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ABSTRACT

On the minds of all who serve higher education in administrative capacities is the acceleration in demands to be accountable to the federal government--that is, to give assurances that resources are being used prudently and effectively. This occurs primarily in two areas: in the increase in federal financial involvement in higher education, and in the increasing demands on higher education to respond to social changes. In the first case, institutions have generally cooperated well with the federal government. In the second case, costs of implementing federally mandated programs have increased at a high rate, disproportionate to other costs and revenues; institutions are now so dependent on federal funds that they may feel they do not have the option of rejecting new programs. It is necessary for institutions to strike a balance between (1) the desirability of autonomy and (2) the reality of accountability to constituencies (state and federal governments, accrediting associations) as well as within the institution. Some authorities argue that simplified, annotated financial statements may be helpful, especially by bringing fiscal awareness to all sectors of the academic community. (Author/MSE)

NACUBO Professional File

Meeting the Demand for Accountability

by Clarence Scheps

For higher education, the era of the 1970s may be described by the connotations depression, bear markets, energy problems, federal regulations, state coordinating agencies—and *accountability*. It is this last designation which is addressed in this paper. What is accountability? How does it affect institutions of higher education as they strive and sometimes struggle to meet its demands?

Accountability—What Does It Mean?

Accountability means different things to different people, and has different connotations in different circumstances. Webster defines "accountable" as "liable to be called to account, answerable, capable of being accounted for." "Accountability," a synonym for "responsibility," is defined as "subject to an authority which may exact redress in case of default." In a very narrow sense accountability is what the supplier of funds has a right to expect from the recipient of those funds. As Stephen Bailey,[1] vice president of The American Council on Education (ACE), states it, "Accountability is simply the legitimate requirement on the part of those who supply money that it be spent prudently and effectively."

In a broader sense, accountability covers a whole range of internal and external activities. Internally, it manifests itself in accounting, auditing and financial reporting; in relationships with the various constituencies of the institution—faculty, students, trustees, and alumni—and in various management activities. Externally, it involves governments—local, state and federal—the Congress and state legislatures, regulatory bodies, taxpayers, churches, accrediting bodies, labor unions, and courts.

Very much on the minds of all who serve higher education in administrative capacities is the vast acceleration in demands to be accountable to the federal government. This accountability has occurred primarily in two areas: in the enormous increase in the federal financial involvement in higher education which has taken place since the end of World War II, and in the ever-increasing demands made on higher education to respond affirmatively to social changes.

With respect to the financial involvement of the federal government in higher education, it is noted that in the year prior to World War II higher education in total received from the federal government a mere $62 million, one-half of which was for land grant institutions and for research in agriculture. For the year 1975, no one knows for certain the actual amount of federal funds involved in higher education, but it is estimated that this total will be in the neighborhood of $6 or $7 billion. A substantial percentage of the total expenditures of higher education comes from federal sources and nearly all the 3,000 institutions of higher education in the United States participate in one federal program or another. This tremendous financial participation of the federal government in higher education has resulted in an ever-increasing demand on institutions for enhanced accountability both from the financial point of view and from the aspect of program.

Need for Care Recognized

Although federal funding has created problems of enormous proportions, especially in our business offices, the colleges and universities have responded well. They have recognized, for the most part, that federal government funds must be expended with the same care and prudence as funds that institutions receive from state governments, student fees, private donations, or endowment earnings. Institutions have recognized that they are trustees of funds received from the federal government and have taken steps to insure that such funds are

[1] Stephen K. Bailey, "External Forces Affecting Higher Education," NACUBO *Professional File*, August 1975.

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properly accounted for and reported. The institutions have willingly consented to continuous audits, believing that it is right and proper for granting agencies to verify the accuracy and integrity of the records maintained by the recipients of external funding.

