

**THE WHITE HOUSE**  
**Washington**

**June 3, 1965**

**NOTE FOR COMMISSIONER KEPPEL:**

**Attached are recommendations for improved financial  
administration in the Office of Education. These  
were first given to you informally on May 27.**

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

**Enclosure**

## ACCOUNTING SYSTEMS

### I. The present accounting system.

The bureaus and divisions throughout the Office of Education now maintain any form of accounting records they believe needed for fund control and reporting, or for other purposes, particularly with respect to program funds. The methods used vary from hand posted columnar worksheets to the use of bookkeeping machines. The only exception to this is the format of the allotment ledgers used for fund control purposes. In most cases, the records kept by divisions provide a more detailed distribution of financial information than the records maintained at the bureau level, but several cases were observed where financial information on the number and types of grants, and the geographical distribution, were duplicated at the bureau and division level. The divisions' accounting records clearly contain a great variety of statistical and financial information, manually processed, which could better be done by using modern automatic data processing equipment.

The type and extent of record keeping by each of the various divisions has been dictated largely by their rapidly expanding needs for information for managing accelerating programs, and there has been no successful effort to establish a standardized modern system that would serve the needs of all program managers by providing financial information from one source.

Accounting is done in the Office of Administration in the Financial Management Branch; the Bureaus; the Divisions; and even in the Branches--for example, in the Division of College and University Assistance, in the Bureau of Educational Assistance Programs, the accounting for program funds is done in the branches by clerical support personnel. The location and extent of all the official and unofficial or memorandum accounting records that may exist could only be determined by a comprehensive review of the entire OE organization, which was not done. But, at each of the organizational entities visited, the Task Force staff was made aware of the growing need for increased record keeping and of the desire by the personnel for someone to provide assistance in a coordinated and systematic way to improve the accounting system. The general feeling expressed was that the programs have expanded so rapidly that the accounting and fund management systems are chiefly the result of patching up methods in any way possible to meet current program needs.

### II. Recommendations for improvement of accounting.

- (1) The OE should initiate an aggressive program of accounting systems analysis and revision, oriented to automatic data processing methods, which will be consistent with (a) the accounting principles and standards prescribed by the Comptroller General for approval of accounting systems, and (b) the Department-wide system at the DHEW Secretary level.



- (2) For effective integration of the budgeting and accounting functions, common classifications should be employed for programming, budgeting, accounting, and reporting purposes. Care should be exercised in the application of this principle to insure that accounting classifications will provide accounting support for the data required for the Budget Document.
- (3) As a part of this improvement effort formal accounting manuals and handbooks should be developed, and thereafter kept current.
- (4) Accounting operations should be centralized in the Financial Management Branch in the Office of Administration; and this Branch should be given staff capability adequate to undertake over-all responsibility for the orderly revisions necessary to modernize the present accounting operations in a timely manner.
- (5) Full advantage should be taken of the DHEW capabilities for automatic data processing; and any necessary action taken jointly by DHEW and OE to assure that continuing access to the equipment is on a timely basis.

The principal objectives to be achieved by these recommendations are as follows:

1. Eliminating the need for extensive and diversified manual accounting operations performed by OE bureaus and divisions.
2. Providing, at a central point, the total responsibility for directing, prescribing, and operating accounting processes which are now fragmented throughout the OE.
3. Providing timely and meaningful program financial information for OE activities according to breakdowns needed by program managers for current operations, for answering inquiries, for budget justifications and for fund control.
4. Making maximum use of modern automatic data processing methods in order to obtain a higher degree of standardization and efficiency in accounting and financial reporting.
5. Obtaining efficient utilization of all the OE accounting and fiscal personnel, and, at the same time, freeing program people in the OE bureaus and divisions from the burden of directing and managing service type support functions.



### III. Special comment on EAM and ADP equipment.

The Task Force staff reviewed the Office of Administration proposal for acquiring punched card equipment which would be used in conjunction with bookkeeping machines in the bureaus to be equipped with card producing attachments. The possible automation of the record keeping processes was also discussed with DHEW representatives who gave assurances that OE access to the central ADP equipment would be on a timely basis.

