STATEMENT OF
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BEFORE THE
U.S. SENATE
COMMITTEE ON AGRICULTURE, NUTRITION AND FORESTRY
SUBCOMMITTEE ON RESEARCH, NUTRITION AND GENERAL LEGISLATION
FINANCIAL AND MANAGEMENT ACCOUNTABILITY ISSUES OF THE DEPARTMENT OF AGRICULTURE

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Introduction

Chairman Fitzgerald, Senator Leahy, and Members of the Subcommittee, thank you for the opportunity to share with you the progress that we have made in USDA's Financial and Management issues. We are working with the General Accounting Office (GAO) and our Office of the Inspector General (OIG) to improve the way we do business at USDA. I am pleased that you have elected to hold this hearing and have a productive exchange on these important matters.

First, I would like to thank Secretary Dan Glickman, Deputy Secretary Richard Rominger, and my colleagues throughout USDA for placing a strong emphasis on financial and management issues. I often tell people that the financial statements are the frame in which USDA's fiscal health is displayed to the taxpayers. I can assure you, Mr. Chairman, and members of the Subcommittee, that we are working together to improve our fiscal health and deliver a brighter, clearer, more efficient illustration of our progress to stakeholders.

USDA has been working hard to make progress in the financial and administrative environment. Some of our efforts to improve our financial well being include:

- **Chief Financial Officers (CFO) Act Mandate.** USDA made significant progress in implementing the Foundation Financial Information System (FFIS). Working together, senior-level staff from the Office of the Secretary, other top USDA officials, and I made significant changes to the implementation's project management. Under this new management structure, the Forest Service and the Food Safety and Inspection Service achieved all the necessary business process re-engineering milestones to implement FFIS on October 1, 1999. This success led the Secretary to accelerate the system's implementation by: the Animal, Plant, and Health Inspection Service (APHIS), Farm Service Agency (FSA), Natural Resources Conservation Service (NRCS), and Rural Development (RD) agencies. Once these agencies fully implement FFIS on October 1, 2000, almost 80-percent of USDA's workforce will rely on a system compliant with all laws and regulations for administrative accounting services.

- **Debt Collection Improvement Act of 1996.** USDA collected $ 118.2 million during the first 9 months of FY 2000 and $136.2 million in FY 1999 of delinquent debt through the Department of the Treasury's Administrative Offset Program and other debt-collection tools. The FY 1999 collections represent a 45-percent increase over the $93.9 million collected in FY 1998 and a 90-percent increase over the $71.5 million collected in FY 1997. At the same time, USDA reduced the amount of delinquent debt in its overall loan portfolio from $7.5 billion in delinquencies in FY 1997 to $5.9 billion as of June 2000, a drop of nearly 21 percent.

- **Financial Statements.** USDA submitted its consolidated financial statements to the Office of Management and Budget (OMB) by the March 1 deadline. In addition, USDA has six stand-alone audits, three of which, the Food and Nutrition Service, the Rural Telephone Bank, and the Federal Crop Insurance Corporation audits, received unqualified audit opinions.

- **Customer Service Expansion.** OCFO's National Finance Center (NFC) recently added several new payroll clients including: the Peace Corps (900 employees), the US Chemical Safety and Hazard Review (35 employees), the Federal Elections Commission (350 employees), the Court Services and Offenders Supervision Agency (750), and the county-based employees from of the USDA's Farm Service Agency (FSA) (18,000 employees). NFC has added 22,035 individuals to the list of employees receiving payroll services in the last two years. Adding customers to the NFC payroll service helps to reduce the cost per transaction for all users of the service.

As you can see, Mr. Chairman and members of the Subcommittee, USDA has made great strides in getting its financial house in order. We still have more to do, and the Inspector General's audit of our consolidated financial statements highlights some major items.

Credit Program Receivables and Related Foreclosed Property, Net and Estimated Losses on Loan and Foreign Credit

The credit reform issues are a top priority. We realize the significant role that USDA's success in this has on the effort to achieve a clean audit opinion on the Government-wide Financial Statements. USDA established a Department-wide executive Steering and Advisory Credit Reform Committee to improve the estimation/re-estimation and cost reporting for direct loan and loan guarantee programs. In conjunction with this executive committee, we established a Credit Reform Working Group comprised of personnel from USDA agencies and OIG, with GAO acting as an adviser to the group.