Although we have chafed over some policies of the federal government from time to time, and perhaps have been subjected on occasion to undue harassment, I believe that for the most part we have gotten along well with federal authorities in this area of accountability. Of course, institutions have a solemn obligation, individually and collectively, to attempt to influence government policy insofar as this policy affects the welfare and interests of higher education. We have a perfect right to establish our own mechanisms to help educate the federal establishment on matters affecting higher education. Thus, we have looked to the American Council on Education and to NACUBO to work closely with federal agencies in an effort to minimize the inconveniences and the possible inequities associated with federal financial involvement.

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The second area of federal involvement in higher education, which has literally mushroomed in recent years, results from what numerous federal agencies consider their responsibility to force responses to social changes and to demand compliance with regulations aimed at enforcing those rules. There is no question but that this phase of accountability has, and is creating, horrendous problems for higher education, not only for the business office but for all elements of the institution. Some but not all the areas affected include equal employment opportunities; civil rights; affirmative action; elimination of discrimination because of race, sex, or age; occupational safety and health; minimum wage and fair labor standards; unemployment insurance; health maintenance organizations; retirement and other fringe benefit programs; environmental protection; privacy laws; animal welfare; truth in lending and others. We have found ourselves besieged with regulations, directives and provisions aimed at forcing compliance with these socially desirable changes. More and more federal agencies are involved frequently with inconsistent, conflicting, or duplicatory requirements.

One of the more serious results of this situation is the ever-increasing cost required to implement these federally mandated programs. The American Council on Education recently completed a study of six colleges and universities—representing both public and private, small and large—which contains some frightening data. The study concludes that the combined costs at the six institutions in 1974-75 were nearly $10 million, representing 1 to 4 percent of the operating budgets of the individual institutions. Moreover, these costs have increased ten to twenty times since 1965, which is at a rate considerably higher than increases in the cost of instruction and total revenues. The six institutions reported increases in the costs of meeting federally mandated social programs between 1965 and 1975 that ranged up to $3,500,000 in one large private institution. And this at a time when higher education is in serious financial difficulty.

Impact on Budgets Not Known

The impact on our budgets of implementing new federal regulatory programs which have been added in recent years is not yet known. I refer to Title IX of the Higher Education Act of 1972, new EEOC guidelines for testing employee qualifications, provisions for reviewing anti-discriminatory actions by the IRS, the Buckley Amendment, provisions in the guaranteed student loan program, the new Privacy Act, environmental protection and occupational safety, and others still on the drawing boards.

Predictably, education officials are increasingly irate and frustrated at the step by step encroachment of the federal government into higher education under the guise of accountability. For example, Al Fitt,[2] formerly at Yale, writing last summer in The College Board Review said, "I think the Buckley Amendment is an awesome precedent. It is the furtherest extension thus far of the tendency of the federal government to say that if you receive public funds for one purpose, your conduct for any other purpose is subject to regulation. Education is now so dependent on public funding that we no longer have real choices in terms of whether to accept or reject those funds. And so, if they come along with inappropriate conditions, we either comply or we commit institutional suicide."

Similarly, many institutional officers are disturbed at legislation and/or regulations that not only require the institution not to discriminate (with which they have no quarrel), but demand we prove *that we do not in fact discriminate*. Even alleged murderers are innocent until proven guilty! Another troublesome aspect of the situation is that regulations frequently go beyond the intent of Congress as expressed in the statutes; further, the statutes more often than not are imprecise and ambivalent.

On the other side of the coin, Dr. Bailey,[3] speaking at the NACUBO annual meeting in New Orleans, said, "We could, I suppose, lobby for their elimination—attempting to roll back the clock to the days of our more relaxed ancestral prerogatives, but in our better moments we

[2] Alfred B. Fitt, "The Buckley Amendment: Understanding It, Living With It," *The College Board Review*, Summer 1975, p. 2.

know that such talk is silly. Among other things, who are we that we should be exempt from the inevitable pain of implementing evolving norms of human equity and dignity? . . . We have been quite as guilty as other segments of society in perpetuating evils of caste and class, especially those based on race, sex and age, and we have no more right to blow up a human being in an unsafe chemistry lab than an industry has that right while making munitions in an unsafe factory."

