

255
all consumed and new road construction had to cease for the time being.

Expenditures from 1923 to 1927 (B)

During the biennium ending June 30, 1925, expenditures for current operations of the departments had so increased that none of the increase of revenues, amounting to B.1,746,000, could be used for capital purposes, as had been done in the previous biennium. They had to be employed to defray immediate expenses. For the purpose of continuing road construction and erecting an Archives building, a loan of four and one-half million balboas was negotiated. But there was no deficit in the ordinary fund at the close of 1925 and the Treasury was in a sound condition.

The next biennium, however, that of 1925 - 1927, closed with a deficit of about three hundred thousand balboas, and this notwithstanding that revenues increased nearly two billion balboas. This gain in receipts was due principally to an increase of one-third in the rates on import duties and to a general increase in the liquor and property taxes. Unfortunately, the increase in ordinary operating expenditures not only kept pace with the increasing revenues but outstripped them by more than one million one hundred and eighty thousand balboas. To be added to this increase of expenditures is a net increase of four hundred and twenty thousand balboas of outstanding and unpaid accounts at the end of the biennium, making the total increase in ordinary current operating expenses slightly more than three million six hundred thousand balboas. The result was a deficit.

During this period there were rare borrowings. For the purpose of extending the Chiriqui Railroad and continuing road construction the government borrowed about five million balboas.

Present Situation (1927 - 1929) (B)

During the present biennium the rising tide of expenditures has become alarming. With only three-quarters of the biennium completed, ordinary ex-

penditures are now only B.1,250,000 less than for the whole previous biennium. At the present rate ordinary expenditures will have reached at least sixteen million balboas by the time the period closes on June 30, 1929. Present prospects are for a carry-over into the next fiscal period of unpaid bills and outstanding obligations somewhat in excess of B.1,350,000, which is B.500,000.00 in excess of the amount of floating indebtedness brought forward from the previous fiscal period, and which means of course that the unbalanced condition of the Budget which existed at the end of 1927 has been ~~further~~ aggravated.

According to a statement supplied by the Fiscal Agent, dated April 12, 1929, the unpaid bills and floating indebtedness of Panama amounted on March 31, 1929 to B.1,357,235.33. On this date the Treasury was overdrawn in its bank account to the extent of B.147,698.95. The number and amount of vales or notes issued by the Government upon current obligations has increased considerably during the last few months and the total of outstanding short obligations is increasing.

Since the revenues for the last three months of the present biennium probably will not be sufficient even to meet the ~~payroll and other fixed~~ expenses accruing during the same period it may be assumed that the outstanding floating indebtedness and unpaid obligations at the close of the year will not be less than B.1,350,000. They will more likely approach B.1,500,000.

It is true that as an offset to the increase in expenditure which is occurring during the present biennium there has been an extraordinary increase in revenues which will probably bring the receipts close to sixteen million balboas. The increasing amount of revenue collections is due largely to the unusual influx of tourists and the presence during the winter of 1928-1929 of the entire American fleet in waters adjacent to Panama. It may be doubted whether revenues will continue at this high figure during the next biennium. It is probable that the Government cannot expect their continuance.

Expenditures during the first six months of the last year of the present biennium have increased considerably over those of the first half of the biennium. This is due to substantial salary increases granted by the last legislature, to an increase of personnel, and to a general rise of expenditures in all departments. The expenditures for the first half of 1929 were at the rate of nearly ten million balboas a year or twenty million balboas a biennium. Evidently the present rate of expenditures cannot be continued without the risk of grave consequences.

HISTORY OF THE PUBLIC DEBT. (A)

It will be seen from the foregoing sketch that Panama had on hand at the beginning of her existence as an independent government the best of gilt-edged collateral to offer as security for any loan that she might care to negotiate. This was the "Constitutional Fund" of \$6,000,000, which was invested in first mortgages on New York real estate. But she did little borrowing during the first decade.

To be sure, the country was undeveloped, without productive farms or mines or factories, lacking most of all roads and railways ^{to} /interconnect the different parts of the country and connect the interior with the outside world; but no foreign loans were negotiated until 1914. Only a number of small internal loans were floated. In 1914, however, soon after the United States made its first annuity payment on the Canal, a foreign loan was negotiated by Panama and secured by the first pledge of that annuity.

