

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARDJanuary 6, 1930
St. 6441

SUBJECT: Functional Expense Reports.

Dear Sir:

In response to the Board's letter of February 5, 1929, St. 6082, certain questions in connection with functional expense reports have been submitted by the banks and others have been brought to the Board's attention by its examining force which has recently been devoting some time to functional expense matters. These questions are listed in the attached statement and it will be appreciated if you will kindly give the Board your views with regard to each of them.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

Enclosure

TO GOVERNOR OF EACH FEDERAL RESERVE BANK*

CHECK COLLECTION FUNCTION

1. What expense unit should be charged with the time spent by transit employees in enclosing cash letters in envelopes and in sealing and mailing them?
2. Are the receiving of counter deposits of checks and the gathering of deposits of checks from local city banks "mail" operations chargeable to the Mail unit, or are they "receiving" operations which, under the Manual of Instructions are chargeable to the several units of the Check Collection function?
3. Incoming cash letters are delivered to the Check department in one of the following ways: (1) Unopened, (2) Opened but not removed from envelopes, (3) Opened and removed from envelopes, and (4) Opened, removed from envelopes, and sorted in several principal divisions as, for example, City, Country, Letters from member banks in own district, and Letters from other Federal reserve banks and branches.
What part of the cost of these operations should be charged to the Mail unit?
4. When member banks, which have been given direct sending privileges, deposit their direct sendings with the reserve bank for mailing and the reserve bank performs certain proving and balancing operations, in what unit should the expense of this work and the number of cash letters so handled be reported?
5. Since some of the Federal reserve banks are not subject to clearing-house dues and fines while others are and since such expenses are largely outside the control of the Federal reserve banks, would it not be preferable to eliminate them in calculating the cost per unit shown in form E and the Board's exhibit?
6. Should the number of return items reported on page 17 of form E include only those for which debit tickets are prepared, or should it include missents, items returned to the reserve bank for missing endorsements which the reserve bank can supply, and items returned for other reasons which the reserve bank can remedy without returning them to prior endorsers?
7. Should the item "Checks on this bank" shown on page 17 of form E include certain advice types of remittances, as for example, authority to charge reserve account, as well as ordinary drafts on reserve account?
8. Should items drawn on non-par banks which are handled by the Country Checks unit, until they are delivered to the Return Items unit, be included in the volume figures of both the Country Checks and the Return Items unit?

9. Manual of Instructions, page D-4, states that "where items are received in bundles and totals of bundles only are listed, the bundle should be counted as one item under the respective units." It has been estimated that it takes from five to ten times as long to handle a bundle as it does an individual item. Should the manual be changed to give adequate credit for the handling of bundles and, if so, how?
10. How should the time of a so-called "control clerk," who arrives at control figures for the several units of the Check Collection department, be charged?
11. When the check department arrives at certain totals for the various ledger sections of the accounting department or sorts incoming cash letters to ledger sections, where is the time so spent charged?
12. Manual of Instructions, page D-5, states that where "checks on this bank" are received in a unit of the Check Collection function, they should be included in the volume figures for that unit and the volume figures reported against the item "checks on this bank" correspondingly reduced. Are "checks on this bank" received in your Government Checks unit and, if so, how are they reported?
13. Should the Manual of Instructions be revised to require checks drawn on banks outside the Federal reserve bank or branch city, but which are collected through suburban clearing arrangements, to be included in the City Checks-Clearings unit, and checks collected by messengers in the City Checks-Other than Clearings unit?

CURRENCY AND COIN FUNCTION

14. Manual of Instructions, page D-3, states that money received from branches or head office should not be included in the item count of the number of pieces of currency received and counted. Is fit money received from branches and agencies given an actual bill count, and if so, should the instructions be changed so that credit will be given for this work?
15. Manual of Instructions, page B-30, indicates that custody of currency is one of the operations chargeable to the "All Other" unit of the Currency and Coin function. Do you interpret the word custody as here used to include the custody of currency while it is "on the floor," for example, in the hands of currency tellers who pass out and receive currency to and from the currency assorters, or only the custody of currency in the vault?
16. Should all welding and tying operations of money, after it has been received from the assorters but before it has been placed in the vault for permanent storage, be charged to the Receiving and Sorting unit or to the All Other unit?

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17. Where the volume of minor coin received is such as to make it impracticable to count it because the expense of counting would be greater than charges for any differences which might arise, and such coin is paid out without being counted, should the number of such coins be included in the number of items handled as reported on page 17 of form 97?
18. Would it be desirable to change the caption of the Currency-All Other unit to read "Paying and Redemption" and to obtain volume figures showing the number of bills forwarded for redemption and number of bills paid out?

GENERAL

19. What expense unit is charged with the cost of preparing form 95?
20. Do your member banks, in sending non-cash items direct to Federal reserve banks in other districts for collection and credit at your bank, advise you of such sendings? Do you include the number of direct sent non-cash items or the payments therefor in your volume of work figures? If so, state where they are included and in what expense unit the work is handled.
21. Manual of Instructions, page B-41, indicates that "work in connection with the handling of all collections with negotiable securities attached" should be included in the Coupon Collections (except Government) unit. Should not drafts with securities attached drawn on offices located in the reserve bank city be included in the Non-cash City Collections unit?
22. Where are foreign loans on gold and investments through foreign banks handled and to what expense unit is the cost charged?
23. Notarial work at some of the reserve banks is handled by outside notaries while at other banks it is handled by notaries who are also employees of the bank. If notaries handling the notarial work of your bank are also employees of the bank, where is the time devoted to notarial work charged in functional expense reports?
24. General Instructions, page 2, state that "if any printed form or other supplies being carried in Stock of Supplies account becomes obsolete, any balance remaining on hand not previously charged to the expense unit for which the supply was originally ordered should then be charged to such expense unit either at its cost price or at the difference between its cost price and its scrap value, if any."

Where should forms or other supplies not purchased for any particular unit be charged when such forms or other supplies become obsolete while being carried in Stock of Supplies?

25. Should the Manual of Instructions be revised to provide that all expenses connected with the training of employees in the banks' training classes be charged to the unit for which employees are being trained instead of to the Educational and Training unit of the Provision of Personnel function?
26. Where the cost of a given operation in your bank is allocated to an expense unit other than that in which the work is handled, how do you determine the cost to be allocated? If by periodical time studies, how frequently are such studies made?
27. Should the Manual of Instructions be revised to require the cost of actual bank examinations or credit investigations to be shown separately from the cost of other work now charged to the Examination function? If so, please indicate the changes in the Manual you would suggest to bring this about.
28. Is it desirable that the Manual of Instructions be revised to provide that salaries of department heads should be allocated entirely to expense units other than Administration?
29. Where should the cost of cash-letter forms furnished direct-sending banks be charged?

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