Generally, I have to agree with the tenor of these remarks. There is no way we can turn the clock back. Although higher education has made dramatic strides in recent years in removing discriminatory practices, I doubt very seriously whether this progress would have occurred had it not been for the regulatory pressures of the federal government. Of course, I am not advocating that we accept without question all of the mandates of the sprawling federal bureaucracy. We must analyze each proscription calmly, rationally and equitably, and object with all the power at our command to unreasonable, unfair or costly demands. In the final analysis, this kind of accountability is here to stay and is not going to evaporate in the foreseeable future. If anything, it will increase.

Growing Accountability to State

Accountability to state governments similarly is on the rise. This affects primarily the publicly controlled institutions, but since more and more states are channeling tax funds to private institutions, there are signs that the latter will be affected in a similar manner. In recent years, there has been an enormous increase in efforts on the part of state governments to provide mechanisms for better state-wide planning and coordination of higher education. The technical apparatus for performing these activities is growing by leaps and bounds. Publicly supported institutions are being scrutinized by state coordinating councils, state boards of regents, budget bureaus and legislative committees or bureaus, all of which have their own professional staffs. The individual institutions within the states, more and more, are being held accountable in terms of cost analyses, information exchange procedures, forward planning, program budgeting, formula allocation, and other devices.

State legislators are interesting themselves more and more in such formerly internal problems as teaching loads, class sizes, unit costs, and other aspects of campus activity. Perhaps the primary reason for this increase in state participation in campus affairs is the economic distress in which many states find themselves. With all the competing demands on the part of the states, and with a great public reluctance to approve new taxes and bond issues, many states have felt themselves compelled to scrutinize more closely the budgets of their institutions of higher education. The impetus for increased state intervention was no doubt encouraged and strengthened by the deep wounds left by the campus unrest days.

It is a fact that the great strengths of the American institutions of higher education have been their autonomy, their diversity, and their independence —and this is true whether the institutions are publicly or privately controlled.

As in the case of the federal government, some of this intervention is right and proper. State governments have a right to be concerned with the way state tax funds are expended and the adequacy of adherence by institutions to state policies and programs. Moreover, given the insufficiency of resources to support higher education, states have an obligation to attempt to provide education with a minimum of duplication and inefficiency. Historically, colleges and universities have vigorously resisted efforts on the part of the state or the federal government to coordinate and allocate priorities and programs for the institutions. It is a fact that the great strengths of the American institutions of higher education have been their autonomy, their diversity, and their independence—and this is true whether the institutions are publicly or privately controlled.

In all this we must attempt to strike a reasonable balance between the desirability of autonomy and the reality of being accountable to our states and other constituencies. Also, there are other external organizations which demand accountability, including the various accrediting associations, American Association of University Professors, and labor unions.

In addition, we must meet the demands for accountability from within our institutions. Much of the increase in federal and state involvement in higher education has seriously impacted the business office, but perhaps a more direct and immediate concern to those in business administration are internal accountability factors. There are at least three such factors: First, accounting, internal and external audits, and especially financial reporting; second, a whole gamut of consequences stemming from the changing relationships with internal constituencies of the institutions, including faculty, students, committees, councils, senates and even alumni; and finally the increasing pressure on colleges and universities to improve their management systems.

[3] Bailey, op. cit.

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All business officers recognize the need and the desirability to have regular reviews of institutional financial transactions by independent accountants from outside the college or university. Similarly, business officers are aware of the need to perform internal control to minimize the opportunity for wrongdoing and to maximize the opportunity for errors to be discovered.

