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PLAN FOR REFORMING THE
ACCOUNTS, RECORDS AND
REPORTS OF NEW YORK CITY

A REPORT TO THE MERCHANTS'
ASSOCIATION OF NEW YORK BY ITS
COMMITTEE ON TAXATION AND FINANCE

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JANUARY 19, 1909

THE MERCHANTS' ASSOCIATION OF NEW YORK



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PLAN FOR REFORMING THE ACCOUNTS, RECORDS AND REPORTS OF NEW YORK CITY

(Accepted and approved by Board of Directors, January 21.)

NEW YORK, Jan. 19, 1909.

To the Board of Directors of

The Merchants' Association of New York:

GENTLEMEN :

YOUR Committee on Taxation and Finance reports as follows in relation to the City's accounting system.

The immense recent increase in the City's operating outlays has aroused most serious public concern. In ten years those outlays have increased from \$70,175,896. to \$140,449,731. A further increase of about \$13,000,000. has been appropriated for the ensuing year. While the City's operating outlays have increased 100 per cent. in ten years, the population has increased during the same period but 35 per cent.

Collaterally with this immense increase in acknowledged operating outlays, there has been a further hidden increase which does not appear in the City's expense account, because it has been covered into the outlays for permanent improvements. Every year considerable sums raised by the sale of bonds, ostensibly for permanent improvements and included in the public debt, are applied to operating expenses. In these cases the original expense outlay is increased by continuing interest charges, which by the time the bonds are paid, equal approximately 50 per cent. of the original amount.

While it is probably true that a part of the increase in operating expenses noted is legitimate and necessary, it has been conclusively shown by recent investigations of the Commissioners of Accounts, the Comptroller, and numerous extra-official bodies,

that much of the increase is traceable to waste. The opportunities for this waste arise primarily from the absence of an effective system of departmental operating and statistical records and analytical accounts.

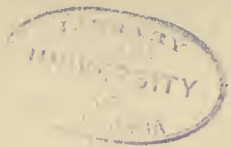
In the successful conduct of large corporations highly specialized operating records are found indispensable for determining the outlays of services, time and materials properly required for producing a given result. Such operating records develop units of cost and accurate standards of comparison, and thereby expose any element of waste. Without such records, intelligent control of outlays is impossible. In default of them endless opportunities are afforded for waste, extravagance and even corruption.

Many concrete examples to illustrate this might be cited. Among them are the following:

In the recent examination by the Commissioners of Accounts of the affairs of the Borough of the Bronx, it was developed that no proper records were kept with a view to securing economy and efficiency in the care of the sewers, the repair and maintenance of certain classes of streets, and the care of public buildings. It was further developed that the labor cost in the care of streets was from 200 to 900 per cent. in excess of the proper cost; and in the care of sewers, over 100 per cent. in excess. It was shown that six watchmen, doing no other work, were employed to watch two adjoining offices. To keep clean the Municipal Building, with 52 rooms, 33 cleaners were employed at a cost of \$402.18 per year for each room; the average yearly cost of keeping clean similar rooms in a large private office building being \$20.07.

The significant fact is that these outlays were authorized by the Board of Estimate and Apportionment in the form of lump sum appropriations, on the recommendation of the Borough President; and that in the absence of analytical records the Board of Estimate and Apportionment could not possibly detect the wastefulness of the outlays to which it gave its approval.

No intelligent person of business experience will dispute the proposition that economy and efficiency in business management is impossible without the aid of suitable analytical records and accounts based thereon, adapted to show in detail the elements of



cost entering into each outlay, to afford standards of comparison, and to exhibit the economic results attained by such outlay.

The City of New York has no comprehensive system of analytical records and accounts adapted to the promotion of economical administration, and your Committee believes that the waste which has been shown to exist cannot be permanently prevented and the present excessive operating outlays reduced to a normal and legitimate basis without a fundamental reorganization of the City's accounting methods, which shall provide

- 1: Controlling and Summary Accounts in the Department of Finance.
- 2: Departmental operating and statistical records and reports which shall exhibit all operations in detail with reference to their efficiency and economy.
- 3: Departmental accounts correlated with the operating records.

THE necessity for a searching reform of the City's accounting system is conceded by the City authorities, and a creditable beginning has in fact been made by the Department of Finance with the extra-official aid of the Bureau of Municipal Research. It is admitted by the Comptroller that to complete the task will require the services of a large staff of specially qualified experts during a period of several years. It has further been demonstrated that political influences are actively opposed to this reform, and that by the operation of those influences the Comptroller was for a long time prevented from retaining the services of necessary experts.

