

TO

R. Jeffrey + R. Michael

FROM

NATIONAL BUREAU OF ECONOMIC RESEARCH, INC.

261 Madison Avenue
New York, New York 10016

from JRM

SUBJECT:

Your memo of Jan 17

REPLY NECESSARY

YES NO

DATE: 1/23/73

FOLD ↑

I find this memo a very large mtn. being made out of a molehill. You are exaggerating matters all out of proportion. My memo on 41000 Accts simply asked you to do Ed S. the courtesy of consultation, & informing him so that he + I are not taken off guard by unexpected & large expenditures being charged to 41000, such as \$400 for X - try tips that could also solve personnel problems elsewhere in Bureau. In that case good judgment,

PLEASE REPLY TO

SIGNED

DATE

SIGNED

SEND PARTS 1 AND 3 WITH CARBONS INTACT. PART 3 IS RETURNED WITH REPLY.

NATIONAL BUREAU OF ECONOMIC RESEARCH, INC.

Memorandum

To: John R. Meyer
From: Robert Lipsey and Robert Michael
Date: January 17, 1973
Subject: 41000 Account

Your memorandum of January 5, 1973 points up a situation which has grown increasingly uncomfortable for both us and, we presume, Ed Smith. We can understand that he does not find it acceptable that we should, without control, authorize expenditures from an account for which he is responsible. We would feel the same way in his position. On the other hand your memorandum puts us in the awkward and unacceptable position of being administrators of the New York research group, with some administrative personnel--Jay Blaire, Chris Mortensen and Fran Selhorst--reporting to us, but not a penny of administrative funds under our jurisdiction for even the most trivial expenditures.

Our understanding has always been that the running of the New York research office is our responsibility. We understand that the New Haven office is Ed's responsibility. Thus, when a question arose recently about some hiring by the Ruggles', our understanding was that Bob Lipsey had the authority to decide whether they could hire an assistant, but matters such as salary and the avoidance of conflict with other Bureau staff over choice of assistants was Ed Smith's responsibility since he was the person in charge of the New Haven office of the Bureau, and these were local issues. Similarly, the hiring of an assistant in New York for a New Haven-based project would need Ed Smith's word as to the permissibility of the hiring for the project and our approval (via Lottie Boschan in this case) on the administrative details such as salary. This seems to be a sensible arrangement, and one that could be extended to the Stanford office when it opens, but it does mean that we do have responsibilities relating to subordinates paid from the Bureau's overhead accounts. It does not seem practical and would not be reasonable in our judgment to involve Ed in decisions relating to costs associated with these duties. Even if it were feasible for him, it would be demeaning to us, and it would undermine our authority over our staff. It would be no more appropriate for us to seek Ed's permission to travel on administrative business or make other administrative expenditures related to the operation of the New York office than for Ed to seek our permission to do so relative to the operation of the New Haven office.

We continue to feel strongly that the proper solution, which will become even more essential once the Stanford branch is opened, is to have separate overhead accounts for the different research groups, plus a central overhead account. We suggest, as an interim solution which would avoid unnecessary conflict, that some amount of the 41000 account be allocated to the New York research group to be spent at our discretion, in the same way as the discretionary research funds are allocated. The bulk of overhead funds would remain under central direction, but strictly local matters would be handled at the local level.

John Meyer, Douglas Eldridge, E.K. Smith
Robert Lipsey
January 15, 1973
Reserve accounts for the Bureau

There was some discussion at the last executive committee meeting about the possibility of setting up reserve accounts this year, and also some question about the legitimacy of such a procedure. I think there are several possible reserve accounts that would be clearly proper and desirable, and that the auditors would have no reason to challenge them. Among these are the following:

1. Reserves against accrued sick leave.

We have committed ourselves in the union contract to pay some proportion of accrued unused sick leave when a person leaves the Bureau. We have been accumulating obligations under this provision since July 1, 1971 and the obligation must already run into the thousands of dollars even if we do not extend this right beyond the bargaining unit members.