The working group developed a consolidated plan to improve USDA's loan budgeting and accounting processes. Under this plan, USDA credit reform practices would reflect the best practices recommendations found in GAO reports and briefings. USDA would apply these standards to the credit reform budgeting and accounting processes performed by RD, FSA, and the Commodity Credit Corporation (CCC), for which FSA performs credit reform responsibilities.

Since combining these human and technical resources, USDA has recorded the following accomplishments:

- RD developed new models for budget estimation/re-estimation for direct loan programs associated with 14 rural utilities and rural community advancement programs and for RD guaranteed loan programs. GAO provided technical guidance in the development of both models.

- FSA continued to make changes to its direct farm loan model, and OIG reviewed and provided comments on needed improvements. FSA, in conjunction with other Credit Reform Working Group members, completed the redesign and documentation of its guaranteed loan program model. The model is awaiting final OIG concurrence.

- Working with guidance from GAO, USDA conducted sensitivity analyses, with documentation, for all material programs for the FSA direct and guaranteed loan models, as well as for all RD programs associated with the two new RD models.

- USDA documented for RD and FSA all applicable legislative and regulatory requirements. GAO and OIG provided draft documentation formats for use in documenting the models and key cash flow assumptions.

- RD established a new organization within their budget division to concentrate on credit reform issues. RD additional personnel with credit-reform expertise, and these positions were filled in FY 2000. FSA has recruited for credit reform personnel in both its budget and accounting organizations and awarded a contract to an independent auditing and accounting firm to work on the CCC's credit reform issues.

- OIG and GAO began reviews of data to support the credit reform modeling process. We anticipate these reviews to be completed in late October.

- The Credit Reform Working Group worked with a private contractor to assess data availability to support the development of a new RD direct loan housing model. The final assessment revealed that our current systems do capture the required data, but that we may have to look for proxy historical data for loans made prior to the enactment of Credit Reform. We expect to award a new contract by the end of September to provide expert assistance to in-house developers of the new RD housing model.

With guidance from GAO and OIG, USDA is working to complete the following objectives:

- Improve the FSA direct loan models based on OIG recommendations.
- Complete documentation of modeling processes.
- Finish recruitment and staffing actions.
- Review, at a detail level, the CCC's direct and guaranteed loan models. Management will perform an independent validation and verification on CCC's modeling and credit reform accounting processes.

Financial Management Systems

USDA must create an infrastructure to carry out financial management policies and to implement an integrated financial management information system. As I mentioned earlier, by October 1, 2000, USDA plans to have an estimated 80-percent of its workforce served by an administrative accounting system that complies with the CFO Act requirements, other pertinent laws and regulations, and the requirements of the Joint Financial Management Improvement Program.

The FFIS implementation represents what can happen when top officials pool their resources and work toward a common goal. In late FY 1998, we turned around the troubled FFIS project and set it on an accelerated course to ensure implementation by all USDA agencies by October 1, 2002. Nearly two years ago, I consulted with OMB and colleagues across the government to find an experienced project management team to manage a Department-wide project of this magnitude. In June 1998, the Office of Personnel Management approved the Secretary's request for a waiver to move an entire project team from another Federal agency to USDA.

Under this new leadership, USDA succeeded in implementing the Forest Service and the Food Safety and Inspection Service on FFIS on October 1, 1999. These agencies joined the Risk Management Agency (RMA), implemented on October 1, 1998, and the OCFO headquarters organization in implementing FSIS.

Administrative and Financial Systems

No one system will resolve the financial management issues that face us, however. That's why the Secretary directed me in November 1999 to lead a Senior Executive group, including the Assistant Secretary for Administration and the Chief Information Officer, charged with developing a corporate strategy, including budget and time frames for system changes. The systems include procurement, property, human resources, travel, budget formulation and salary projections and the associated telecommunication and security. This Executive Committee's chief goal is to move USDA toward reliable corporate information on which the Secretary and program officials may base management decisions. The corporate strategy, budget and time-frames were approved in September for FY 2001 and FY2002 by the Executive Information Technology Investment Review Board.