The Foreign Debt. (B)

Loan of 1914. (C)

This loan of 1914 was for the sum of \$2,250,000 and it was borrowed for the purpose of constructing the Chiriqui Railroad, a road to connect David, the capital of the rich province of Chiriqui, with the port at Pedregal. It was made by the Farmers Loan and Trust Company of New York. It was at

158
18

five per cent, and was to run for thirty years, the bonds being due in 1944. Amortisation and interest charges amounted to B.190,259.00 annually. As stated above, it was secured by the Canal annuity of B.250,000 which the Republic of Panama receives in perpetuity from the United States.

Loan of 1915 (C)

Another loan was negotiated in the United States in 1915 for the sum of B.1,200,000.00 at five per cent and an initial discount of four per cent. This was to be paid in nine years at the rate of B.130,000.00 each December, except in 1925, when the sum to be paid was B.160,000.00. This loan was made for the purpose of refinancing existing internal debts.

Public Debt @ 1919 (C)

At the close of the fiscal year 1919, the public debt of the Republic of Panama, according to the "Memoria de Hacienda y Tesoro" published in 1920, was as follows:-

Balance of loan for the construction of the Chiriqui Railroad - - - - -	B.1,947,500.00
Balance of loan of B.1,200,000.00 for the payment of the interior debt - - - - -	940,000.00
Amount due the Government of the United States for the construction of water and sewer lines and for the pavement of streets in the Cities of Panama and Colon - - - - -	2,034,031.11
Balance of loan of United Fruit Company for Public Works in Bocas del Toro - - - - -	696,000.00
Other items of internal debt - - - - -	<u>1,463,955.00</u>
Total - - - - -	<u>B.7,031,536.11</u>

Of this total public debt of B.7,031,536.11 only B.2,337,500.00 represents foreign loans. The amount due the United States was for work done by the Canal Zone authorities. Under the terms of the treaty the United States was to be reimbursed gradually, with interest at 4 per cent, over a period of fifty years, by the regular water taxes collected of the public. In

view of the circumstances this debt may be considered in the category of internal debt.

The amount advanced by the United Fruit Company for public improvements in Pecos del Toro (port facilities) is of a like character, since the improvements and arrangement for them were proposed by the Company, and the sum is of the nature of an advance which with other items of the same kind is being gradually liquidated by the Company's taxes.

Loan of 1923 (C)

The next foreign loan was made chiefly for the purpose of carrying on road construction already begun from revenues between 1919 and 1921. It was for the sum of B.4,500,000 and was authorized by Law No. 4 of 1923. The specific roads which were to be constructed were enumerated in considerable detail in the law. Also, a part of the proceeds of this loan was to be used for the purpose of retiring the small balance of the loan obtained in 1915, and was so expended. This loan of 1923 was obtained at five and one-half per cent from the Guaranty Trust Company of New York and was to run for thirty years. The interest and amortization charges amount to B.231,000 annually for the first twenty years. It was secured by a first lien on the revenues of the B.6,000,000.00 "Constitutional Fund". The income from this fund, during the past nine years has been as follows:

<u>Fiscal Years</u>	<u>Amount</u>
1920	320,332.11
1921	324,334.19
1922	304,939.59
1923	329,320.34
1924	331,724.30
1925	314,896.24
1926	312,397.27
1927	230,003.34
1928	293,660.21

It will be seen that income from this source has been more than sufficient to meet the interest and amortization charges of the loan, but in case it should

prove insufficient, the payments are further secured by a secondary lien upon the Canal annuity.

First Loan of 1926 (C)

In 1926 more money was borrowed for carrying on the railroad project in Chiriqui and for other public works in the provinces. Two foreign loans were negotiated that year. The first authorized by Law No. 27 of 1924, was for the purpose of extending the Chiriqui Railroad and constructing a wharf at Puerto Armuelles. The principal amount of this loan was \$2,600,000.00. It was obtained from the firms of Kissel, Kinnicutt & Co., and Bauer, Pond and Vivian of New York. It was at the rate of six and one-half per cent and was to run for thirty-five years, amortization and interest to be paid in monthly installments of \$17,333.33. It was secured by a first lien on the income of the Chiriqui Railroad, by stamp taxes, and by duties on exports.