2. Reserves against severance pay costs.

We have committed ourselves in the union contract to certain severance pay obligations based on length of service. For those who have been at the Bureau for some time we immediately have a large potential liability. I imagine there could be little objection to our setting up a reserve for this, the first payment to which would have to be substantial. For example, if the Bureau were to be dissolved at the end of the fiscal year, what would our liabilities be under this provision?

3. Reserves against accrued vacation.

This is a smaller item and more current but the question comes up if a project hires an assistant or secretary who goes on a 7 week paid vacation two weeks later. Wouldn't it be more appropriate to have charged each study for vacation as it is earned, and set up a reserve for it, than to impose it on the new study?

HURDMAN AND
CRANSTOUN, PENNEY & CO.

CERTIFIED PUBLIC ACCOUNTANTS • 140 BROADWAY • NEW YORK, N. Y. 10005

January 5, 1973

Rec 1-10-73

Mr Evan Stephens,
Controller
National Bureau of
Economic Research, Inc
261 Madison Avenue
New York, New York 10017

Dear Mr Stephens:

We have completed our examination of the financial statements of National Bureau of Economic Research, Inc as of June 30, 1972 and for the year then ended. As part of our examination, we reviewed and tested the Bureau's system of internal accounting control, to the extent we considered necessary, to evaluate the system as required by generally accepted auditing standards. Under these standards, the purpose of such evaluation is to establish a basis for reliance thereon in determining the nature and extent of other auditing procedures that are necessary for expressing an opinion on the financial statements.

Our review did not constitute a detailed systems survey and would not necessarily disclose all weaknesses in the system. However, it did disclose a number of situations which we comment on herein, all of which we have discussed with you and Mr Persadsingh. You will note that, in some instances, our comments are similar to those contained in our letter of November 4, 1971. These have not been acted upon and are presented for possible reconsideration by management at this time.

In our preliminary audit planning discussions for the year ended June 30, 1971, it was recognized that, because of the condition of the records and reorganization of the Accounting Department earlier in that year, a timely year-end closing would, and in fact did, require close cooperation and intensive effort by your Accounting Department and our staff to cope with the many problems which existed at that time. It was the expectation of all concerned that this condition would not be continuing. During the course of our examination for the year ended June 30, 1972, we noted a number of improvements, particularly in the accounting for grants; however, as indicated by these comments, there are still many problems to resolve before an orderly, timely year-end closing is obtainable. We note your opinion that many of the

problems are attributable to the time lost by the Accounting Department in the move to its new quarters late in the current fiscal year. You and Mr Persadsingh have also indicated that many of the differences referred to in the letter would have been located and adjusted by your staff except for the time pressures involved in presenting financial statements which would be audited by us prior to the September Board meeting. In order to meet the due date and after discussing the problems with you and Mr Persadsingh, it was agreed that it would be necessary for our staff to perform a number of the reconciliations and analyses required to meet our audit objectives by the stipulated due date for the report.

As was the case a year ago, we are hopeful that these problems will be resolved before June 30, 1973 and that a final adjusted general ledger trial balance as of June 30, 1973 will be made available to us at an early enough date so that we can complete our examination on a timely basis. We have not had the opportunity to review the new computer system in detail and therefore cannot predict the degree of problem resolution it will provide. We do not believe the computer system will correct all of the deficiencies we have noted unless it is coupled with a closely supervised program of staff training and utilization.

General ledger control accounts

Considerable additional effort was required on our part, as it was last year, to bring the detail subsidiary records into balance with the related general ledger control accounts at June 30, 1972. In some instances, a recapitulation of transactions for the entire year was required. The major general ledger control accounts that were not in agreement with supporting detail were:

Marketable securities
and related income and
expenditure accounts

Accounts payable

A primary requisite of an adequate accounting system is the maintenance of detail records in support of general ledger control accounts. We cannot overemphasize the importance of this matter and again urge that immediate steps be taken to correct this deficiency.

Journal entries

Journal entries were not visibly approved and were not always supported with adequate explanation. To reduce the possibility of error, we recommend that all journal entries be reviewed and initialed by the Controller.

Additionally, we suggest that consideration be given to installing a standard journal entry register for recurring monthly journal entries to eliminate the necessity for rewriting all entries each month.