The Task Force is not aware of any other compelling reasons which would preclude the development of machine methods integrated with DHEW computers in lieu of the installation and operation of punched card equipment as proposed by the Office of Administration. We point out, however, that this endeavor will require more effective cooperation between the Office of Administration and DHEW people in the Comptroller's office, and we have faith that this cooperative approach is possible. The advantage of central equipment can be transformed into an operating handicap if access to that equipment is slow and uncertain.

### IV. Technical Assistance.

To carry out the recommendation we have made, the Financial Management Branch should be staffed with two capable systems accountants, one of whom should have a strong background in the application and use of ADP equipment in financial accounting processes. They should be kept free of current operating responsibilities until their task has been fully completed. Thereafter, they should insure that necessary changes in the OE accounting system are made in a prompt and orderly fashion.

Outside technical assistance may be necessary in order to insure that the systems improvement work moves ahead rapidly in the next thirty to sixty days. The Task Force will attempt to obtain such assistance if it is desired by the Office of Education.



## BUDGET FORMULATION

### I. Present budget formulation procedures

Up to the present, budget formulation has primarily been a process for the "pricing out" of fund requirements under existing legislation. New legislative proposals have generally been considered and processed independently. There has been no input from the planning staff. Hence, the process has required little or no participation by top management. The balancing of fund resources as between programs and activities where this is possible, has generally not been given adequate high level management consideration in this process.

### II. Recommendations for improving budget formulation

- (1) In instructions issued by the Bureau of the Budget for the spring review of the FY 1967 budget, the principal emphasis is on the presentation of five year program plans, including both those covered by current authorization and by proposed legislation. This same approach would be extremely valuable to OE management in the formulation of OE budgets. Implementation of this recommendation is dependent upon adoption of the Task Force recommendations on reestablishment of the planning function, which will be covered in a separate memorandum to you on "Planning and Program Formulation."
- (2) The work of the OE Budget Office, the Planning Office, the Legislative Office, and other OE organizational entities relating to program formulation should be time-phased so that the inputs from the entire OE "team" (relating to new programs or extensions of existing programs) can be incorporated into a coherent package for consideration during the spring preview by top management in (i) the Office of Education; (ii) the HEW Secretary level; and (iii) the Bureau of the Budget. The time schedule should be established so that all OE organization units will be aware of due dates for their inputs and so that there is sufficient time for thoughtful and meaningful consideration of issues, the choosing of alternate courses of action, and effective decisions by management.

The inputs from the entire OE team, including the Planning Office, and inclusion of proposed legislation, can make the annual spring preview of programs and the developing of program plans and budget projections a more effective and useful procedure to top management in OE, HEW, and BOB.

If an effective job of review, analysis, and decision making is done during the spring review, the preparation of annual budgets in the late summer and fall would continue to be largely a matter of pricing out the funding required to finance approved programs for the next budget year,



although it is recognized that all program issues may not be resolved in the spring review. Also, the Office of Education should be in a better position to evaluate budget reductions proposed in the spring preview by DEW or the BCS and their effect on current programs and on the attainment of longer range goals and objectives.

### III. Technical Assistance

We believe that implementation of the recommendations made herein can be accomplished by OE staff, with guidance and assistance as may be necessary from DEW Comptroller staff and the Bureau of the Budget.



## BUDGET EXECUTION

### I. Present budget execution procedures

The present financial plan and allotment procedure is geared almost entirely to insuring that funds appropriated to the Office of Education are obligated for the purposes authorized by and within the limitations imposed by the Congress. Within the limits of such objectives, the procedures and systems are adequate. The existing financial plan procedures and related reporting, however, are not considered suitable or adequate as a basis for internal management review and appraisal of actual performance, at the Bureau level or by the Commissioner or Deputy Commissioner.

