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Testimony

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Committee on Government Reform,  
House of Representatives

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**DEPARTMENT OF  
AGRICULTURE**

**Status of Efforts to Address  
Major Financial  
Management Challenges**

Statement of McCoy Williams  
Director, Financial Management and Assurance



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Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss the major financial management challenges faced by the U.S. Department of Agriculture (USDA), its progress in addressing them, and challenges that remain.

As you know, in January we issued our Performance and Accountability Series on management challenges and program risks at major agencies, including USDA.<sup>1</sup> The report for USDA focused on a number of major management challenges, including enhancing financial management, and continued the high risk designation for Forest Service financial management.

For many years, USDA struggled to improve its financial management activities, but inadequate accounting systems and related procedures and controls hampered its ability to get a clean opinion on its financial statements. After eight consecutive disclaimers of opinion,<sup>2</sup> USDA's Office of Inspector General issued an unqualified opinion on USDA's fiscal year 2002 financial statements and reported that significant progress had been made in improving overall financial management. For each of USDA's agencies that prepared separate financial statements for fiscal year 2002, the audit opinions were also positive. Specifically, unqualified audit opinions were issued on the financial statements of the Forest Service, Federal Crop Insurance Corporation/Risk Management Agency, Commodity Credit Corporation, the Rural Development mission area, and the Rural Telephone Bank. While we consider these clean opinions a positive step, some of these could not have been rendered without extraordinary efforts by the department and its auditors. Achieving financial accountability will require more than heroic efforts to obtain year-end numbers for financial statement purposes. Without reliable financial systems and sound internal controls, it is not possible to have sound data on a timely basis for decision making. Before USDA can achieve and sustain financial accountability, and thus be in a position to have reliable system-generated data as needed, it and its component

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<sup>1</sup> U.S. General Accounting Office, *Major Management Challenges and Program Risks: Department of Agriculture*, GAO-03-96 (Washington, D.C.: January 2003).

<sup>2</sup> A disclaimer of opinion means that the auditor is unable to form an opinion on the financial statements. A disclaimer results when a pervasive material uncertainty exists or there is a significant restriction on the scope of the audit.

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agencies, particularly the Forest Service, must address a number of serious problems that USDA's OIG or we have reported.

Today I will focus my testimony on USDA's efforts to improve its financial management and the Forest Service's progress toward achieving financial accountability.

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## USDA's Financial Management

In the past, USDA had several persistent weaknesses in internal control and in accounting and financial reporting that contributed to the OIG's inability to render an opinion on the department's consolidated financial statements. The OIG reported, among other things, that USDA was unable to:

- provide sufficient, competent evidential matter to support numerous material line items on its financial statements including accounts receivable, fund balance with the Department of the Treasury (Treasury),<sup>3</sup> and property, plant, and equipment; and
- estimate and reestimate loan subsidy costs for its net credit program receivables, rendering it unable to implement the Federal Credit Reform Act of 1990 and related accounting standards.<sup>4</sup>

The OIG also identified internal control weaknesses over USDA's security controls for information technology and financial management systems that do not always process and report departmentwide financial information accurately. Further, the OIG reported that many USDA financial management systems are not fully integrated with other USDA systems. These are some of the factors that required extraordinary effort to derive reliable financial information. Further, we reported in December

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<sup>3</sup> USDA records its budget authority in asset accounts called Fund Balance with the Department of the Treasury and increases or decreases these accounts as it collects or disburses funds.

<sup>4</sup> *Accounting for Direct Loans and Loan Guarantees*, Statement of Federal Financial Accounting Standards (SFFAS) No. 2, as amended by *Amendments to Accounting Standards for Direct Loans and Loan Guarantees*, SFFAS No. 18.

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2001 that USDA had not yet fully implemented certain key provisions of the Debt Collection Improvement Act (DCIA) of 1996.<sup>5</sup>

I will now elaborate on USDA's progress in correcting these problems and what challenges still remain.