Cash

1 - To provide control over cash, bank statements should be reconciled timely and on a monthly basis. Reconciliations for the period ended June 30, 1972 were not completed until late August. Considerable effort on our part was required to expedite the completion of the reconciliations and, in some instances, an analysis of cash activity for the entire year was required, resulting in several major adjustments to the accounts.

We understand the Accounting Department has identified and adjusted the records for the following cash account differences which had existed at the completion of our examination:

| <u>Bank Account</u> | <u>Adjusted General Ledger Balance</u> | <u>Reconciled Bank Balance</u> | <u>Difference</u> |
|---|--|--|-------------------|
| The Chase Manhattan Bank: | | | |
| Principal account | \$24,578.21 | \$27,142.73 | \$2,564.52 |
| Income account (2 accounts combined) | 397.98 | (1,295.83) | 1,693.81 |
| Irving Trust Company: | | | |
| Working account | 13,596.86 | 14,218.73 | 621.87 |
| Payroll account | <u>3,876.39</u> | <u>3,842.15</u> | <u>34.24</u> |

Although the amounts of these differences were not material to the financial statements of the Bureau, timely reconciliations and prompt investigation would have avoided the problem.

2 - Bank statements and canceled checks should be received unopened by the individual reconciling the account who, ideally, should have no related record-keeping functions. If this procedure is not considered practicable due to the size of the staff, we suggest an officer of the Bureau receive the unopened bank statements and review any large or unusual items.

3 - To improve internal control over receipts, we suggest the receptionist, who initially receives all remittances, endorse all checks with a restrictive endorsement prior to listing and routing them to the Accounting Department.

4 - We noted that deposits of daily cash receipts were delayed, in some instances by as much as one week. We believe existing procedures should be modified to provide for the deposit of cash receipts on the day received. This would not only improve cash flow, but would also reduce the possibilities of loss through careless handling or burglary.

5 - On June 9, 1972, a count of the petty cash fund maintained by the Accounting Department disclosed some minor employee loans. We suggest that employee loans be disbursed by check and charged to a general ledger receivable account and that loans to supervisory personnel be approved by their immediate supervisor or an officer. We understand corrective action has been instituted.

Marketable securities

1 - As previously mentioned, considerable effort was required to balance the detail of marketable securities, and the related accounts, to the general ledger controls. To accomplish this, transactions for the entire year had to be examined and several material adjustments were required to bring the detail into balance with the general ledger.

We again suggest the Bureau institute an investment ledger, which should be balanced to the general ledger control account each month. We understand this will be established as a part of the new computer system.

2 - Market values for securities held by the Bureau were not supplied to us at June 30, 1972 and, at your request, we obtained these from published sources. We understand that the Bureau has since arranged to have this information supplied by the broker on a regular basis.

Receivables

Supporting detail for certain categories of accounts receivable (travel advances, sales of publications, etc) was not available and it was therefore necessary to provide a reserve for uncollectibility amounting to \$10,000 on the unidentifiable portion of the general ledger balance.

As we mentioned last year, appropriate measures should be taken to determine the individual open items in these accounts; a detailed aged schedule should be prepared monthly and reviewed by a designated individual.

Expenditures

1 - Invoices are not always initialed or otherwise visibly approved for payment, and although a purchase order and receiving report system exists, it does not appear to be used as a control over the payment of invoices. In addition, documents are not marked "Paid" or otherwise canceled to prevent their reuse. We also noted that some documents were approved by personnel other than officers, project directors, or department heads. In some instances, we observed that project directors approved their own expense reports, many of which were not supported by travel and hotel receipts or were not even signed.

We suggest, as a minimum, the following steps be taken:

- a - The Accounting Department should be instructed not to process invoices for payment unless purchase orders and receiving reports, when called for, are attached and authorized approval is indicated.
- b - Invoices and other supporting data should be examined and canceled by the individual signing the check.
- c - The facsimile signatures of all personnel authorized to approve documents should be obtained and maintained, by the Accounting Department, for reference when processing invoices for payment.
- d - Reimbursement of expenses incurred by project directors or department heads should be approved by their immediate superior.
- e - Substantiation of expense reports should be required whenever possible, and expense reports should be signed by the person submitting such reports.