### II. Recommendations for improving budget execution

- (1) The Office of Education should initiate 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. These annual financial plans should be developed to show, as a minimum, anticipated rates of obligations for each of the "budget activities," but the project should also identify additional sub-activity breakouts necessary for management purposes at the Bureau level, as well as overall summaries and considerations that would be most useful to higher echelon managers such as the Commissioner and Deputy Commissioner.
- (2) The annual financial plans should show projected obligations broken down into monthly time periods, unless it is determined that management review and appraisal is not required on a monthly basis. In no event should the breakdown be less than on a quarterly basis and should be uniform for all program activities and subactivities so as to permit consolidation and summarization.
- (3) The content of the financial plans should be determined in consultation with the principal OE activity, or subactivity, manager (Bureau and division directors, or others). The financial plan should be supported by statements of meaningful operating data.
- (4) Provision should be made for formal revisions in the plans when such action is considered necessary by the managers in light of current conditions, but the format of the published financial plan should be such as to always show both the original and revised plans.
- (5) The financial plans, when developed, should be formalized and published in a manner similar to that now employed for the OE budget. That document should clearly set forth any unplanned or reserved amounts, together with a clear explanation of the reasons therefor.



- (6) The published plans should be distributed on a timely basis to all of the principal OE activity and subactivity managers.
- (7) These plans should be developed beginning with the fiscal year 1966.

In making the recommendations set forth above, the Task Force is cognizant of the fact that a large part of OE funds is appropriated for formula type grants, but we do not consider this as eliminating the need for the kind of formal financial and operational planning referred to in the recommendation. We recognize, in such situations, that management discretion is limited and that the development of a financial and operating plan in such a case would be a much simpler task than the development of a plan for an activity or subactivity where there is flexibility and room for a great deal of management choice. However, to be meaningful the overall financial plan should include all programs and activities of OE.

Unless there is, at the beginning of the fiscal year, a well thought out time-phased financial plan for each of the major activities and subactivities--which has been developed by the manager(s) responsible for the activities or subactivities--there is not a good basis for appraising program implementation and reaching a conclusion as to whether the activity or subactivity is "in trouble" as soon as that trouble begins to develop.

### III. Supporting operating data

The reference in our recommendation to "meaningful operating data" relates to those kinds of program facts, or things, that the managers themselves believe are measures of their success, or lack of success, in implementing the programs for which they are responsible. For example, the major impact of the Vocational Education Act of 1963, during the first two years, will be in the initiation of much needed construction, and the provision of initial equipment. Perhaps the number of projects on which construction was planned to have started, as of a given date, and the number which, in fact, had been started, could be used to measure progress in meeting objectives. Another such measure might be the number of States in which State legislatures and local agencies have approved plans and locations for construction of area vocational schools, as well as the necessary bond issues or appropriations for financing these facilities, as compared with the OE program manager's estimate of the number of States which would have done so.

A major part of the effort in connection with this recommendation will be concerned with the matter of identifying, in close cooperation with responsible managers, the kinds of things that can be estimated in advance, against which comparisons can be made as the fiscal year progresses. This will require a penetrating analysis of each program and an identification of those measures that may be truly useful for management purposes as opposed to those that would not.



#### IV. Technical assistance

We recommend that an individual experienced with the development of concepts and procedures for financial plans be obtained to work jointly with the management reports expert, and the Financial Management Branch be staffed to analyse and review the status of financial plans, and prepare reports to management. This probably would require an additional two or three positions in the management reports section which we have previously recommended.



## FINANCIAL ADVISORY SERVICES

### I. Present financial advisory assistance to States and Universities.

The OE soon will be charged with the responsibility of administering between \$3-4 billion in appropriated funds. For the most part, these funds are advanced for the purpose of providing financial assistance to State and local education agencies, and higher educational institutions.

Within the OE, many divisional size organizational units are delegated responsibility for administering one or more of these grant type programs. This responsibility includes the promulgation of both program policies and financial, procedural, and reporting requirements which are levied on fund recipients.