USDA has taken actions over the last several years to improve its financial management and to address the weaknesses identified by its OIG and us. For example, in fiscal year 2000, Food and Nutrition Service was, for the first time, able to estimate its gross accounts receivable and related estimate of uncollectible amounts resulting from over-issued benefits in its Food Stamp Program. Further, for the first time since credit reform reporting requirements were implemented in 1994, USDA's lending agencies were able to estimate and reestimate loan subsidy costs for the department's net credit program receivables, which totaled about \$74 billion as of September 30, 2001. Because of USDA's achievement in this area, along with that of other key lending agencies, this item was no longer a factor contributing to our disclaimer of opinion on the financial statements of the U.S. government.<sup>6</sup>

The OIG also noted that USDA made significant progress during fiscal year 2002 in reconciling its Fund Balance accounts with Treasury's accounts, thus enabling the OIG to validate this line item on USDA's fiscal year 2002 financial statements. However, the OIG continued to report this area as a material internal control weakness in fiscal year 2002 due to continuing deficiencies in USDA's reconciliation processes. For example, USDA had a large backlog of unreconciled items that needed to be researched and resolved. As a result, USDA adjusted its records to agree with the Treasury without reconciling the differences. Over \$180 million (net) of year-end adjustments were not supported by transaction-level details.

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<sup>5</sup> U.S. General Accounting Office, *Debt Collection Improvement Act of 1996: Department of Agriculture Faces Challenges Implementing Certain Key Provisions*, [GAO-02-277T](#) (Washington, D.C.: Dec. 5, 2001).

<sup>6</sup> U.S. General Accounting Office, *U.S. Government Financial Statements: FY2001 Results Highlight the Continuing Need to Accelerate Federal Financial Management Reform*, [GAO-02-599T](#) (Washington, D.C.: Apr. 9, 2002) and U.S. General Accounting Office, *Fiscal Year 2002 U.S. Government Financial Statements: Sustained Leadership and Oversight Needed for Effective Implementation of Financial Management Reform*, [GAO-03-572T](#) (Washington, D.C.: Apr. 8, 2003).

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Further, USDA will need to continue its actions in addressing weaknesses in its financial management information systems. In its fiscal year 2002 audit report, the OIG stated that USDA made significant improvements in its overall financial management, such as implementation of a departmentwide standard accounting system, the Foundation Financial Information System (FFIS). At the same time, USDA must fundamentally improve its underlying internal controls, financial management systems, and operations to allow for the routine production of accurate, relevant, and timely data to support program management and accountability. Specifically, the Federal Financial Management Improvement Act (FFMIA) of 1996 requires agencies to institute financial management systems that substantially comply with federal financial systems requirements, applicable federal accounting standards, and the federal government's *Standard General Ledger* (SGL). Every year since FFMIA was enacted, the OIG has reported that USDA's systems did not substantially comply with the act's requirements. The OIG reported that the lack of compliance stems from USDA's many disparate accounting systems that are not integrated; material internal control weaknesses; and, as explained earlier, the inability to prepare auditable financial statements on a routine basis. For example, USDA and its agencies operate at least 80 program and administrative systems that support financial management. The longstanding problems associated with these legacy systems were caused, primarily, by the absence of corporate level oversight and planning when these systems were initially developed and upgraded. USDA needs to continue to address the problems with its legacy systems to improve integration of the financial management architecture, timely reconcile its property system with the general ledger, and correct inconsistencies in its accounting processes.

Additionally, the OIG continued to report that USDA's systems are not designed to provide the reliable and timely cost information required to comply with Statement of Federal Financial Accounting Standards No. 4, Managerial Cost Accounting Concepts and Standards. Specifically, the OIG's review of user fees disclosed that two USDA agencies were not including the full costs of their user fee programs when determining fees and thus, were not recovering the full costs of performing services for their individual programs.

