministries and Agencies.
- b) expected expenditures of local agencies incorporated into the Ministries, by Ordinance No 21 of Aug - 4 - 1954

- c) expected expenditures of agencies taken over from French authorities on Sept 16th, 1954.

The expenditures for refugees still figure on the "Account for Assistance for Refugees" as for last year.

These expected expenditures tables have to be established in 2 copies and sent to the concerned Ministry to be transmitted to the Ministry of Finance.

The Agencies and Bureaux directly subordinate to the Ministry of Finance may establish and send those expected expenditures tables directly to the Budget Service.

The Ministries have to use necessary methods that the Ministry of Finance may receive all the expected expenditures tables before the Dec. 15, 1954.

- D. Formalities applied to the establishment of expected expenditures.

1/ Personnel

The amount of expected expenditures will be computed for the whole year, based on:

- the current wages including allowances, according to existing decrees.
- the number of personnel, except the refugeeed officials of Oct 31, 1954 (with copies of pay rolls of October 1954) and according to models I, Ia, Ib, Ic, Id, Ie, If, Ig, Ih, and Ii

The number of personnel in Agencies could not be increased except in case of temporarily recruiting cadre personnel in the form defined by cable No 7382 of July 27, 1954 and by Circular No 1035-PTT/TTK of Aug 5th, 1954.

In any case it is not possible to fix extraordinary expenditures as special allowances to the personnel.

For refugeeed officials, a list established after model Id, If, and Ih will be sent to the

Ministry of Finance (Budget Bureaux) in the same time as the expected expenditures for existing personnel.

2/ Material.

About this, our instructions in Note No 38 TC of Aug 13, 1954 should be strictly followed. Except for some special cases justified by clear documents, the expected expenditures can't exceed the expenditures granted in 1954.

The expected expenditures tables must be made after model 2, 2a, 2b, 2c, 2d, 2e, 2f and 2g and enclosed to the tables of expected expenditures and accounts for 1954, up to Oct 31, 1954.

The expected expenditures for some special articles will be as follows:

- a) Furniture purchase and repair.
- It is forbidden to buy luxury articles.
- b) Repairing of public cars: No purchase of newsmall cars
- Estimative repair expenditures for each: 12.000\$
- c) Driver's and messenger's leveries
- Basis of 850\$ per year for each person
- d) Repairing of typewriters, calculators and mimeographs
- Expected expenditures for each: 200\$

3/ Special expenditures

To the tables for these must be joined detailed documents in proof:

The following chapters, supported by the National Budget or foreign aid, must be established after model H x F and based on a working plan:

0.1523	0.2161	0.2162	0.2163	0.2183	0.2413	0.3113
0.3114	0.3133	0.3143	0.5113	0.5123	0.5163	0.5173
0.5183	0.5184	0.5185	0.5186	0.5187	0.5188	0.5189
0.6213	0.6313	0.6423				

Particularly for the following chapters; the Ministries and Bureaux must pay special attention to the following explanatory instructions:

Chapter 0.1413 - Expenditures for political operations.

The proposals about special funds must be sent to the Presidency to be considered and decided before going to the Ministry of Finance.

Chapter 0.2224. Allowances to various Budget.

As local budget are incorporated into the National Budget, the Deputy Agencies of the different parts have to submit the amounts of allowances for balancing provincial and municipal budgets.

Chapter 0.2225. The miscellaneous allowances are listed in a table according to model J.

4/ Expenditures of closed financial year.
- Use model K.

x
x x

Chapter III

Preparation of the PMS Budget and Municipal Budgets. These budgets must be prepared by competent Agencies and sent to the Ministry of Finance in 2 copies (written in French) (for technical reasons) before Dec 15, 1954.

These documents will be presented, as for last year, in former chapters and articles (except for changes mentioned in chapter I of this Circular), and include the following:

- 1 report
- 5 summary tables

- a/ summary table of expected receipts in chapters and articles
- b/ summary table of expected expenditures in chapters and articles.
- c/ summary table of expenditures for personnel
- d/ summary table of expenditures for material
- e/ summary table of the number of personnel

- analytical tables of expected receipts and expenditures

The expected expenditures for personnel, material and the especial expenditures must be computed according to the axplanatory instructions mentioned in the present Circular, in chapter II and prepared after appended documents.