OE's mission includes also the gathering and compiling of educational statistics. The Office is participating in a cooperative project with State and Territorial Departments of Education with the aim of achieving comparable recording and reporting of such statistics. This project has resulted in the issuance of a number of Handbooks by OE dealing with financial, personnel, and property accounting for State educational agencies. Although the objective of this project is to attain uniformity of statistical information, this effort has an impact on the financial management systems of both State and local educational agencies. This project is administered by the National Center for Educational Statistics.

Personnel assigned to the Financial Management Branch, Office of Administration, also deal with and render financial advisory services to the same program participants. Although the Financial Management Branch, OA, is responsible for providing guidance to OE program officials on fiscal-type requirements, such guidance has been made available on an "as-requested" basis, or when specific problem areas develop. This Branch, however, has no review and approval authority with respect to financial and administrative requirements levied on grantees.

There is a central point within the Office of Education for providing coordination and direction of the various financial and fiscal requirements that are levied upon grantees, but there is no requirement that directives and instructions be reviewed, with the result that this service is not always used.

### II. Recommendations for centralizing and strengthening financial advisory services to States and Universities.

- (1) The function of providing leadership and over-all guidance in financial management procedures relating to the OE's grant and loan programs should be centralized in the Office of Administration and strengthened so as to provide a focal point for coordinating financial requirements levied on program participants.
- (2) The central office should provide professional financial advisory services to OE program personnel and collaborate with them in the preparation of instructions to States and Universities relating to expenditure of Federal funds.



- (3) The central office should review and make recommendations on these elements of all handbooks, directives, or instructions to States or universities which would have an impact upon their financial control systems.
- (4) The 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.

Most of the financial assistance programs administered by the OE have many similarities in statutory requirements, administrative procedures and techniques, and fiscal accounting and reporting requirements. The unified direction of the financial and administrative phases of these programs would afford an excellent opportunity to simplify and avoid duplication on the part of program participants in matters such as (1) preparing the financial part of State plans; (2) keeping required financial records; and (3) reporting on expenditures.

In regard to our recommendation for improving financial control systems of grantees, attention is directed to the Senate Report on the Elementary and Secondary Education Act, which states 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..." To properly implement this directive, a coordinated OE leadership and technical assistance effort is necessary.

### III. Technical Assistance and Staffing.

The Bureau of Public Roads in the Department of Commerce has, for several years, sponsored and promoted a broad scope financial management improvement program in the State highway commissions. They have already achieved very worthwhile results. In 28 States, there is now a total financial control system in which both State and Federal people have confidence. Active work is being done in the remainder of the States, where desired financial control systems are now in various stages of development. We believe it would be helpful to OE to obtain a sixty to ninety day detail of an employee from HPR, or some other Federal Government agency, to assist in organizing and getting the OE financial advisory function underway, especially in the development of any needed financial management improvement programs in State Departments of Education, or comparable State agencies that will be heavily involved in spending money obtained from Congress by OE. The Task Force will try to obtain such assistance, if desired by the Commissioner.

At present, the Financial Management Branch in the Office of Administration, is conducting a limited fiscal advisory service. The total staff complement



for this effort is comprised of five professionals. We have been advised that seven additional positions are requested for fiscal year 1966. This staff should be adequate for the centralized and strengthened financial management function discussed in this section, but the ultimate staff requirements will have to be determined at a later date in light of the workload experience.



## AUDITING

### I. Centralization of auditing in DHEW.

Effective March 22, 1965, the Department reorganized its audit activities by establishing the Office of Audit and centralizing the audit effort in this Office. This reorganization came about as the result of an extensive study of Department audit activities made by a panel of outside experts, and after discussion of their proposal with the Bureau of the Budget. Full implementation of this panel's recommendations is to be accomplished by July 1, 1965, so that, beginning then, all auditing of OE activities will be conducted by the central audit staff.

