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# Accounting for the Liberty Loans

## THE FIRST LOAN

By HARVEY S. CHASE, C.P.A.

On June 30, 1917, the writer was requested by the governor of the Federal Reserve Bank of Boston to assist the officers of the bank, with as many experienced accountants as possible, in handling the deluge of subscriptions, allotments and payments which had almost overwhelmed the bank during the fortnight preceding that date. Similar conditions existed in each of the twelve reserve districts of the country, we were informed, due to the exceptional rush of subscribers during the last twenty-four hours preceding the close of the subscription period on June 15th.

In Boston the records of subscriptions had been kept up accurately and promptly until this extraordinary rush broke upon the already overworked officers and employees of the reserve bank and their willing volunteer assistants from national banks, trust companies and banking houses.

From June 30th to the present date we have been at work upon the first liberty loan and even now, although routine and regular hours have long ago been established in accounting for this bond issue, there are still new requirements cropping up from day to day and new accounts to be opened in the ledgers and to be continuously kept thereafter.

The intricacy and difficulty of establishing a system of accounting controls over such a tremendous multitude of details, in the midst of the transaction itself, can scarcely be conceived, especially when one looks at the relative simplicity of the neatly arranged trial-balance which illustrates this article. Examining this daily statement—of December 5, 1917—one notes a series of groups of accounts beginning with the original "allotment" of bonds to the first district (New England) by the U. S. Treasury, \$265,017,900.00, and ending with the aggregate of all of the transactions, at par values, from the opening of the bond campaign, May 16, 1917, to the date of the trial-balance, which amounts to over two billions of dollars. Think a moment what this means—transactions of over two billions—in one district, rather small in

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area, out of twelve districts—in order to turn over to the U. S. Treasury two hundred and sixty-five millions of dollars. It appears almost as exaggerated as the laboring of the mountain of the fable to bring forth the mouse.

What has built up this astonishing total of transactions is shown clearly in the statement itself. The total of the first group amounts to \$265,809,195.25, which consists of the original allotment to the first district together with the interest subsequently collected upon instalment payments and upon bank deposits. On the debit side is shown the amount actually turned over to the treasurer of the United States to the date of the statement, the forfeited subscriptions and the amount not covered by sales to other banks or to individuals, \$2,621,528.00, which is regarded as a subscription by the Federal Reserve Bank of Boston itself.

Second Group—This consists of the accounting controls for requisitions upon the treasury covering definitive bonds, coupon or registered, with which to make deliveries to subscribers.

Third Group—The definitive bonds themselves, coupon and registered,  $3\frac{1}{2}$  per cents, and the conversion bonds, coupon and registered, 4 per cents, which have been actually received from the treasury to date. The controls on the debit side show what became of these bonds and what were the balances in vaults on December 5th, with totals of \$127,070,000.00.

These three groups relate to the definitive bonds and to the necessary details of accounting for them. It must be remembered that these bonds are received in various classes of denominations from \$50.00 pieces to \$100,000.00 pieces, and that each piece must be verified and recorded when it arrives and when it goes out. Each piece is as valuable as so much money; it practically is money for the time being.

Please note also the complexity of the debit side of the third group. Here are  $3\frac{1}{2}$  per cent. coupon bonds in hands of purchasers;  $3\frac{1}{2}$ 's registered bonds in purchasers' hands;  $3\frac{1}{2}$ 's returned by purchasers for conversion to coupon 4's;  $3\frac{1}{2}$ 's returned for conversion to registered 4's as of November 15; and the same as of December 15; then there are the coupon  $3\frac{1}{2}$ 's on hand and the coupon 4's on hand; and soon there may be  $3\frac{1}{2}$ 's registered on hand and 4's registered on hand. In each of these classes the

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various denominations—\$50.00 to \$100,000.00—must be recorded and kept separately and every transaction audited the same day by the special auditor for Liberty loans of the reserve bank.