Particular for the PMS budget, the following chapters must be prepared after model H and I and based on a working plan.

1.2433	1.2453	1.2483	1.3123	1.3153	1.5183
1.5187	1.5188	1.5189	1.6123	1.6133	1.6213

Chapter IV

Preparation of independent budgets

The independent budgets will be established according to the current forms, and sent to the Ministry of Finance in 2 copies written in French, before Dec 15, 1954.

As for joint-agencies whose status will be decided after the present Paris conference, the expected receipts and expenditures should be forecast only for the first trimester (quarter).

X
X X

Finally, I beg Messrs, the Ministers and Deputies (of the Governments in the Center and South V.N.), to notice the current deficit of the Budget, and to be careful in their estimation of their expenditures, especially on the outlays and allowances.

The Budget for the coming year still has to face heavy burdens of expenditures effected by the political, economical and social situation, while the revenues will be reduced through the partition of the Country, I hope that the Ministries and Agencies must diminate all the luxury expenditures, in order to spare resources to restore the national economy, to reform our society and bring back peace to our country.

Saigon, Dec 4, 1954
THE Ministry of Finance
TRAN-HUU-PHUONG

APPENDIX E
(TENTATIVE AND PARTIAL DRAFT)

R E P U B L I C O F V I E T N A M

BUDGET MEMORANDUM - No 1

ANNUAL BUDGET REQUESTS

OFFICE OF THE PRESIDENT

Direction du Budget

SAIGON, VIETNAM

Budget Memorandum No 1

To : All Agencies of the Government of Vietnam
 From : , Director the Budget
 Subject : Call for Budget Requests

Arrete No _____, dated _____, established the budget policy of the Government for the fiscal year 1957 and directed that all budget requests be submitted on a program basis, that is, in terms of the separate activities and projects being carried on or proposed for 1957. These instructions will supplement that arrete and will guide the agencies in preparing their requests. In a year or two, after the new procedures are formerly established, the instructions will be issued in permanent form.

The instructions briefly describe the main features of preparing the budget on a program, or activity basis. They attempt to furnish guidance on the following;

1. The Budget Process in Government Agencies
2. The Preparation of Requests
3. Development of Program Justifications
4. Definition of terms
5. Forms and their completion.

1. THE BUDGET PROCESS IN GOVERNMENT AGENCIES

Budgeting is essentially a planning process. It is the determination for a future period of time of (1) what is to be done, (2) what is to be accomplished, (3) the manner in which it is to be done and (4) the cost of doing it. It requires that the broad objectives of the agency be broken down into detailed work plans for each project and for each unit of the organization. Thus each responsible official and supervisor in the agency will have a plan of action, which, if successfully followed and combined with similar efforts in all organization units, should result in the agency meeting its overall objectives. The budget, therefore, is a monetary definition of the future plans of the agency.

Modern management concepts hold to the principle that managers, regardless of their level in the organization

structure, should participate in planning agency operations and then should be held responsible for achieving the goals set.

To assure that the budget is sound and workable from the standpoint of all parties concerned, careful attention to each phase of the budget process is required. To achieve the broad participation of responsible officials and to secure the necessary supporting material for making budget estimates within established time limits, a high degree of planning, coordinating, and scheduling of the work of budget preparation is required. Primary responsibility for seeing that this is accomplished rests with the heads of departments and agencies and with those designated as their budget officers.

The budget process in government agencies has four phases:

1. Planning - Establishing objectives within specified guides and limits.
2. Estimating - Determining the amount of personnel, materials, services and facilities required to meet these objectives and the master amounts needed to pay for them.
3. Reviewing - Ascertaining that the basic objectives, resource requirements, and master amounts are accurate and conform to overall guides and limits.
4. Operating - Accomplishing objectives within the masters provided by the approved budget.

The following procedure identifies the officials responsible for each phase and states the nature of their responsibilities. This procedure should be followed in organizing and scheduling the budgeting process in a department.

(1) PLANNING

Planning budgets is a management planning process which involves all officials and supervisors of an agency. Satisfactory results can be obtained only if (1) all responsible officials and supervisors participate in planning agency operations and (2) each official and supervisor accepts full responsibility for achieving the goals contained in the final plans established by proper authority.