Under the President's Management Agenda for improved financial management performance, agencies are expected to improve the timeliness, enhance the usefulness, and ensure the reliability of financial information. The expected result is integrated financial and performance management systems that routinely produce information that is (1) timely,

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to measure and effect performance immediately, (2) useful, to make more informed operational and investing decisions, and (3) reliable, to ensure consistent and comparable trend analysis over time and to facilitate better performance measurement and decision making. This result is key to successfully achieving the goals set out by the Congress in the Chief Financial Officers Act and other federal financial management reform legislation.

In addition, the Joint Financial Management Improvement Program (JFMIP) Principals have defined success measures for financial management performance that go far beyond an unqualified audit opinion on financial statements and include measures such as financial management systems that routinely provide timely, reliable, and useful financial information and no material internal control weaknesses or material noncompliance with laws and regulations and FFMIA requirements.<sup>7</sup> They also significantly accelerated financial statement reporting to improve timeliness for decision making and to discourage costly efforts designed to obtain unqualified opinions on financial statements without addressing underlying systems challenges.

The OIG reported that the Office of the Chief Financial Officer has developed plans to review USDA's legacy systems, and consolidate and update the systems to meet present accounting standards and management needs. Further, USDA's September 30, 2002, FFMIA Remediation Plan discussed a number of remedial actions that the department expects to complete by the end of fiscal year 2006.

Another financial management challenge for USDA is federal nontax delinquent debt collection. USDA reported holding \$6.9 billion of federal nontax debt that was delinquent more than 180 days as of September 30, 2002. The Debt Collection Improvement Act of 1996 (DCIA) gave federal agencies a full array of tools to collect such delinquent debt. Among other things, DCIA provides (1) a requirement for federal agencies to refer eligible debts delinquent more than 180 days to the Department of the Treasury for collection action, and (2) authorization for agencies to administratively garnish the wages of delinquent debtors.

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<sup>7</sup> FFMIA requires auditors, as part of CFO Act agencies' financial statement audits, to report whether agencies' financial management systems substantially comply with (1) federal financial management systems requirements, (2) applicable federal accounting standards (U.S. generally accepted accounting principles), and (3) federal government's SGL at the transaction level.

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In December 2001, we reported that two USDA agencies, Rural Development's Rural Housing Service (RHS) and the Farm Service Agency (FSA) had failed to make DCIA a priority since its enactment in 1996.<sup>8</sup> Specifically, RHS had not implemented an effective and complete process to refer debts to Treasury mainly because of systems limitations, debt reporting problems, and lack of regulations needed to refer losses resulting from claims paid under its guaranteed single family housing loan program. FSA lacked effective procedures and controls to identify and promptly refer eligible delinquent debts to Treasury. Moreover, USDA had not utilized administrative wage garnishment to collect delinquent nontax debts. Consequently, opportunities for maximizing the collection of delinquent nontax debts as contemplated by DCIA were being missed.

USDA officials made a commitment in December 2001 to substantially improve the department's implementation of DCIA by December 2002. In November 2002, we testified that USDA had made progress in addressing previously identified problems.<sup>9</sup> For example, RHS began referring all reported eligible debt to Treasury. Further, FSA had developed an action plan to improve its process and controls for identifying and referring eligible debts to Treasury. However, at the date of our testimony, challenges remained that will require sustained commitment and priority from top management. For example, RHS still had to complete regulations to refer losses related to its guaranteed single family housing loans to Treasury and an automated process for such referrals, and FSA needed to complete actions needed to ensure that all of its eligible debt is promptly referred to Treasury. In addition, USDA needed to complete regulations that are required to implement administrative wage garnishment department wide and get all of its component agencies to begin using this debt collection tool to the fullest extent practicable. The OIG reported material noncompliance with the DCIA in its fiscal year 2002 financial statement audit report, reiterating the need for sustained commitment and priority by top management.

Now I would like to discuss the progress that the Forest Service has made toward achieving financial accountability and remaining challenges.

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<sup>8</sup> U.S. General Accounting Office, *Debt Collection Improvement Act of 1996: Department of Agriculture Faces Challenges Implementing Certain Key Provisions*, [GAO-02-277T](#) (Washington, D.C.: Dec. 5, 2001).