Second Loan of 1926 (C)

The second loan of 1926 was made pursuant to an authorization contained in Law No. 9 of 1926. It was negotiated for the purpose of retiring the outstanding National Defense Bonds (a part of the internal debt); for continuing the construction of the Chiriqui Railroad; and, for constructing an aqueduct in Bocas del Toro. The principal amount of this loan was \$2,200,000. It was obtained from Kissel, Kinnicutt & Company, and Bauer, Pond and Vivian. It was at the rate of six and one-half per cent and was to run for thirty years, the interest and amortization charges to be paid in monthly installments of \$14,666.67. It was secured by a first lien on the liquor taxes.

Loan of 1927 (C)

In August, 1927, money was borrowed abroad for the purpose of building a dock at the port of Aguadulce. It was a loan of \$148,000^{and} was obtained from a Canadian firm. It was to be paid off in semi-annual payments of \$12,000 each. The loan will mature in 1933. It was secured by a first

lion on the collections at the port of Aguadulce.

Loan of 1928 (C)

Seven months later, the largest loan yet made in the history of Panama was negotiated.

Law No. 5 of 1928 approved on March 23, 1928, authorized the Executive Power of the Republic, to contract a loan for the aggregate principal amount of \$16,000,000.00.

(1) To redeem, in the form, and in the time allowed by the respective contracts, the six and one-half per cent bonds issued in accordance with Laws No. 27 of 1924 and No. 9 of 1926;

(2) To continue to the City of David the National Central highway, already finished up to the City of Santiago, with the necessary bridges, culverts and other works;

(3) To construct all the works authorized by Articles No. 1 and No. 3 of Law No. 4 of 1923, and any others that may be in force in this matter;

(4) To extend the central highway, which passing through the City of David, shall terminate at a place in the Province of Pocas del Toro to be indicated by the Engineering Commission of the Central Highway Board (Comision de Ingenieros de Junta Central de Caminos); and

(5) To redeem the loans contracted by the Nation in 1914 and 1923, under authority of Laws No. 29 of 1913, No. 1 of 1914, and No. 4 of 1923, under certain conditions. "(Quoted from the Fiscal Agency Contract of the Loan)."

The loan described above has been negotiated with The National City Company of New York, of which \$12,000,000.00 has been issued at five per cent and is to run for a period of thirty-five years, maturing in 1963. Interest and amortization charges are payable in semi-annual installments of approximately \$333,000, due on November 15 and May 15 of each year until the principal is paid.

262
This loan is secured as follows:-

263
A. A first and prior charge on the revenues derived from the Retail Liquor Tax (impuesto de venta de licores al por menor).

B. A first and prior charge on the net revenue from the operation of the National Railway from Chiriqui to Mabo de Fuerce or Puerto Amuelles and of the wharf at the latter port.

C. A first charge on the net income from export duties (derechos de exportacion).

D. A first charge on the proceeds of the stamp tax (derechos de papel sellado y timbre).

E. A second or third charge as the case may be on the annual Treaty payments of \$250,000.00 receivable from the government of the United States, subject to prior claims.

F. A second charge on the net interest, income and revenue of all investments constituting the principal of the "Constitutional Fund of Panama," subject to prior claims.

Provided, however, that the revenues enumerated in paragraphs A, B, C and D are subject to commitments entered into by the Republic in connection with the loans issued in accordance with the terms of Law 27 of 1924 and Law 9 of 1928 (which said loans are to be retired as of Dec. 1, 1928) so long as any of the bonds issued under the terms of either of said loans are outstanding and not called for redemption." (Briefed from the Fiscal Agency Contract of the loan).

Although all of the foreign loans have been secured by specific liens upon certain revenues, no occasion ever has arisen for segregating these revenues. The service of all loans has been regularly met from the general fund into which all revenues are received.

The Internal Debt (B)

The internal debt has fluctuated from year to year. One of the principal items of this debt was the local issue of the National Defense Bonds at the time of the border dispute with Costa Rica in 1921. The principal amount of this issue was \$3,500,000.00 and the interest rate was eight per cent. These bonds were oversubscribed locally, and have been fully retired.

Other items of the internal debt consisted of advances made by the United Fruit Company and the Panama Brewing Company; deposits made by the Compania de Navegacion Nacional, and the Chiriqui Land Co., the amounts already due the United States Government for improvements made by the Canal Zone in the Cities of Panama and Colon; and for outstanding accounts representing current government expenditures.

