

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-465

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 15, 1939

Dear Sir:

There is attached, for your information, a copy of the Board's semiannual functional expense exhibit for the Second Half, 1938. This report has been compiled from the functional expense reports which are submitted semiannually to the Board of Governors by each Federal Reserve bank and branch.

The functional expense reports show the expenses of the Reserve banks by various "functions", such as the Check Collection function, Noncash Collection function, Currency and Coin function, etc., and also in a number of cases by "expense units". For example, the Check Collection function is broken down into several expense units such as the City Checks (Clearings) unit, the Country Checks-Outgoing unit, the Return Items unit, etc.

In the case of certain expense units a measurement of the volume of work is reported and figures are contained in the Board's exhibit showing a comparison between Reserve banks of the cost of handling the various classes of checks, currency and coin, etc., and of the number of units handled per employee per day.

From a review of the attached exhibit you will note that there are wide variations in the cost of performing like operations by the different Reserve banks. For example, the variations in the unit costs of handling country checks at the head offices may be noted by referring to the next to the last column at the bottom of page 25. The unit costs for the Currency-Receiving and Sorting unit are shown in the third from last column at the top of page 22, while those for the Government Checks unit are contained in the last column at the bottom of page 38. There are also wide variations in costs in some of the functions for which a measurement of the volume of work is not available such as the Loans, Rediscounts and Acceptances function as shown on page 18.

Since the Federal Reserve banks are located in cities of varying sizes and in widely separated localities and, furthermore, since they must conform in a general way to local customs

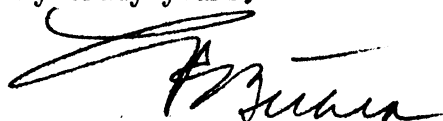


and practices in the matter of salaries, length of working day, etc., certain variations in unit costs are to be expected. It is thought, however, that studies should be made of those units in which there are wide variations in costs with the view of determining the reasons for the variations and whether they are entirely justified.

It is believed that the directors of the Federal Reserve banks would find such studies particularly helpful to them in passing upon budgets for the various departments of the bank. The Board would suggest, therefore, that if you have not already done so you consult with the President of your bank with respect to the functional expense report and initiate such studies as are thought necessary to acquaint your directors with the reasons for major differences in expenses where such expenses at your bank are substantially out of line with similar expenses at other Reserve banks.

Some of the differences shown in the expense reports may be due to a failure to properly allocate expenses to the several expense units. In this connection, representatives of the Board who are familiar with the functional expense reports have devoted some time in reviewing allocations of expenses to fiscal agency and other units and it is expected that they will continue their studies along these lines. Such studies as they may make, however, are not intended to serve the same purpose as those referred to above.

Very truly yours,



L. P. Bethea,
Assistant Secretary.

Enclosure

TO THE CHAIRMEN OF ALL FEDERAL RESERVE BANKS

COPY TO BE SENT TO THE PRESIDENT OF EACH FEDERAL RESERVE BANK