2 - We noted that Mr H Persadsingh, the chief accountant, is an authorized check signer for the working and payroll accounts. Ideally, a check signer should have no related accounting functions.

3 - Blank checks and ledgers should be stored in a fireproof safe or cabinet each night.

Payroll

1 - A record of blank payroll checks supplied by the payroll service bureau for manual adjustments to the computer-prepared payrolls is not maintained. We recommend that a record of used and unused checks be maintained and that unissued checks be accounted for properly.

2 - We also noted that manual adjustments to the computer-prepared payrolls are not reflected on the books of account on a current basis. This practice also negates the benefits of maintaining the payroll cash account on an imprest basis. We recommend these adjustments be recorded in the accounts as they occur. This matter should be corrected in the new system.

Payroll taxes and fringe benefits

Presently, payments for payroll taxes and other fringe benefits are posted to a prepayment account, rather than to the appropriate liability account, thereby requiring a year-end adjustment to both accounts. In addition, substantial adjustments were required at year end to bring the net balance in these accounts into agreement with the actual liabilities at June 30, 1972. We suggest that both accruals and payments be posted to individual liability accounts and that these accounts be reconciled and adjusted quarterly to appropriate tax or other reports.

Internal reporting

We noted that reports of contributions and subscriptions prepared for management were not in agreement with the general ledger at March 31, 1972 or June 30, 1972. We also noted several differences between the information contained in the Finance Committee reports regarding marketable security transactions and the data reflected in the accounting records. We recommend steps be taken to ensure that financial information supplied to or used by management is in agreement with the accounting records.

Audit time

The time required to perform the examination was substantially greater than what should normally be necessary to audit the accounts of the Bureau. Several of the problems underlying this have already been discussed. In addition, the following major factors also contributed to this situation.

During June 1972, arrangements were made for Bureau personnel to prepare certain schedules, reconciliations, accruals, and journal entries necessary to close the Bureau's books of account and prepare for our examination. When we arrived to commence our year-end examination, none of the data had been completed in the manner requested. An evaluation of the progress being made by Bureau personnel toward closing the books of account caused our representatives to leave, and to resume the audit at a later date. As you requested, our representatives returned on August 4, 1972 and found that, although some progress had been made, it was evident we would have to perform a considerable number of analyses, reconciliations, etc to complete our examination by the date required by the Bureau. This necessitated a substantial amount of overtime and weekend work on the part of both of our staffs. As mentioned earlier, the Accounting Department move was certainly a contributing factor to the delays experienced.

Vacations by key accounting personnel were taken prior to the completion of our examination, a situation which, we believe, was a major contributing factor to the condition described above. In the future, vacations should be scheduled so as not to conflict with year-end closings.

The last minute decision to change the method of allocating overhead to Bureau projects also resulted in substantial revisions to the report, which had already been prepared, and we suggest that, in the future, any contemplated changes be brought to our attention at the earliest possible date.

We would be pleased to discuss these comments further with you at your convenience, and we again thank you and your accounting personnel for the assistance extended us during the audit.

Very truly yours,

Hurdman and Craustown, Penney & Co

Certified Public Accountants

cc: Dr John R Meyer
Dr Douglas H Eldridge
Dr Edward K Smith
Mr Thomas D Flynn

NATIONAL BUREAU OF ECONOMIC RESEARCH, INC.

RECEIVED

JAN 9 1973

PRESIDENT'S OFFICE

Memorandum

From
To: John Meyer
From
From: Robert Lipsey *Rih*
TO
Date: January 9, 1973
Subject: Conversations with FNMA and Guttentag on possible research

This issue is far from a concrete proposal stage and still should be assigned a probability of <50%, but I thought you might like to know about the conversations described in the attached memoranda. Briefly, the Federal National Mortgage Association would like to sponsor a study of private mortgage insurance companies, a project that seems too narrow to interest us, and also involves too short a time horizon. However, I am trying, with the assistance of Jack Guttentag, to see if their interest in supporting research can be stretched to cover topics in the financial area that we would be attracted by.

I will send these memos to Farrar also if you think he would be interested.