Contingent Liabilities (B)

In addition to the foregoing items of public debt the Government of Panama has a contingent liability upon the mortgage bond issues of the Banco Nacional, which is wholly government-owned, and for the Bank's other liabilities. At the present time (March 1929) this Bank has outstanding bond issues amounting to approximately \$4,000,000.00.

The City of Panama has bonds which are outstanding to the extent of \$1,000,000.00 issued in June 1927 for the purpose of consolidating the floating debt and for general municipal improvements. These bonds bear six and one-half per cent interest and were offered by Redmond & Co., of New York, The National City Bank of New York acting as fiscal agent.

Article 130 of the Constitution of the Republic of Panama reads as follows:

"Municipal Districts are autonomous as to their internal affairs, but they cannot contract debts without the authorization of the National Assembly."

Public Debt - December 31, 1928 (B)

The following table indicates the status of the National debt as of December 31, 1928:

External Debt:

Loan of 1914 outstanding	B.65,000.00
Loan of 1923 "	4,267,000.00
Loan of 1927 "	124,000.00
Loan of 1928 "	<u>11,944,500.00</u>
	B.16,430,500.00

Internal Debt:

Panama Brewing Co.	125,000.30
United Fruit Company	109,166.69
" " "	120,000.01
" " "	45,000.00
Canal Zone for Public Works - Panama	940,506.62
" " " " " - Colon	<u>786,562.77</u>

Deposits: (Trust Funds)

National Navigation Company	50,000.00
Anti-Tuberculosis Fund	15,661.43
Other	124,240.54
National City Bank (Local)	<u>50,000.00</u>
	B.379,902.36

Flloating Debt:

Estimated Outstanding Obligations Dec.31,1928 -	<u>1,000,000.00</u>
Total - -	<u><u>B.19,776,438.36</u></u>

Contingent Liabilities:

Bonds of Banco Nacional	B.2,000,000.00(*)
-------------------------	-------------------

Interest and Amortization:

Interest on all loans during fiscal period 1929-1931-	1,722,025.00
Amortization on all loans " " " " " -	<u>572,499.86</u>

Total - - - B.2,294,524.86

(*) Another million dollars was issued subsequent to Dec. 31, 1928.

Summary (B)

Thus we see that on December 31, 1928 the Republic of Panama had a total outstanding indebtedness of B.19,776,438.36 and in addition contingent liabilities estimated at B.2,000,000.00.

The amount of interest on the public debt for the biennium 1929-1931 will amount to approximately B.1,722,025.00 or slightly over eleven per cent

265-
19

of the estimated revenues. The debt reduction for the same biennium amounts to approximately B.572,500.00 or three and three-quarters per cent of the estimated revenues. Thus the public debt service will require nearly fifteen per cent of the estimated revenues for the next biennium, (1929-1931).

PANAMA'S PRESENT PROBLEMS (A)

That the fiscal period 1925-1927 ended with a deficit and the fiscal period 1927-1929 with a larger one clearly shows that reform is necessary in the management of the finances. Two questions are uppermost, to-wit:

First, how shall the Government deal with the current deficit?

Second, What course should be adopted to prevent the recurrence of deficits?

Three possible ways are conceivable in which the Government of Panama might undertake to deal with the present situation.

- 1) By negotiating another loan;
- 2) By increasing revenues; or,
- 3) By reducing expenditures.

It is unanimously agreed to be unsound policy to borrow money for current

running expenses, and heretofore Panama has not found it necessary to do so. The loans so far negotiated have been made for the purpose of carrying on public works, with a view to developing the country. We believe that through careful and courageous administration, if prompt action is taken, that not only can ordinary expenditures hereafter be held within the amount of revenues, but the present deficit can gradually be wiped out as well. We advise, therefore, against new loans for the present, not only for current expenses but even for new building or engineering projects.

To increase the revenues would, of course, be a pleasanter way of meeting the situation, if it were feasible.

The revenue laws are discussed later, but at best considerable time must elapse before changes in these laws could produce results.

As we see it, the only practical way of dealing with the immediate situation is by reduction of expenditures. The tentative estimates submitted by the several departments of their needs for the biennium ending in 1931 total B.29,738,504.49. The budget estimate of revenues places them at B.15,000,000, which must be regarded as a high figure, since the total for the biennial period ended June 30, 1927, was less than B.15,000,000, and the latest figures available, although showing a current increase, do not indicate so large an increase. While it is true that the tentative estimates of expenditures by the departments always are subject to revision, even the estimates as revised by the Fiscal Agent indicate an expenditure program of B.18,829,940.45, which does not include all of the salary increases granted by the last assembly or new contracts lately made. On the basis of a conservative estimate of revenues of B.15,250,000.00 this would indicate a deficit at the end of the period of about B.1,750,000.00. Obviously something should be done immediately to reduce the present scale of expenditures.

