



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

APR 28 1966

Dear Mr. Schultze:

This is in response to your letter of March 8 regarding financial management in the Trust Territory of the Pacific Islands and the possibility of instituting apportionment controls for fiscal year 1967.

The Department has been seriously concerned about the quality of financial management in the Trust Territory. During the past year we have moved to overcome existing weaknesses by recruiting additional qualified personnel to staff the budget and fiscal operation at the Trust Territory headquarters. In addition, we sent professional staff to Saipan to review planning procedures and budget and accounting aspects of fund controls and to recommend corrective action in those areas. I understand that copies of the study have been provided to the Interior examiners.

The recommendations of the study report are summarized as follows:

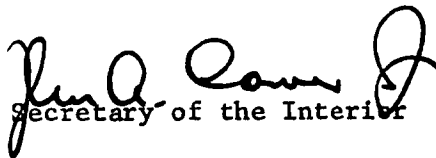
1. An integrated system of planning must be developed for both construction and operating programs, including scheduling of priorities; and responsibilities for individual performance under the system must be clearly defined.
2. Significant reprogramming must be approved in advance.
3. Budget and accounting systems must be fully integrated.
4. The accounting system is to be revised, based upon principles and standards prescribed by GAO, and submitted for approval of the Comptroller General. This is to include numerous revisions in internal controls, establishing encumbrance and prevalidation procedures, and changes in other aspects of appropriation accounting.
5. Accounting is to be centralized to the extent practicable.
6. Financial reporting is to be revised to make it useful to management.
7. Internal controls over cash are to be strengthened.
8. Billing and collection procedures are to be revised.
9. Internal audit must be advanced to a higher level, including operations review, to make it an effective part of a management control system.

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The Department has directed that an immediate and sustained corrective program be undertaken to follow the recommendations in the report. Cash withdrawals from the Treasury are now controlled consistent with the intent of Treasury Circular 1075. The problem in the past, however, has been failure of obligation control. We will enforce a strict procedure, through reports from TT to the Director, Office of Territories, requiring time phased obligation plans and controls. We will also insist upon quality budgeting, and more specific coordination of day-to-day expenditure decisions among all elements of management, lack of which in the past has contributed to the fund control problem. In short, we will require that monies appropriated, as Grants or otherwise, be managed.

You may be sure that we view this situation gravely. Close attention will be paid to the progress made to bring it under control. We believe that the stern measures we have requested the Office of Territories to take in this matter will produce results. At any rate this opportunity should be allowed. If the problems persist after a trial period of 6 months, we will request apportionment controls.

Sincerely yours,

  
Under Secretary of the Interior

Hon. Charles L. Schultze  
Director, Bureau of the Budget  
Washington, D. C. 20503

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