Turning to the fourth group, we find \$271,700,000.00 of twenty per cent. "interim certificates"—at par values. As these are twenties the actual value was \$54,340,000.00, but for all practical purposes and for the record these certificates must be considered and handled at their full paid (par) values. These certificates, again, were in denominations of \$50.00, \$100.00, \$500.00, \$1,000.00, \$5,000.00 and \$10,000.00, which were counted and recorded separately, both in their incoming and their outgoing journeys. These twenty per cents were received from the United States treasury in amounts considerably in excess of actual requirements so that large blocks of them were returned ultimately to the treasury unopened and with seals unbroken. Of the total 20 per cents received, less than one hundred and sixteen millions were issued to purchasers, the remainder being unbroken, as stated.

On the trial-balance it will be noted that in addition to \$271,696,200.00 of 20 per cents returned to the treasury—including unused certificates and also certificates issued, returned for forty per cents or higher per cents by the purchasers and cancelled by the reserve bank—there are other controlling accounts, "cancelled," "outstanding," etc. These items are the final unsettled remainders of originally large controls, running up into the millions. "Cancelled" represent certificates recently received and accompanied by final payments (eighty per cent.) for which 100 per cent. interims were issued. "Outstanding means still held by purchasers whose names and addresses are on record at the bank. "In suspense" indicates certificates held by the bank on account of irregularities, pending final settlements. "Unaccounted-for" represents exactly *that*, a balance wholly unaccounted-for at present. There are no records, so far as our audit has disclosed, relating to these certificates, amounting at 20 per cent. to \$300.00 value.

In a report to the directors of the Federal Reserve Bank of Boston dated November 12, 1917, referring to the figures upon the daily trial-balance of November 10th, we stated: "Out of these very large amounts (of 20 per cent. certificates) only \$1,500.00 at par are unaccounted-for at this date. Of the fifth group—40 per

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cent.—only \$350.00 at par (\$140.00 at value) are missing. Of the sixth group—70 per cent.—none is unaccounted-for out of \$349,250,000.00 at par. These statements are striking instances of the accuracy and honesty with which the handling of these tremendous values has been conducted. Out of a total of over a billion dollars of 20 per cent., 40 per cent. and 70 per cent. certificates (at par) only \$1,850.00 are unaccounted-for to date. Quite probably a portion, possibly all, of this amount may be located later. \* \* \* We cannot too highly commend the fidelity and accuracy of the officers and the employees of the bank who handled and correctly recorded these overwhelming masses of certificates, cheques, cash, bonds, etc., with such an infinitesimal ratio of unaccounted-for items compared with the totals received.”

The fifth group covers 40 per cent. interims with totals at par, \$400,800,000.00, of which only \$98,196,000.00 were actually used and cancelled.

The sixth group comprises 70% interims of which \$86,501,350.00 were used and cancelled, while only \$150.00 are still outstanding in the hands of three purchasers whose names are recorded in the books of the bank.

The seventh group is the most intricate and difficult of all. It exhibits 100% (full paid) interim certificates of which \$358,050,000.00, in all denominations, were received from the United States treasury. Of these \$22,350,000.00 have been returned, \$48,999,800.00 are in the bank's vaults, \$43,907,900.00 are still in hands of purchasers, and \$242,792,300.00 have been issued, returned and cancelled for the purposes set forth in the ten classes on the debit side of the statement (100 per cent. interims).

A trial-balance similar to this is taken off the Liberty loan ledger every day. The controlling accounts in that ledger having been posted with the transactions of the day through a journal which receives its information from daily continuing records from each of the subdivisions of the Liberty loan department of the federal reserve bank. These daily records are checked and audited from one division to another, incoming and outgoing, and all finally depend upon actual count of each denomination of the interims when they arrive at the vaults (custody) each day. No definitive bonds are issued to subscribers or to banks until an

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equal amount of full-paid interims is surrendered therefor, both interims and bonds being carefully counted, verified and recorded in detail.