From study of the situation and from conference with heads of the government offices, we believe that it would be entirely possible to reduce the

267
21

200

salary list twenty-five per cent, without hampering in the least the operations of the Government. Inasmuch as the annual government payroll is approximately four million balboas, a personnel reduction of twenty-five per cent means that the weight of a million balboas would be immediately removed from the expenditure side of the account and the budget would swing quickly into balance. We also indicate elsewhere in this Report a number of places where we believe other reductions in current operating expenses may be made. If these steps were taken by administrative officers to tighten up on collection of revenues, the National Treasury of Panama would soon be in gratifying condition.

BUDGETARY PROCEDURE AND ACCOUNTING CONTROL. (A)

Need for Budgetary Reform (B)

The outstanding need of the nation in connection with control of its finances is the adoption of a sound budgetary and accounting procedure. Under such procedure authorized expenditures are limited by the total amount of conservatively estimated revenues and actual expenditures are held within the amounts of such authorizations. All progressive governments now base the administration of their finances upon a budget system, as the Constitution of Panama contemplates.

The failure to establish a systematic financial program in recent years has resulted in a growth of a general disregard for authority over expenditures and the Departments ~~xxxxxxx~~ have been incurring obligations practically ~~xxxxxxxxxxx~~ without regard to authorizations. The outlook at present is that the biennium of 1927-1929 will close with a deficit, and the only reason that serious deficits have not occurred in former years was that revenues have exceeded estimates.

In the following paragraphs the present budget and accounting system is described, and the plan proposed to remedy the existing defects is outlined

Present Plan (C)

The National Budget is prepared for each fiscal biennial period (July 1st to June 30 of the second year following) by the Secretary of Finance and Treasury (Hacienda y Tesoro) with the cooperation of the Fiscal Agent (Agente Fiscal) in accordance with constitutional and statutory provisions. The budget consists of two sections, namely, (1) Receipts Budget, which is based upon the actual receipts of the Government for the preceding fiscal period, and (2) Expenditure Budget, which is based upon the estimates of needs submitted by the heads of the several government departments. When completed, the budget is submitted to the Cabinet Council for consideration. It is then put in final form for presentation by the Secretary of Finance and Treasury to the Assembly within the first ten days of the ordinary session, which is held every two years beginning with the first day of September.

Under the provisions of the Constitution, the Assembly has the power "to make appropriations for the expenses of the administration on the basis of the estimates presented by the Executive, conforming or not to said estimates." The same authority gives to the Cabinet Council the power during the period when the Assembly is not in session to issue supplemental and extraordinary credits increasing the Expenditure Budget. There is, however, no explicit requirement that either the Assembly or the Cabinet Council shall keep approved items of expenditure within the limits of estimated receipts. The law explicitly provides only that the expenditures for any item of the budget may not exceed the amount authorized and prohibits the transfer of amounts from one item to another.

For four of the biennial periods during the past ten years the Assembly has failed to pass a budget. Notwithstanding this fact, it has enacted considerable general fiscal legislation in which the expenditure of funds has been authorized. This has been done without first developing

a sound, coordinated financial program, as the budget system contemplates, with a careful limitation of proposed expenditures within the total of funds probably available. Furthermore, executive decrees establishing supplemental and extraordinary credits have been issued in like manner, thus further confusing the financial situation, until the point has been reached where the established budget machinery of the nation has practically ceased to function.

It is our opinion, therefore, that the present budget and accounting plan should be replaced by one ~~based upon~~ which is more definite and effective in its requirements.

Proposed Plan (C)

A sound budget plan contemplates (1) the establishment of a balanced program of government expenditures based upon the anticipated receipts of the country conservatively estimated, and (2) the establishment of such control over receipts and expenditures as will guarantee that all collections of revenues and all disbursements of funds shall be properly accounted for.

We are of the opinion that for the purpose of establishing such a budget system in the Republic of Panama two laws should be passed, namely: (1) an organic budget law, and (2) a law creating the Office of Comptroller General and reorganizing the government accounting and auditing procedure. Copies of the proposed laws will be found in the appendix.

