

ADMINISTRATIVELY CONFIDENTIAL

May 27, 1965

MEMORANDUM FOR COMMISSIONER KEFFEL

SUBJECT: ADDITIONAL SUGGESTIONS FOR STRENGTHENING FINANCIAL ADMINISTRATION  
IN THE OFFICE OF EDUCATION

Attached are our views and recommendations for improving financial administration in the Office of Education, a summary of which is outlined below. We have concluded that the existing system of financial administration is completely inadequate for the Office's prospective programs, and that an aggressive across-the-board improvement program should be started immediately. Failure to upgrade this important area of management may both prejudice OE's substantive programs and embarrass the Administration.

1. Accounting system

We believe there is an urgent need for an aggressive program of accounting systems analysis and revision, including the centralization of all accounting in the Office of Administration in order to free program people in the bureaus and divisions from the burden of directing and managing this service type support function.

The Financial Management Branch in the Office of Administration has just this week obtained a new systems accountant to work on this problem. We think additional help may be necessary, and we will assist you in obtaining it from another Government agency if you would like us to do so.

We believe early action in this area is important. The general feeling expressed within OE is that there is, and has been, a growing need for increased record keeping; that the present systems are chiefly the result of patching up in any way possible to meet current program needs; and that something must be done soon in a coordinated and systematic way to improve the accounting system.

2. Budget formulation

To improve budget formulation we are recommending that major emphasis be on the presentation of five-year program plans during the spring review. This is in accord with Bureau of the Budget instructions which place increased importance and reliance upon that phase of the budget process to resolve as many program issues as possible prior to annual budget submissions in the fall.

We are also urging that a time schedule be established which will permit an input from all OE organization units in sufficient time for thoughtful and meaningful consideration of issues, the choosing of alternate courses of action, and effective decisions by management.



### 3. Budget execution

Present financial planning is geared largely to insuring that funds appropriated to the Office of Education are obligated for the purpose and within the limitations imposed by Congress. The system is directed primarily to the needs of budget and fiscal personnel and, generally, can be understood and evaluated only by them. It is not considered suitable as a basis for management review and appraisal of actual performance.

We are suggesting immediate initiation of a special project aimed at developing improved time phased financial plans at the beginning of each fiscal year as a basis for determining program priorities and emphasis and for subsequent management review and appraisal of actual performance. We are also recommending that the content of the plans be determined in consultation with the principal OE managers; that the plans include meaningful operating data other than financial; and other actions which should improve budget execution.

The recommendations made for improving this area of financial administration tie in closely with suggestions for upgrading the OE management reporting system which will be submitted to you shortly.

### 4. Financial advisory services

We are recommending in this area that the function of providing leadership and over-all guidance in financial management matters involving large amounts of money that will be paid to states and universities be centralized in the Office of Administration and strengthened so as to provide a focal point for coordinating financial requirements levied on program participants. We believe this central office should review and make recommendations on those elements of all handbooks, directives or instructions to states and universities which would have an impact on their financial control systems. At the present time, there is a central point for providing guidance and coordination of such efforts, but there is no requirement that directives or instructions be reviewed with the result that this service is not always used.

Additionally, we believe that this central office should sponsor and promote comprehensive programs for improvement of the financial control systems of grantees wherever necessary to assure proper control, accounting, and disbursement of Federal grant and loan funds. We believe this is an area that should have prompt attention, especially in view of the large amounts of money that will soon be paid out under the Elementary and Secondary Education Act. You will recall that the Senate report on that Act stated that the participating State agency is required to "...adopt such fiscal control and fund accounting procedures as may be necessary to assure proper disbursements of the Federal funds paid to the State..."

Again, we shall attempt to obtain some assistance from other Government agencies if you think this would be advisable.



## 5. Auditing

We believe the planned centralization of DHEW auditing, including the auditing of OE activities under a departmental chief auditor, should be completed. It is essential, however, that this centralized system be responsive to the needs of the Commissioner of Education on a timely basis. We are recommending that in about January 1966, a joint DHEW-OE review should be made to determine the adequacy and effectiveness of the centralized audit approach. In the meantime, a close and continuing liaison should be maintained to insure that audit coverage, timeliness, and service is adequate for management purposes.

## 6. Collection of National Defense Student Loans

This is a problem which has already been studied extensively by the Office of Education. In early April 1965 the Bureau of the Budget requested the DHEW and OE to present some concrete recommendations for improvement of loan collection procedures, which is being done. We have not gone over the same ground on these proposals, since it appears that the problem will be settled in the near future in the usual course of business. We are, however, making one additional suggestion having to do with the accrual of interest and payment thereof by the student within the month following disenrollment in order to keep the university in current contact with the student, and to impress upon the student the fact that he has an obligation which must be paid.

## 7. Letter of credit system

There were, we found, differences of opinion between DHEW and OE personnel in two areas involving implementation of the letter of credit system. One of these differences related to a desire of the Department to use a consolidated DHEW letter of credit in order to provide a single flow of cash to a State or university, which was resisted by OE staff. The other difference related to the inclusion of construction money in the letter of credit; in this case, the DHEW people wanted to exclude construction money, whereas OE staff wanted to include it. We had extensive discussions with both DHEW and OE people concerning these differences of opinion, and we think they have been largely resolved. Accordingly, nothing further is being submitted for this area of financial administration.

(Signed) Dwight A. Ink

Dwight A. Ink, Chairman  
White House Task Force on Education

cc: Mr. Ink  
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