These accounting controls are further complicated by the fact that the full-paid certificates are frequently transferred outside the first district (New England) and other districts' interims are transferred into the first district. These must be recorded, verified, aggregated and accounted-for each day separately and for each denomination separately. Such transactions are represented by the total "discharges" \$34,604,300.00 on the statement of December 5th. In addition to these discharges, there are "split-ups" as they are termed. These are certificates surrendered for transference to new certificates of lesser or greater amounts. The surrendered certificates are cancelled and recorded, the new certificates are taken from "On hand at delivery department" and turned over to the customers. Such transactions have amounted to \$21,461,-250.00.

Finally there are "over deliveries" amounting to \$606,400.00, which represent the net errors of delivery during settlements with the banks and individuals which have been recovered and cancelled during the period to date.

It is interesting to note that out of all these controlling accounts, aggregating \$2,002,732,613.25, only \$263,181,603.25 actually relate to *cash*, and of this only \$262,390,308.00 actually relate to the principal of the bonds. This is the amount collected to date and transferred to the credit of treasurer of the United States on the books of the Federal Reserve Bank of Boston. These cash transactions comprise a chapter—or rather a library of volumes—of their own. For instance, in the audit of these transactions to the close of the fiscal day June 28, 1917—which was not closed on the books of the bank until August 20, 1917—\$170,765,939.84 were to be verified. This amount was represented by records of cheques, cash, United States certificates of indebtedness; "government deposits," i. e. authorized carryings of government money on deposit at designated depositories; credits to member banks, debits to member banks, note teller, paying teller, etc., etc. All these items were aggregated from the detailed settlement sheets of each subscribing bank or person, often exceedingly intricate and confused in their details; built up bank by bank into "blocks" for

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mathematical proof and verification of items; totalled into recapitulation blocks for group of banks depending upon convenience and speed of verification; finally aggregated into settlement blocks daily or as often as practicable and put through the cashier's accounts into the general ledger of the bank with proof against the total actual cash turned over to the tellers as covered by each settlement block. All of this work from June 30th onward to August 20th was done under high pressure by men working ten, twelve, fourteen and sometimes twenty hours a day, particularly during the first thirty days—July. Fortunately, the weather was bearable and electric fans were numerous, but in spite of all palliatives many men were exhausted and none came through without feeling the marks of the struggle for weeks afterward.

The audit of these figures was not undertaken till after August 20th, and it continued till October 31st, when a report was submitted, from which the following quotation is taken: "For the purpose of summarizing the audit, we have prepared large columnar sheets which classify the subscriptions, the allotments and the settlements made by the banks and by individual subscribers. This voluminous record includes forty-three of such sheets carrying individual subscriptions and thirty-five sheets of the totals of bank subscriptions. The columnar headings of these sheets are the following:

- Subscriptions:
- Allotments:
  - Full payments
  - Instalments
- Interest:
- Payments:
  - Cash
  - Certificates of indebtedness
  - Government deposits
  - Debits to member banks
  - Credits to members banks
  - Total payments
- Deliveries:
  - Full paid
  - 20 per cent.
  - Total deliveries

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"This record has been compiled carefully from the recorded details on full-paid and instalment receipts and from the card records pertaining to all individual and bank subscriptions. From the signed receipts the delivery of all interim certificates as of June 28, 1917, was also recorded.

"We have audited this intricate compilation of figures as completely and thoroughly as it has been possible to do. We have traced the entries from the sources of information (delivery receipts and card records) to the audit sheets, have proved the amount of allotments to the total amount of the full-paid and instalment subscriptions, and have proved that the total of full-paid and of instalment subscriptions (as allotted plus interest) is equal to the total payments, viz.: cash, certificates of indebtedness, government deposits, etc., plus 80% of instalment subscriptions as of June 28, 1917.

"We have also checked the deliveries of certificates against the amounts of full-paid and instalment subscriptions in detail.

"We have verified the summaries of the audit sheets submitted herewith and have proved the additions and grand totals.

"We have further traced and checked through the clearing all items of settlements by blocks in the block book against the 'summary sheet' comprising classifications as follows: 'cheques,' 'unapplied cheques,' 'certificates of indebtedness,' 'government deposits,' 'debits,' 'paying teller,' 'rebate treasury,' 'principal,' 'interest,' 'credits,' 'note teller,' etc."