Responsibilities for planning program budgets are assigned as follows:

1. Office of the President

- (1) The President will normally issue a fiscal policy statement establishing broad budgetary limits, areas *(see whole page is omitted here - this page is lost from original)*
- (2) The Direction Director will plan and develop with each Service Chief the detailed objectives and work programs to serve as the basis of estimates for the budget year. Consideration must be given to:
 1. Changes in emphasis and goals for the budget year.
 2. Reduction of specific backlogs.
 3. Changes in rate of work due to improved methods.
 4. Programs expanded in line with policy.
 5. Programs contracted in line with policy.

Any other factors significantly affecting the estimates should be discussed at this time.

- (3) The Direction Director will integrate the Service plans into the Director's approved plan for the Direction within the limits established by the Departmental Secretary and Presidential policy.
- (4) The Direction Budget Officer will assist the Direction Director in carrying out the above planning responsibilities. He is responsible for securing and presenting factual data on work progress, rates of production, cost information and personnel data as required. The Budget Officer acts for the Direction Director as instructed in scheduling each step in budget preparation and securing compliance with this schedule.
- (5) The Service Chief and other supervisory personnel will assist the Direction Director in preparing the preliminary plan. They will also prepare with the Direction Director the detailed plans for accomplishing objectives and work programs. Each Service Chief is expected to have readily available such information for the activities for which he is responsible as:

1. Changes in emphasis and goals for the budget year.
2. Reduction of specific backlogs.
3. Changes in rate of work due to improved methods.
4. Programs expanded in line with policy.
5. Programs contracted in line with policy.

Any other factors significantly affecting the estimates should be discussed at this time.

- (3) The Direction Director will integrate the Service plans into the Director's approved plan for the Direction within the limits established by the Departmental Secretary and Presidential policy.
- (4) The Direction Budget Officer will assist the Direction Director in carrying out the above planning responsibilities. He is responsible for securing and presenting factual data on work progress, rates of production, cost information and personnel data as required. The Budget Officer acts for the Direction Director as instructed in scheduling each step in budget preparation and securing compliance with this schedule.
- (5) The Service Chief and other supervisory personnel will assist the Direction Director in preparing the preliminary plan. They will also prepare with the Direction Director the detailed plans for accomplishing objectives and work programs. Each Service Chief is expected to have readily available such information for the activities for which he is responsible as:
 1. Analyses of the present status of work.
 2. Analyses of the present rates of production.
 3. Estimates of progress for the rest of the period.
 4. Projected work programs for budget year.
 5. Statements to support his forecasts.
- (6) The Service Chief will accept the approved work program for his Service as decided by the Direction Director.

(2) ESTIMATING

Estimating is that part of the budget process during

which the amount of resources required to carry out the plan is determined and the piaster amount to be requested is established.

Acting under the authority of the Secretary, the Budget Officer is the key person responsible for the satisfactory preparation of the estimate. His responsibility includes the technical preparation of the budget and the coordination and scheduling of all activities concerned with estimating.

1. The Direction

- (1) The Budget Officer will develop instructions specifically for the Service Chiefs and others concerned with the estimates, indicating the material each must prepare, and the form and manner in which it is to be submitted.
- (2) The Budget Officer will designate the portion of the work to be done by each responsible official.
- (3) The Budget Officer will prepare a detailed step-by-step schedule for accomplishing the work allowing time for necessary review and adjustment before submission on the deadline established.
- (4) The Budget Officer will follow progress closely to make certain that schedules for the production of various types of data are adhered to. He will keep the Direction Director informed of progress.
- (5) The Budget Officer will check all material for completeness and conformance to instructions. He will guide and assist in any reworking of materials that may be necessary to integrate the various sections into the final submission.
- (6) The Service Chief and other supervisors as instructed will prepare material for detailed schedules and will draft justification statements covering their areas of responsibility. The adequacy and soundness of material developed at this time is basic to the acceptance of the budget proposals during the reviewing phase following.

(3) REVIEWING

Reviewing budgets is that part of the budget process in which successively higher levels of the government management scrutinize the results of the planning and estimating phases. These multiple reviews are the means whereby the final national budget is "shaped into a harmonious program and fiscal policy for the executive branch as a whole" as stated in

_____. Data are rechecked for accuracy conformance to established guides and limits. Analyses are made to evaluate statements of resources required. Programs and projects are evaluated in terms of the overall needs of the government and the resources available.