In view of the failure of the present laws to prevent Treasury obligations from being incurred in excess of available funds, we believe that certain restrictive provisions should be specifically included in any budget and accounting plan which is adopted. The provisions recommended are as follows:

1. Preparation of the budget by the Comptroller General under the general direction of the President, the budget to be based upon the anticipated receipts of the government and upon the estimates of

government needs submitted to the Comptroller General by the heads of the several departments.

2. Inclusion in the budget in detail of the estimated receipts and expenditures of all activities of the government except the receipts and expenditures of the Banco Nacional, all items of a general nature to be held to an absolute minimum.
3. Exclusion from the budget of estimated proceeds from foreign or domestic loans, and proceeds from any other similar credit transactions, and of the expenditures from such funds.
4. Limitation of the estimated receipts in the budget to twice the average of the actual receipts of the three preceding completed calendar years, plus five per cent of that average, due allowance being made for revenue items that have been adopted, revised or abolished during the three year period.
5. Limitation of the total of estimated expenditures to the total of estimated receipts.
6. An express provision that the budget of expenditures shall not exceed the budget of receipts.
7. An express provision that a motion in the Assembly to increase an item in the budget or insert a new one shall only be heard after ample notice to the Secretary of the Treasury to be present at the hearing, and that the Secretary shall obtain from the Comptroller General an opinion in writing upon the need for such expenditure and the availability of funds for that purpose; all of which proceedings shall be made public in the official Gazette.
8. Reservation to the Assembly of the right to eliminate or reduce any item of expenditure in the budget.
9. An express provision that in submitting a request for supplemental

or extraordinary credits, (*) the President shall present an opinion by the Comptroller General in writing, which shall be made public, on the need for the proposed expenditure and on the availability of funds for that purpose; and provided always that no authorization of a supplemental credit shall destroy the equilibrium of the budget.

10. Authorization of supplemental and extraordinary credits by the Cabinet Council when the Assembly is not in session; provided (a) that the Cabinet Council shall not authorize such a credit in any case until it has received from the Comptroller General an opinion in writing, which shall be made public, on the need for the proposed expenditure and the availability of funds for that purpose; provided (b) that supplemental credits cannot be opened for items that the Assembly has expressly denied; and provided (c) that no authorization of a supplemental credit shall destroy the equilibrium of the budget.
11. Extension of the existing budget to cover the succeeding biennium in case of the failure of the Assembly to pass a budget.
12. Deposit of all receipts to the credit of the National Treasury in accordance with regulations issued by the Comptroller General.
13. Prohibition of the transfer of credits between items of the budget and prohibition of encumbrance of items in excess of the amounts allowed.
14. Disbursement of government funds only on warrants signed by the Secretary of Finance and Treasury and the Comptroller General.
15. Maintenance of a modern accounting system under the direction of the Comptroller General.
16. Audit of all accounts of the national government by the Office of the Comptroller General.

(*)Supplemental credits increase existing appropriations that have proved deficient, and extraordinary credits authorize unforeseen expenditures in case of public calamity.

17. Authorization of the Comptroller General to pass finally upon all accounts in which the government is concerned.

18. Authorization of the Comptroller General to determine the forms of accounts and accounting reports of the municipalities and to audit their accounts.

Discussion of Proposed Plan (C)

The purpose of the proposed plan is to establish a system of budgetary and accounting procedure which shall (1) produce at the beginning of any fiscal period a balanced budget based upon a scientific study of receipts on the one hand and of department needs on the other; (2) provide flexibility in the program so that adjustments can be made in it from time to time as conditions warrant and (3) provide such checks and balances as will control the collection and disbursement of funds and will reduce to a minimum the probability of creating a deficit during any fiscal period.

Plan Will Produce Balanced Budget. (C)

The budget law is the most important single piece of legislation of the government, reflecting, as it does, the policies of the administration and vitally affecting the administration of the public finances. It is essential, therefore, that the Executive Power be supplied with all the effective machinery possible for the careful preparation and efficient administration of the budget, and it is toward the accomplishment of this end that the Office of Comptroller General is recommended. (*) The Comptroller General should be independent of the government, departments. He should be a specialist in budgetary and accounting matters. On him will rest the responsibility not only of preparing the budget under the general direction of the President, but also of controlling the expenditure of funds insofar as the legality and regularity of these expenditures are concerned, auditing all government

(*) With the creation of the Office of Comptroller General that of the Fiscal Agent would be abolished.

accounts and investigating the methods of conducting the government business, The regular performance of these duties will give the Comptroller General an intimate knowledge of the affairs of the Government and the relative needs of its various activities. I should make him invaluable to the President and his Cabinet as an advisor in administrative matters.