The discrepancy disclosed by the audit was at first over one hundred and eighty thousand dollars. This was run down to fifty-four thousand dollars, then to \$5,161.69, then to \$1,145.00, finally to \$145.00, composed of "over" items on interest account \$428.00 and "short" items on principal account \$283.00. This exceedingly small net difference will doubtless be located during the audit covering the transactions after the close of the fiscal day of June 28th to a final date, which is still in progress.

The conclusions which public accountants will draw from this rather circumstantial record of these complex transactions will be doubtless that "control" accounts should not be left until after tremendous volumes of transactions have been some time in progress but, on the contrary, should be begun on the very first



# Federal Reserve Bank of Boston

## Fiscal Agent for U. S. Treasury, District of New England

| <i>Debit balances</i>   |                    |
|---|--------------------|
| Payments to Treasurer, U. S. (account of principal) .....   | \$262,390,308.00   |
| Payments to Treasurer, U. S. (account of interest) .....  | 791,295.25         |
|   | <hr/>              |
| Forfeited and cancelled allotments .....  | \$263,181,603.25   |
| Federal Reserve Bank of Boston (subscription) .....   | 6,064.00           |
|   | <hr/>              |
|   | \$265,809,195.25   |
|   | <hr/>              |
| Requisitions on Treasury U. S. for coupon bonds .....   | \$115,807,000.00   |
| Requisitions on Treasury U. S. for registered bonds .....   | 16,518,000.00      |
| Balance not yet requisitioned .....   | 97,728,418.00      |
|   | <hr/>              |
|   | \$230,053,418.00   |
|   | <hr/>              |
| 3½ definitive coupon bonds delivered to purchasers .....  | \$110,499,700.00   |
| 3½ definitive registered bonds delivered to purchasers .....  | 11,327,200.00      |
| 3½ definitive coupon bonds returned by purchasers for conversion to coupon 4 per cent. bonds .....              | 302,800.00         |
| 3½ definite bonds returned by purchasers for conversion to registered 4 per cent. bonds as of November 15 ..... | 82,300.00          |
| 3½ definite bonds returned by purchasers for conversion to registered 4 per cent. bonds as of December 15 ..... | 10,500.00          |
| 3½ definitive coupon bonds on hand .....  | 1,347,500.00       |
| 4 per cent. conversion bonds on hand .....  | 3,500,000.00       |
|   | <hr/>              |
|   | \$127,070,000.00   |
|   | <hr/>              |
| 20 per cent. interims returned to Treasury .....  | \$271,696,200.00   |
| 20 per cent. interims cancelled, in custody, Boston .....   | 1,100.00           |
| 20 per cent. interims outstanding, in hands of public .....   | 800.00             |
| 20 per cent. interims in suspense, pending settlements, Boston .....  | 400.00             |
| 20 per cent. interims unaccounted for (probably in hands of public unrecorded) .....                            | 1,500.00           |
|   | <hr/>              |
|   | \$271,700,000.00   |
|   | <hr/>              |
| 40 per cent. interims returned to Treasury .....  | \$400,799,050.00   |
| 40 per cent. interims outstanding .....   | 500.00             |
| 40 per cent. interims in suspense .....   | 100.00             |
| 40 per cent. interims unaccounted-for .....   | 350.00             |
|   | <hr/>              |
|   | \$400,800,000.00   |
|   | <hr/>              |
| 70 per cent. interims returned to Treasury .....  | \$349,249,850.00   |
| 70 per cent. interims outstanding .....   | 150.00             |
|   | <hr/>              |
|   | \$349,250,000.00   |
|   | <hr/>              |
| 100 per cent. interims cancelled for coupon bonds .....   | \$110,802,500.00   |
| 100 per cent. interims cancelled for registered bonds .....   | 16,518,000.00      |
| 100 per cent. interims cancelled for conversion to 4 per cent. coupons as of November 15 .....                  | 48,464,550.00      |
| 100 per cent. interims cancelled for conversion to 4 per cent. coupons as of December 15 .....                  | 1,382,450.00       |
| 100 per cent. interims cancelled for conversion to 4 per cent. registered as of November 15 .....               | 8,227,450.00       |
| 100 per cent. interims cancelled for conversion to 4 per cent. registered as of December 15 .....               | 336,400.00         |
| 100 per cent. interims cancelled but not yet returned to custody .....  | 389,000.00         |
|   | <hr/>              |
|   | \$186,120,350.00   |
| 100 per cent. interims cancelled for discharges .....   | 34,604,300.00      |
| 100 per cent. interims cancelled for split-ups .....  | 21,461,250.00      |
| 100 per cent. interims cancelled for overdeliveries .....   | 606,400.00         |
|   | <hr/>              |
|   | \$242,792,300.00   |
| 100 per cent. interims returned to Treasurer U. S. ....   | 22,350,000.00      |
| 100 per cent. interims on hand at delivery department, Boston .....   | 48,999,800.00      |
| 100 per cent. interims outstanding in hands of public .....   | 43,907,900.00      |
|   | <hr/>              |
|   | \$358,050,000.00   |
|   | <hr/>              |
| Aggregate .....   | \$2,002,732,613.25 |