<sup>9</sup> U.S. General Accounting Office, *Debt Collection: Agriculture Making Progress in Addressing Key Challenges*, [GAO-03-202T](#) (Washington, D.C.: Nov. 13, 2002).

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## Forest Service Financial Management

An area of particular concern within USDA continues to be the Forest Service. Historically, the Forest Service's financial management systems have not generated timely and accurate financial information for its annual audit and for effectively managing operations, monitoring revenue and spending levels, and making informed decisions about future funding needs for its program. In addition, the Forest Service has had long-standing material weaknesses with regard to its two major assets—fund balance with Treasury and property, plant, and equipment. In 1999, we first designated financial management at the Forest Service to be “high risk” on the basis of serious financial and accounting weaknesses that had been identified, but not corrected, in the agency's financial statements for a number of years.

The Forest Service received its first-ever unqualified opinion on its fiscal year 2002 financial statements, which represents noteworthy progress from prior years when the OIG was unable to express an opinion. To achieve its unqualified opinion, the Forest Service's top management dedicated considerable resources and focused staff efforts to address accounting and reporting deficiencies that had prevented a favorable opinion in the past. For example, during fiscal year 2002 the Forest Service formed a reconciliation strike team to resolve long-standing real and personal property accounting deficiencies. The property, plant, and equipment reconciliation team analyzed transaction data to identify inaccurate records and reconciled the general ledger to its supporting detailed records. In addition, the strike team, in cooperation with the USDA Office of the Chief Financial Officer, the USDA OIG, and consultants, worked to ensure that property documentation supported property records, inventories were complete, and property was valued correctly. Further, the team worked with USDA on modifications and enhancements to certain property feeder systems. Because the Forest Service property comprises 80 percent of the \$4.2 billion line item on USDA's financial statements, the OIG was able to validate this number for its fiscal year 2002 opinion.

However, material deficiencies in the controls related to the accurate recording of property, plant, and equipment transactions remain. For example, the financial statement auditor reported instances in which recorded amounts did not agree with supporting documentation and inappropriate payroll expenses were included in property values instead of being recorded as expenses, resulting in an overstatement of property and an understatement of expenses. Further, the Forest Service did not have effective controls over the initial recording of acquisition costs, in-service



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date, and useful life of property items. Because the Forest Service did not require reviews of data input for property transactions by a supervisor, another independent person, or by automated system edit checks within property systems, certain property items were not recorded properly.

While the Forest Service made significant progress in fiscal year 2002 to reconcile its fund balance with Treasury accounts, the financial statement auditor noted significant control deficiencies in its reconciliation processes. For example, the Forest Service needs to research a large backlog of unreconciled items and take corrective actions. In order to bring the Forest Service's fund balance with Treasury accounts into balance with Treasury records as of September 30, 2002, the Forest Service recorded an adjustment of \$107 million.

Although the Forest Service reached an important milestone by attaining a clean audit opinion on its financial statements, it has not yet proven it can sustain this outcome, and it has not reached the end goal, as envisioned by the President's Management Agenda for improved financial management and the JFMIP Principals, of routinely having timely, accurate, and useful financial information. The Forest Service continues to commit considerable resources to correcting its financial management weaknesses; however, much work remains. In our January 2003 high-risk update, we again designated financial management at the Forest Service as "high risk" on the basis of its serious internal control weaknesses.<sup>10</sup>

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In closing, Mr. Chairman, I want to emphasize that USDA has made significant progress in addressing its major challenges related to financial management and continues to do so. At the same time, before USDA is able to sustain financial accountability and produce relevant, reliable, and timely information to effectively manage the department, it and its component agencies, particularly the Forest Service, must resolve some very difficult issues.

This concludes my statement. I would be happy to answer any questions you or other members of the subcommittee may have.

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<sup>10</sup> U.S. General Accounting Office, *High-Risk Series: An Update*, [GAO-03-119](#) (Washington D.C.: January 2003).

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## Contact and Acknowledgments

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