*/yes
please
do
also to
Moore.*

*Memo to
Farrar 1/12/73
Moore 2/1/73*

FILES: Financial Research Program--FNMA

Robert E. Lipsey

January 9, 1973

Conversation with Jack Guttentag: 1/9/73

I spoke to Guttentag late in December in response to a call from Harry Schwartz, of the Federal National Mortgage Association, on December 15. At that time he said he would think about the FNMA suggestion that the Bureau do a study of private mortgage insurance companies.

After thinking about it, Guttentag agreed with my initial reaction that the question FNMA was interested in was too specific and too narrow for the Bureau. The techniques for appraising the riskiness of these companies have been worked out and there was no technical problem of great interest remaining.

Guttentag suggested that if the FNMA were willing to finance a broader study that would consider the more general question of the function of mortgage insurance and the role of private and government agencies in it, a more appropriate proposal might be worked out. It would presumably have to include the specific questions that the FNMA was interested in, but would go on from there to those we wished to study. He himself would probably not be available to do such a study but would be willing to take some part in it and thought he could suggest good people to work on it. I suggested he talk to Schwartz, get some notion of FNMA's interest in broader studies of housing finance and the role of different types of financial institutions, and call me back.

c: Cagan
Diller
Meyer

Farrar 1/12/73
Mena 2/1/73

NATIONAL BUREAU OF ECONOMIC RESEARCH, INC.

Memorandum

To: FILES: Financial Research Program--FNMA
From: Robert E. Lipsey *REL*
Date: January 9, 1973
Subject: Conversation with Jack Guttentag: 1/9/73

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c: Cagan
Diller
Meyer

FILES - Financial Program *FNMA*

REL

December 15, 1972

Conversation with Harry Schwartz, FNMA re private mortgage insurance

The FNMA would like to have a study done on private mortgage insurance companies. These began to develop in 1958 and the FNMA has become interested as a result of a 1970 law which permits them to buy conventional mortgages if they meet certain conditions, one of which is that they should be insured. The FNMA would like to know about the size and nature of the risks undertaken by these companies and the degree of protection their insurance provides to FNMA. Unfortunately the time period for the study would be short--something like six months and a report would have to be given to FNMA presenting the results in fairly simple terms. However, Schwartz was confident the companies would provide micro-data and an investigator would be free to use such data for further work. FNMA thought the study would cost about \$100,000 but would consider a larger sum if we thought it necessary.

The study they want sounds uninteresting. The only possible value I see is that it might provide interesting data on the development of a new financial institution and its effect on the market, including its effect on various types of premium for risk. There might also be some interesting data on the costs of risk available from the study.

c: Cagan
Diller

Meyer
(1-4-73)

1/12/73

Farrar

2/1/73

Moore

Review of study to be done several years ago - Dept of private insurance. & looking for information on private insurance industry for FNMA. Under review of strategy.

NATIONAL BUREAU OF ECONOMIC RESEARCH

Memorandum

To: All Senior NBER Staff
From: J.R. Meyer
Date: January 3, 1973
Subject: General Administrative Expenses (Account 41000)

As a matter of orderly procedure, it would seem preferable in the future that no one authorize charges to the general administrative account (41000) for any expenses without the prior approval of E.K. Smith, (who is responsible for this account and its budget).

NATIONAL BUREAU OF ECONOMIC RESEARCH, INC.

Memorandum

from
To: John Meyer
From: Robert Lipsey *RLH*
Date: January 4, 1973
Subject: Walker grant

RECEIVED

JAN 5 1973

PRESIDENT'S
OFFICE

We have to decide how to allocate the Walker grant since they express a wish to have it associated with a particular piece of research. One possibility would be to use it for cleanup expenses on their earlier projects, such as Fabricant and Gordon. I feel, however, that this might strike them, with some justification, as selling the same product twice. My choice would be Friedman-Schwartz, although their proposed grant of \$40-45,000 a year does not cover the full cost of that project (about \$50,000 this year). It would give the Walkers a well-defined project with a famous name, and I think they might be flattered. The only drawback I see is that we lose the chance to finance Friedman-Schwartz elsewhere at a higher rate, but we have not done so well by the Walker brothers up to now and perhaps they deserve a bargain.]

Do you have any feelings about this?