The proposed plan will produce, therefore, as a result of the cooperation between the Secretary of State and the Comptroller General under the general direction of the President, a balanced budget both from the viewpoint of limiting the proposed expenditures to conservatively estimated receipts, and from the viewpoint of distributing scientifically the proposed expenditures over the several departments in accordance with their actual needs.

Plan Will Afford Flexibility (C)

Flexibility is given the plan by provisions for the establishment of additional credits to the budget. These may be established under specified conditions by either the legislative or executive authority. Legislative authorization of an additional credit may be made to the extent of available funds, and upon hearing the Secretary of the Treasury who must submit a written opinion rendered by the Comptroller General, this requirement being intended to place specific responsibility in each instance upon the chief accounting officer. Executive authorization of an additional credit may be made during a recess of the Assembly by the Cabinet Council, in accordance with the Constitution, to the extent of available funds, but also only

after the Comptroller General has rendered an opinion on the proposal. Particular attention is invited to the fact that ^{while} flexibility is introduced into the plan by these provisions, the necessary check on proposed expenditures for the purpose of holding them within the figures of estimated receipts is obtained by the requirement that the Comptroller General render an opinion on all such proposals and that that opinion shall be made public. At the same time, the danger that the Assembly may pass financial legislation independent of the budget involving the expenditure of funds without providing revenues to meet them will be averted by acceptance of the principle that the Assembly shall not pass any additional credit or any law involving the expenditure of public funds unless revenues are also provided from which the credit or law may be financed.

Plan Will Provide Checks. (C)

The checks on the administration of the budget are contained in those articles which provide for the creation of the Office of the Comptroller General with its power to determine the forms of accounts, and to control the collection of revenues, the making of expenditures and the auditing of accounts.

It is essential for effective administration of the Government and for complete control over government property and funds that the accounting system adopted make provision for keeping current the record of all revenues, encumbrances and disbursements, and the record of all assets and liabilities of the Government. The establishment of detailed individual property accounts is also necessary. Comments on the present accounting system of the Government and recommendations looking toward its improvement will ^{be found} in a subsequent chapter ~~ix~~ of this Report.

With regard to the audit of accounts, attention is invited to the fact that no independent audit is now made of the accounts of several activities

275
28
of the Government, more particularly the National Lottery, the Central Road Board, the Post and Telegraph Office, the Santo Tomas Hospital, Beneficencia Fund, the Anti-Tuberculosis Fund, the Secondary School Subsistence Funds of the Department of Public Instruction, the Banco Nacional and the Chiriqui Railroad. The accounts of these activities are for the most part decentralized, that is, the detail book-keeping operations and the disbursement of funds are handled by the administrative offices themselves, and summary statements are submitted periodically to the Office of the Fiscal Agent, where they are reviewed. But since no examination of the detail accounts is made by the Fiscal Agent, no actual independent audit of them exists. Moreover, the School Subsistence Funds, the Anti-Tuberculosis Fund and the Chiriqui Railroad do not appear in the budget at all, while the National Lottery is shown solely as a single net revenue item, and the Santo Tomas Hospital Beneficencia Fund as a single expenditure item. The budget item for the Central Road Board, which is defrayed from revenues, consists of a few lump sum items without supporting detail. (*)

The accounts for all other activities of the Government are maintained by the Office of the Fiscal Agent, which makes a pre-audit of all their expenditure vouchers and issues the checks in payment on the Banco Nacional, which is the depository for all of the general funds of the Government. The checks bear the signatures of the Secretary of Finance and Treasury and the Fiscal Agent. While an accounting control over these activities seems to be in effect, it is more apparent than real, for the departments are obligating the Government far in excess of the authorized expenditures, often without regard to statutory and administrative restrictions on certain types of expenditures.

(*) The proposed expenditure of funds to be made available from the proceeds of loans, including the Central Road Board, is shown in the present budget as single items by activities as memoranda only.