Business officers also are aware of the importance of an adequate accounting system by means of which they are able to produce financial data that will assist in making managerial decisions. Such a system also enables the publication of financial statements to report on custodianship of funds and to inform the appropriate constituencies about the institution. One of the important ways in which business officers represent their institutions in terms of accountability is through the financial statement. There is an increasing concern expressed by those who use the institutional financial report that these reports cannot be understood. Some claim that college trustees are handicapped in their efforts to assist institutions in financial distress because they cannot understand the implications of the financial reports. Recently, NACUBO commissioned a study of the users of financial reports of colleges and universities by the Center for Business and Economic Research, Brigham Young University. The report concludes that college and university financial statements have not been used as extensively, or as effectively, as they might. The study goes on to say that while the AICPA Audit Guide and *CUBA* 1974 have helped improve the comparability and contents of the statements, even if these guidelines were followed explicitly the financial statements would not completely meet the needs of the users.

Should Reports Be Simplified?

Recently, there has been circulated a position paper by a major national public accounting firm, which argues strongly along these same lines. This paper contends that reports need to be greatly simplified, with the traditional fund accounting approach long advocated by those of us in educational business administration in serious need of major revision.

There is undoubtedly some frustration and even agony on the part of external users over attempts to understand college and university financial reports. But, while I believe that we should continue to strive to improve the understanding conveyed by our financial reports, I also believe that the critics place undue importance on the ability of a financial statement to convey total understanding of an organization as complex and as complicated as a modern university. What layman has succeeded in fully understanding the operations of an insurance company, or a bank, or any other complicated organization by a mere perusal of a summary financial statement? The point is that all financial statements have to be analyzed and supplemented with explanatory narrative in order to be fully understood.

Another aspect of internal accountability is the diffusion of responsibility and decision making which characterizes many of our present day institutions. Gone is the day when budgets could be prepared by the president and the business officer, while meeting over a weekend in the president's den. Gone is the day when key decisions such as raising tuition could be decided by the administration without considerable involvement of faculty and students. The growth of participatory democracy, consumerism, legalism, the desire of all participants in an enterprise to have a voice in decision making, have spread from outside the university and college to within the ivy-covered walls of campuses. This is not necessarily a bad thing. Admittedly, it takes longer to get decisions made, but once conclusions have been reached, the wide-spread consultation which preceded the decision making may make the conclusions reached more palatable to all concerned.

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In these days of financial distress, it is more important than ever to involve faculty in the financial affairs of the institution. If one expects the faculty to help solve financial problems through fund-raising and through improved productivity, it naturally follows that faculty must have an important consultative role in the decision-making process.

Finally, we are going to have to use our human resources more effectively and efficiently in the managerial process. Dr. John Cole,[4] Director of the Bureau of Personnel Management Evaluation, U.S. Civil Service Commission, in a 1975 address to the Western Association of College and University Business Officers, stated that, "More effective management of human resources in the academic environment will be brought about by emphasizing accountability, which is a key principle of modern management practice." He went on to say that administrators must assign responsibility, delegate authority, and hold the manager accountable.

To briefly summarize what I think the future holds with respect to accountability:

1. There will be no diminution but probably an acceleration of pressures, both internal and external, to hold institutions of higher learning accountable for complying with prevailing social and economic movements.

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[4] John D. R. Cole, "On the Management of People," NACUBO *Professional File*, September 1975.

2. There will be a continuation of external concerns over the necessity of bringing about improvements in the efficiency and effectiveness of the management of higher education — both from the academic and the business point of view. All this, incidentally, will increase the importance of management.

3. There will continue to be an interest on the part of all campus constituencies in decision making. In the interest of efficiency, management functions may well tend to become even more centralized than they are now, while academic decisions may very well become even more decentralized than currently is the case.

4. Business officers are going to have to continue their efforts at improving accounting, and especially reporting systems. We cannot ignore totally the widely held feeling that the college or university financial report is unintelligible.

5. Finally, as Dr. Cole suggests, there will have to be a more structured and effective management of human resources in the educational establishment.

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