



UNITED STATES  
DEPARTMENT OF THE INTERIOR  
OFFICE OF THE SECRETARY  
WASHINGTON, D.C. 20240

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Memorandum

To: Director, Office of Territories

From: Director of Survey and Review

Subject: Report on Evaluation of Financial Management System --  
Trust Territory of the Pacific Islands August 6 to  
October 7, 1965

Attached are 10 copies of the report of the subject evaluation made at the request of the High Commissioner by Messrs. Hammock and Ganna. Additional copies are available.

The conclusions and recommendations in the report are summarized as follows:

1. On the basis of available information developed by assisting auditors, the amount of current liabilities, unliquidated obligations and unobligated appropriations exceeded the total of available cash and related resources by approximately \$1,688,000 at June 30, 1965. This is indicative of the poor fund control situation, attributable to many factors in all phases of the financial management cycle.
2. There is a continuing need for integrated planning and scheduling of both construction and operating programs, for a system of priorities, and for specific definitions of responsibilities at all levels in the planning and budgeting process.
3. Significant reprogramming should be accomplished only with appropriate authority.
4. Budgeting and accounting systems must be fully integrated.
5. A clear and specific manual should be written on the accounting system to replace the welter of non-specific materials now extant. This system must then be submitted to the Comptroller General for approval. That should be done no later than January 1967.

19-424091

6. System refinements should be based upon the principles and standards in Title 2 of the GAO Manual because they represent sound management concepts, and conform to the goals of the Joint Financial Management Improvement Program.

7. Appropriation and financial position accounting concepts must be separated to correct a number of the fund control problems.

8. The levels of allotments should be raised.

9. There are no document controls, and accounting controls are not utilized as intended. These facts contribute greatly to the fund management problems, and also result in improper cost accounting. Several recommendations are made on these matters.

10. Encumbrance and prevalidation procedures should be instituted.

11. Centralization of accounting and the practicability of using checks for Micronesian payrolls should be tested, starting with the Mariana District.

12. The financial reporting processes in both construction and operating areas need revision to provide management with timely and more specific data on resource utilization.

13. The lack of cash controls has resulted in retention of inordinately large cash balances in the Districts for long periods, as well as improper use of cash to supplement imprest funds; and probably has contributed to defalcations which have occurred. Specific procedures and enforcement are required to correct these situations.

14. Revolving funds should be held to a minimum.

15. Billing and collection controls and follow-up procedures need much attention.

We reviewed, with your representatives, the proposed staffing pattern for the Budget and Finance activity, and agreed that there is a need for the numbers and types of positions indicated in the proposal. These positions, of course, are of such importance that they demand talent with strong professional background and initiative.

Until this operation is placed on a sound working system, management also must be extremely selective of the personnel operating at the District level, since inexperienced personnel will not be effective under the present disarray of guidelines and instructions. There will

19-424092

be no lessening of the need for qualified personnel in field offices as a result of the consolidation of record keeping processes recommended in the report. The District Finance Officer will be the key man in the success of the system.

The report indicates quite clearly the void in Trust Territory management resulting from the lack of coordination of policy and program actions and required financial decisions. We believe that the comptrollership concept is most appropriate for the Trust Territory operation, in which the Budget and Finance activities would participate fully in management decisions and planning, as opposed to constant reaction to such decisions.

The report does not contain a recommendation on disposition of the deficit balances in the Appropriation and Unappropriated Surplus (Deficit) accounts. This was omitted because of anticipated discussions with the Bureau of the Budget on that matter.

It is not practicable to attempt further reconciliation of the Unappropriated Surplus (Deficit) account until other more important system problems are resolved. On the other hand, the Appropriation accounts should be adjusted to a meaningful balance in terms of the information provided on FY 1965 balances in the recent budget presentations. Therefore, the unobligated balances as of June 30, 1965, reflected in the FY 1967 presentation, should be used as a starting point for this adjustment.

1. At December 31, 1965, eliminate all entries which have been made to Unappropriated Surplus (Deficit) accounts which should have been, but were not, treated as entries to Unobligated Appropriation accounts by transfer to those accounts. See the report comment on this matter. This includes any Reserve balances which have fund control connotations. Also, Estimated Revenues should be eliminated from Unobligated Appropriation accounting until that situation is under better control.
2. A detailed inventory of unliquidated obligations and payables should then be made as of December 31, 1965. Eliminate all items which are not valid.
3. Adjust balances in Unobligated and Unliquidated Obligation as well as expenditure accounts to the inventory determined above. From that point forward document controls, cut-off dates, accounting controls, and coordinated decision making called for in the report should keep this situation under control.
4. A complete documented record should be made of this adjustment process for review by GAO. It must be approved by top management and the Office of Territories.

Finally, special note is taken of the low level of internal audit activity in the Trust Territory. A broad program of the type prescribed in 348 IM 1-4 is sorely needed in this operation, probably more so than in any other area of the Department. The broad scope of the necessary program is set out in the report. A professional review activity is of such importance to improving management of the Trust Territory that it should be undertaken without delay. Quarterly reports of progress in developing programs, and audit accomplishments, should be submitted to the Office of Territories until further notice. You should also request quarterly reports on progress in other areas covered in the report.

We understand that the GAO is planning an audit to begin immediately after or shortly before the end of this fiscal year. We hope that funds will be under control at that time and have requested a delay in the audit until then to provide time for making necessary changes in procedures.

The whole-hearted cooperation extended in connection with this review by all at Saipan and your Office is appreciated.

Enclosures

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cc: AA

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