The existing condition of obscurity and confusion is peculiarly favorable to abuses which have their root in political favoritism and the reform proposed will tend to destroy those abuses. It may, therefore, be reasonably anticipated that the political interests which are threatened will, in the future, as in the past, covertly impede the proposed reform. It has been shown that even when the incumbent of the Comptrollership is in sympathy with the work of reform, his purpose may be obstructed by the withholding of appropriations and lack of co-operation. Assum-

ing a Comptroller subject to hostile political dictation, it is obvious that no genuine reform would be effected.

Your Committee therefore believes that the reform of the City's accounting should be entrusted to a temporary special Commission to be created under an Act of the Legislature, clothed with such power as to be absolutely secure against adverse influence or obstruction until its work is completed; and a plan for such a Commission is submitted:

PLAN FOR A
COMMISSION TO DEVISE AND INSTAL A SYSTEM OF ACCOUNTS,
OPERATING AND STATISTICAL RECORDS AND REPORTS
FOR THE CITY OF NEW YORK.

Number and Qualifications.

Five or seven members. Preferably business men of high standing and of proved ability in the management of large business affairs. In addition, Comptroller to be ex-officio a member.

Appointments and Tenure.

Appointments to be made by Comptroller. Vacancies to be filled by remaining members. Tenure during good behavior.

Duration of Existence of Commission.

Until completion of work, but not to exceed five years.

Compensation of Commissioners.

To be fixed by Supreme Court.

Powers and Duties of Commissioners.

To appoint, and fix the compensation of, a secretary, counsel, accountants, engineers, clerks, and such other assistants as may be necessary, such appointments to be exempted from the provisions of the Civil Service Laws.

To examine into the functions, organization and operation of every division of the City Government, including the local Courts, and those parts of the County Governments whose expenses are paid by the City.

To subpoena and examine under oath any City official or employee.

To examine the books and papers of any City office (or County office as aforesaid).

To devise :

(a) A system of controlling accounts for the Department of Finance.

(b) A system of operating accounts for each Department, Bureau, Board, Commission or other division of the City Government.

(c) A system of operating records for each division (as above) adapted to show all the physical facts affecting efficiency and economy.

(d) A system of reports for each division which shall set forth in prescribed tabular and statistical form, for each fiscal period, and in comparative form for a series of years, in summary and in detail, all the financial, operating and physical details pertinent to a full exhibit of the efficiency and economy with which the division is administered.

(e) To instal and put in operation in each division as speedily as practicable, the systems and forms so devised.

Devolution.

Upon completion and installation of a complete system of accounts, operating records and reports for each division of the City Government, the existence of the Commission to terminate and the supervision, maintenance and modification of the system devised by the Commission to thereafter devolve upon a Bureau of the Department of Finance.

Expenses and Disbursements.

The Commission, from time to time, to certify to the Board of Estimate and Apportionment the sums of money required by the Commission for the proper prosecution of its work, and the Board of Estimate and Apportionment to be required thereupon forthwith to appropriate such sums for the uses of the Commission. Disbursements to be made by the Comptroller from such appropriations, upon certificate of the Commission.

YOUR Committee is of the opinion that a Commission of prominent business men would be best qualified for the end in view, and most satisfactory to the public; and it suggests that in the event of the authorization of such a Commission, the Comptroller would doubtless be willing to select the appointees from names submitted to him by a number of the principal business and civic organizations of the City.

Your Committee calls attention to the highly efficient aid afforded to the Comptroller by the Bureau of Municipal Research in revealing existing defects in the City's financial and business methods; and also to the valuable aid which it has given to the Comptroller in devising and installing improved accounting methods in the Department of Finance and through it in the other City Departments. It is the opinion of your Committee that the entire reorganization of the City's accounting system could be effectively done by that Bureau (which is an extra-official body, without legal powers) provided that it could be assured of the support of future Comptrollers and guaranteed against obstructive influences.

We therefore recommend that there be prepared and presented to the Legislature a Bill for a temporary Commission to devise a system of accounts and of operating and statistical records and reports for the City of New York, in accordance with the plan set forth above.

Your Committee further recommends that if this Report be approved by you, it be referred back to your Committee with power to act when and if your Committee thinks expedient.

All of which is respectfully submitted.

JOSEPH FRENCH JOHNSON, *Chairman*,
F. A. VANDERLIP,
NATHAN BIJUR,
HERMAN A. METZ,
WILLIAM B. HOWLAND,
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