The Department and Direction Budget Officers are the key persons responsible for developing plans and schedules for the review of all estimates.

1. Responsibilities for Bureau Review

- (1) The Direction Budget Officer will make detailed analyses and recommendations to the Direction Director concerning the estimates, pointing out any weaknesses, unrealistic estimates or non-conformance to agree upon plans or policies. The Budget Officer will schedule meetings between the Direction Director and the Service Chiefs for review and reconciliation of differences. At the conclusion of the Direction Director's review and approval of the final items to be included, the Budget Officer is responsible for insuring that the Direction submission is technically sound, mathematically accurate, and reflects the program and project decisions made by the Direction Director.
- (2) The Direction Director reviews the entire estimate for balance and consistency, conformance to policy, and adequacy of supporting justifications. The Service Chiefs will explain and defend their requests. The Direction Director will cause such changes to be made in the estimates as he believes necessary. He will at this point assume full responsibility for the entire estimate, and will approve the Direction estimate for submission to the Department Secretary. He will

explain and defend the Direction estimate to higher review levels during the balance of the reviewing phase.

2. Responsibilities for Department Review

- (1) The Department Budget Officer will analyse direction budgets to determine conformance to the Secretary's policy guides or fiscal limitations and will evaluate the adequacy of the justification material. He will discuss any questionable items with the Direction concerned. The Budget Officer will then summarize his findings for the Secretary and include such recommendations as are appropriate. He will schedule hearings and reviews of each Direction's budget by the Secretary and will assure that any changes directed by the Secretary are in-corporated in the estimates. Finally, he will prepare the transmittal document for the Secretary to forward the Department's budgets to the Budget Direction.
- (2) The Secretary will conduct hearings at which Direction estimates are presented and explained by each Direction Director assisted by his Budget Officer. The Secretary will decide in each case whether changes are necessary and, if so, will issue instructions for appropriate modifications. When all estimates have been approved, he will transmit them to the Budget Direction together with a supporting statement covering the Department's program as a whole. Such a statement should discuss major shifts in program emphasis, and should clearly explain unusual needs requiring special consideration.
- (3) The Direction Director and his Budget Officer will explain and defend the Direction budget in accordance with the hearing schedule established. The Direction Director and his Budget Officer will modify their estimates as directed by the Secretary. The Direction Director will accept responsibility for defending and carrying out the plans outlined in the finally-approved budget as transmitted by the Secretary to the Budget Direction.

3. Responsibilities during Executive and Legislative Review

- (1) The Secretary of the Department is responsible at the Cabinet level for the budget of his department.
- (2) The Secretary and Direction Directors will explain and defend the budgets to the Budget Direction.
- (3) The Departmental and Direction Budget Officers will assist as requested and maintain liaison with the Budget Direction.
- (4) The Service Chiefs will assist as requested in preparing for hearings, answering hearing questions or carrying out other special assignments in conjunction with the hearings.

(4) OPERATING

Operating is that part of the budget process during which action is taken to accomplish established objectives within the resources approved by the Congress. The budget, as approved by the Congress, thus becomes the controlling instrument governing program operations for a fiscal year.

Major responsibilities in this phase are assigned as follows:

1. The Direction

- (1) The Budget Officer will realign amounts allotted and objectives agreed upon for Direction programs and projects into operating budgets for each responsible organization unit. During the course of the year he will prepare periodic reports to the Direction Director and Department Secretary on the status of the work and the funds utilized.
- (3) The Direction Director will receive timely reports concerning the status of work accomplishment and expenditures compared with the objectives and budgets established for each responsible official. He will through such reports identify problem areas and take prompt remedial action when necessary. He

will be responsible to the Secretary, for accounting for significant deviations from planned accomplishments and expenditures.

2. The Department

- (1) The Secretary will also receive reports concerning the status of the work and expenditures. He will ascertain that appropriate remedial actions are being taken when necessary and will be responsible at the Cabinet level to the President for significant deviations from planned accomplishments and expenditures occurring in his Department.