Yes
Jaguel

c: Jay Blaire)
Douglas Eldridge) 1/15/73

John Meyer
Robert Lipsey
January 13, 1973

Letter from Mark Jones on Bureau's responsibility for downfall of U.S.

I suppose Mr. Jones must be quite old by now and probably does not merit a great deal of effort. My suggestion would be something of this sort:

Dear Mr. Jones:

I am sorry to learn from your letter of January 5 that you feel the National Bureau has not followed the course to which it was dedicated. Although you refer to matters that took place long before my association with the Bureau I can say that we still strive to follow the intent of the 1926 resolution printed in all our publications, "to present to the public important economic facts and their interpretation in a scientific and impartial manner." We have not advocated any program or economic system, and we are, as you know, barred by our rules from any such advocacy. How well we have adhered to this practice is indicated by the fact that economists as far apart in their views as Milton Friedman and Walter Heller are happy to be associated with the Bureau, and the fact that several hundred business firms as well as labor unions consider it worthwhile to support the Bureau's research with financial contributions. I believe that if you examine the wide range of books and papers published in the last few years, as described in the enclosed Annual Report, you will have every reason to be proud of your connection with the Bureau's establishment.

Sincerely,

JRM

ROCKEFELLER CENTER
R.F.D. BOX 948
PRINCETON, NEW JERSEY 08540
Telephone 609-924-0000

January 5, 1973

Mr. John R. Meyer, President
National Bureau of Economic Research
261 Madison Avenue
New York, New York

Dear Mr. Meyer:

I cannot resist the temptation to write to you about the article in The New York Times pertaining to the National Bureau of Economic Research and your relation thereto. What I refer to pertains to the past, to the purpose, and to the consequences of the Bureau, and, therefore, probably has little to do with your activities as President.

I write because I was one of the representatives of the Rockefeller interests who gave some attention to the initial financial contributions for the establishment of the Bureau. This was a long time ago. I, of course, knew Wesley Mitchell, John R. Commons, Edwin F. Gay, and some of the others.

I have always considered it a fundamental misfortune from the standpoint of the national economy and the people of the United States that the Bureau was taken on the course it has followed. Fundamentally, it has been on a course seeming to foster Socialism. Therefore, I have always considered the net effects of its omissions and commissions to be anticapitalism.

As one of those in the Rockefeller group that hoped the rationale of the Bureau would be pointed toward the establishment and maintenance of a going-concern economy, I have always regretted that so little was done to that end. The record now seems to show that the omissions and commissions of the Bureau in relation to the national economy have had ultimate effects which contributed more toward an economy in liquidation than otherwise.

At the time it was started it was also hoped that through the Bureau it would be possible to bring about the establishment of a system of national accounts that would make it possible to look at the whole economy from an accrual accounting standpoint.

Another hope that was frustrated was an idea related to a system of national accounts - a rationale for accountability that would bring about the systematic measurement of the performance of the underlying techno-structure of the

economy. Apparently, any real consideration of accountability has been a repulsive notion from the standpoint of most of the people who have led in the degeneration of the economy that has taken place in the last forty years.

Another among the hopes of those participating in the creation of the Bureau was that in connection with the system of national accounts there would be an implementation of the principle that all government expenditures are nonproductive overhead expense of the economy from an accounting standpoint. Apparently, any such realism was poison to the liberal Socialists who got control of the power structure in the thirties and have been degenerating the economy every since.

Over the past fifty years it has been necessary for me to give considerable attention to the problems of organizing and operating large entities such as the supercorporations, federal and state governments, and the underlying national economy. One of the questions that this experience has left in my mind is whether the National Bureau of Economic Research would be missed if it were to be discontinued. I don't suppose that being composed as it is and with the traditions and habits that it has established, it could be reconstructed to deal with the need implicit in the hopes outlined herein. In any event, I must say in all frankness that the present thrust of its program, as partially indicated in The New York Times article, certainly is not above question from the standpoint of the present position of the national economy and its real problems as a means to the ends of a population of 210,000,000 people.

Very truly yours,

A handwritten signature in dark ink, appearing to read "William J. Bennett". The signature is written in a cursive, somewhat stylized hand.