From the Office of  
**Harvey S. Chase & Company, C.P.A.**  
 84 State St., Boston

*Accounting for the Liberty Loans*

## Trial-Balance of Liberty Loan Ledger - First Loan

At Close of Business December 5, 1917

| <i>Credit Balances</i>   |                                |
|--|--------------------------------|
| Allotment to first district by Secretary of Treasury, June 15..... | \$265,017,900.00               |
| Interest received on bonds and interim certificates.....           | 602,321.47                     |
| Interest received on bank balances.....                            | 188,973.78                     |
|  | <hr/> \$265,809,195.25 <hr/>   |
| Total requirements for bonds .....                                 | \$262,389,518.00               |
| Minus—discharges (net) other districts .....                       | 32,336,100.00                  |
|  | <hr/> \$230,053,418.00 <hr/>   |
| 3½ definitive coupon bonds received from Treasury.....             | \$112,150,000.00               |
| 3½ definitive registered bonds received from Treasury.....         | 11,420,000.00                  |
| 4 per cent. conversion bonds received from Treasury.....           | 3,500,000.00                   |
|  | <hr/> \$127,070,000.00 <hr/>   |
| 20 per cent. interims received from Treasury (par).....            | \$271,700,000.00               |
|  | <hr/>                          |
| 40 per cent. interims received from Treasury (par).....            | \$400,800,000.00               |
|  | <hr/>                          |
| 70 per cent. interims received from Treasury (par).....            | \$349,250,000.00               |
|  | <hr/>                          |
| 100 per cent. interims received from Treasury (par).....           | \$358,050,000.00               |
|  | <hr/>                          |
| Aggregate.....   | <hr/> \$2,002,732,613.25 <hr/> |

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day and continued regularly by proper aggregation methods each day thereafter. This is exactly the lesson of the first loan in every reserve district.

No blame for this serious defect of relatively uncontrolled accounting should fall upon the federal reserve banks. One and all they followed instructions from Washington as far as these instructions went into details and wherever it proved to be practicable to follow such details. It is not to be wondered at, either, that Washington did not visualize the enormous complexity and multiplicity of the transactions in advance of their appearance. No one, however capable, could have foreseen all the requirements. The reserve banks were left, probably necessarily, to get their experience as best they could, assisted, as each of them was, by the best local ability among the bankers of the district. None of the bankers, no professional accountants, nobody in this country, had ever had experience in handling loans of such magnitude and complexity, surrounded, as this loan was, by immovable requirements of law and by great willingness, but great inexperience in such matters at the centre of things in Washington.

The second loan was planned in advance, every step was thoroughly discussed and decided upon beforehand, all the bank working heads met at Chicago and threshed out their various points of view with the treasury working officials in attendance, and the result was a quiet, comfortable, accurate and prompt accounting for the second loan, still going on, which the writer will describe in the next article of this series.