2. POLICY ON ESTIMATES

- (1) The appropriation estimates shall be complete as to anticipated requirements on the basis of existing statutes. After the submission of the principal estimates, no subsequent supplemental estimates or amendments tending to increase the estimates will normally be considered. Estimates of income shall also be complete.
- (2) The general policies to be followed in establishing program goals for the budget year and the provision of men and materials to reach these goals normally will be promulgated by the President each year prior to the submission of budget estimates to the Budget Direction.
- (3) In addition to any general policies governing preparation of budget estimates, the heads of departments and chiefs of bureaus and offices should determine their specific budgetary goals in consonance with the President's program in their particular areas.

3. PROGRAM JUSTIFICATIONS

- (1) For each appropriation, there will be prepared a summary statement of authority, objectives and policies governing the work, followed by a narrative statement of description and

justification for each budget into which the appropriation has been divided in accordance with section 3 (6) of this circular.

- (2) The purpose of the justification statement is to explain and support the validity of the estimates to those who review and evaluate the programs and financial requirements thereof. The statement must therefore show the size of the problem and the need for the proposed program, the nature and amount of work to be done to meet this need, the way in which the work will be done, the cost, and the kind of expenses to be incurred.
- (3) It must be recognized that no two justifications will be prepared in the same manner, since a justification is a special statement relating to one particular project which is different from all other projects in the government. It is essential that the justification for each project be tailor-made to fit the circumstances of each individual case. No common pattern for preparing justifications is therefore possible. The statement must be one which will convince the Budget Direction and the Congress of the value of the particular services proposed, the economy of specific operations to be undertaken, and the essentiality of the particular amount of funds requested.

4. DEFINITION OF TERMS

The following definitions will be helpful in carrying out these instructions in respect to the completion of budget request forms.

- A. FUNCTION. One of the principal categories or classes into which governmental affairs are divided. Ex. Defense, Health, Education etc. one functional classes.
- B. PROGRAM. The major subdivision of a function. Thus, tuberculosis control is a program within the health function; and tax collection is a program with the general governmental (or administration) function.
- C. PROJECTS OR ACTIVITIES. These terms are used interchangeably. They are the main sub-divisions of PROGRAMS and are special undertakings designed to

accomplish specific parts of the program.

- D. APPROPRIATION TITLE. The descriptive phrase appearing in the budget document (and appropriation bills) to identify the major purpose - or program - for which the appropriation is to be used.
- E. CAPITAL OUTLAYS, CAPITAL EXPENDITURES. These terms refer to the acquisition, including architectural plans, of land and structures, as well as equipment with a life expectancy extending beyond the fiscal year and which add to the assets of the Government.
- F. CURRENT OPERATING EXPENDITURES. This applies to all purchases of goods and services, including some equipment, which are normally consumed during the course of the year.
- G. FISCAL YEAR (FY). The same as the Calendar year.
 - 1. Past Year (PY). The last completed fiscal year.
 - 2. Current Year (CY). The year in progress at time budget requests are prepared for the next fiscal year.
 - 3. Budget Year (BY). The fiscal year for which budget requests are being prepared.
- H. OBLIGATIONS. Any commitment of government funds, such as placing of orders, signing of leases, awarding of contracts, employment of personnel etc.

APPENDIX "F"

SUGGESTED OUTLINE FOR THE PRESIDENT'S BUDGET MESSAGE.

The following could serve initially, at least, as a sort of rough skeleton of a budget message. By itself, it means nothing and will not unless and until someone (the President or his Budget Director) puts the meat and muscle on the

1. Greeting

- Primarily if budget is to be submitted to a legislative body. In such event, it should be addressed to them for consideration, review, modification and enactment. However, it might be a general statement spelling out democratic aims, if Legislative body is not organized.

2. Statement of Objectives.

- The message should present the broad aims, goals, objectives, purposes for which the government is going to strive during the year being budgeted. Thus, for example, it might logically list and briefly discuss such objectives as:
 - A. Maintenance of strong defenses;
 - B. Continuation of internal pacification and restoration of order through the elimination of subversive elements;
 - C. Expansion and strengthening of the economy;
 - D. Raising the standard of living, while holding costs down;
 - E. Protection and development of forest product industry; and
 - F. Ditto - fishing, etc.

3. Summary of Recent Developments.

- A review of the recent political, social and economical developments, what has been accomplished to-date, and an assessment of the present situation. This might include an explanation of the impact of the military situation upon the overall picture.

4. The Fiscal Outlook for 1957 (or 1958)