### II. Providing timely and adequate audit service to OE.

Our discussions with the Department's new Chief Auditor, and staff, centered primarily upon the ability of the new audit approach to provide the OE with timely and adequate audit service. Assurances were granted that this would be done. Particularly, we were advised by the Chief Auditor that the audit of OE activities would be on a current basis, i.e., it would not be a case where the OE money was spent and then a year or two later an audit would be made.

The Task Force was advised, also, that requests from the Office of Education for special audits of particular suspected problem areas would be accepted, the work performed expeditiously, and prompt reports rendered to the Commissioner of Education.

### III. Recommendations regarding OE auditing.

- (1) The planned centralization of all DHEW auditing, including the auditing of OE activities, under a departmental Chief Auditor, should be completed. It is essential that this centralized system be responsive to the needs of the Commissioner of Education on a timely basis.
- (2) A close and continuing liaison should be maintained with the Department's Chief Auditor to insure that audit coverage, timeliness, and service is adequate for management purposes, particularly in light of rapidly accelerating programs. In this regard, the Department's Chief Auditor should provide the Commissioner of Education with an audit schedule showing target dates for completion of audits in the OE area.
- (3) In addition to the "period" and project audits planned, the Chief Auditor should be requested to make special audits of those subject matter areas where it is considered there may be possible weaknesses, or an urgency, such as collection procedures of universities under the HEA Student Loan Program; adequate documentation and support for the "level of effort" under cooperative research contracts; the adequacy and effectiveness of fiscal control and fund accounting procedures employed with respect to disbursements of the large amount of Federal funds paid to States; residual balances on construction projects, supported in part by Federal



- (4) With respect to grant funds advanced to and administered by States, the audit should incorporate an evaluation of the effectiveness of fiscal and fund accounting controls at the point of expenditure (i.e., local school districts), as determined necessary in order to assure proper disbursements of Federal funds.

IV. Follow-up review of the adequacy and effectiveness of OE auditing.

About January 1966, a joint DHEW-OE review should be made to determine the adequacy and effectiveness of the centralized audit approach and the extent to which those of the above recommendations which are adopted are being implemented. It is suggested, further, that the Bureau of the Budget staff member who participated in the survey, referred to in Section I above, should also participate in this special follow-up review.



## COLLECTION OF NATIONAL DEFENSE STUDENT LOANS

### I. The loan collection problem.

Problems relating to collection of National Defense Student Loans have been recognized and have been under study for several years by the OE.

On April 2, 1965, the Acting Director of the Bureau of the Budget placed a request on DHEW Secretary Celebrezze for advice at an early date relative to the kinds of action which the Department concludes are desirable to insure better collection procedures. The Bureau pointed out that in view of the importance of assuring adequate stewardship of the substantial funds involved in this program--and the responsibility which this places not only on the institutions but on the Federal Government as well--further measures should be considered, either of an administrative or legislative nature, which should be taken by the colleges and the universities and the Federal Government to assure effective administration of the NDEA Student Loan Program.

The Office of Education now has in draft form some concrete recommendations, including changes with regard to frequency of payments; minimum annual repayments; length of the grace period; payments of interest prior to disenrollment; surcharges on future payments past due; and other changes which they believe will be helpful, including an allowance to the universities for administrative expenses in meeting the costs of administering their respective loan programs.

### II. Views of the Task Force.

Extensive work has already been done on the loan collection problem, and the OE will soon advise the Bureau of the Budget as to recommended actions to improve loan collection procedures. Accordingly, the Task Force has not made an extensive study of its own, being of the opinion that such an effort would duplicate work already completed.

The Task Force believes, however, that collection of loans to students would be improved if interest began to accrue for the first month after the student completes his studies, or is otherwise disenrolled, coupled with a requirement that the first interest payment be made at the end of that month. Such a requirement would keep the university or college in current contact with the student and, at the same time, would impress upon the student the fact that he has an obligation which must be repaid.

At the present time, the borrower is not required under the law to make any payment until the end of the second year after he leaves college. This makes it difficult to maintain contact with the student and easy for the student to forget his obligation.