Fund Balances with the U.S. Treasury

We have made significant progress in reconciling our fund balances with the Department of the Treasury. In May 1999, USDA implemented a more rigorous approach to resolving the out-of-balance conditions. Due to the volume of unmatched schedules, we divided the reconciliation project into segments that were grouped either by commonality of transaction types or specifically identified time periods. The unmatched schedules as of April 1999 were considered the backlog in terms of the historical problem. As we reform our business practices, we are identifying and correcting the systemic problems that cause out-of-balances with Treasury. We have consulted with other Federal agencies and have found that this problem is not unique to USDA. We have institutionalized a new Department-wide methodology for dealing with cash reconciliation. In addition, we will continue to work closely with Treasury as they and we re-engineer the cash reconciliation and reporting process. We must maintain a balanced checkbook with Treasury without devoting an inordinately large number of resources to the task.

This has been and continues to be a major undertaking. I have provided the necessary documentation to our auditors to enable us to have good beginning cash balances on our financial statements for FY 2000 and I am resolving the material internal control weakness designation for cash reconciliation.

General Property, Plant and Equipment

To improve accountability over real and personal property, the Forest Service identified the needed data, the methodology, and the tools necessary to develop and maintain an effective property inventory system. Once these tools were in place to gather the information, the Forest Service prepared an instructional manual to ensure better, more consistent gathering and entry of information into the system. In developing these instructions, the Forest Service issued separate instructions for real and personal property. The Forest Service's plan to resolve these issues incorporates the following objectives:

- Identify best practices and lessons learned from prior years;
- Emphasize the verification of accounting data to supporting documentation; and
- Work closely with OIG on the inventory process.

The Forest Service is taking the necessary actions to improve the inventory process, requiring periodic progress reports, certification letters to document completion, and performance standards that hold individuals responsible for fulfilling these responsibilities.

The Forest Service continues to make improvements to the real property subsidiary system. System capabilities have been increased with the release of each version and improvements have made for easier data entry. Both real and personal property assets are currently being audited by OIG. When completed we will have a more accurate evaluation of the value and inventory processes of both real and personal assets.

Forest Service's Accounts Receivables

The Forest Service's implementation of FFIS on October 1, 1999 gave the agency an integrated payable and receivable process that provides more reliable, timely, and accurate information. This system provides reduced entry of non-value added data, reduced reliance on some feeder systems, and more timely processing.

Internal Control Structure Weaknesses

USDA will ensure that all weaknesses and non-conformance are adequately addressed and will include performance information relating to material weaknesses and non-conformance in the Performance and Accountability Reports. A key factor in carrying out this initiative is our requirement for time-phased corrective action plans that include a discussion of obstacles that prevent planned corrective action and mitigating actions to resolve outstanding issues. This process will allow us to closely monitor agencies' progress towards resolving these outstanding issues. In addition to our regular monitoring actions, we will involve agency heads and Sub-cabinet officials when individual weaknesses and non-conformance exceed the expected completion date by more than one fiscal year. We are working closely with OIG and senior management to ensure that adequate attention is given to those areas that could adversely impact mission accomplishments. We have made significant progress in resolving longstanding material weaknesses and, working in partnership with the agencies involved, OIG, and the GAO, in consultation with OMB, are bringing these issues to closure.

Security

In August 1999, the CIO and the CFO made the following recommendations to strengthen the information technology security:

- Strengthen USDA's cyber security program;
- Establish a Risk Management Program to identify and protect assets;
- Establish a Department-wide information security architecture;
- Institutionalize Department-wide Security;
- Develop a comprehensive set of security policies; and
- Enhance technical skills and increase security awareness.

To achieve these goals and objectives, USDA established an ADP Security Office in the CIO's Office. The Office is under the leadership of a senior executive whose previous experience with another Federal agency makes him uniquely prepared to develop and implement a security plan that will accomplish these objectives. He is assessing the NFC's security infrastructure to address concerns and issues that all major data and financial centers are facing.

Debt Collection

A major credit agency, USDA constitutes about 38 percent of all non-tax debt owed to the Federal Government. The $104.4 billion portfolio as of June 2000, is larger than any other Federal credit agency and includes loans for rural housing units, rural utilities, farm operating and disaster assistance, international export and development, and rural business enterprises.

As of June 30, 2000, USDA has an average delinquency rate of all debts of about six percent, compared to the Government-wide average (excluding USDA) of 23 percent. This figures means that of all debt owed to USDA, in a one-year period, only six percent is delinquent.

Although total receivables have declined approximately three percent since 1996, the total delinquent debt has decreased by 32 percent as USDA applied various tools of the Debt Collection Improvement Act of 1996 (DCIA). Collectable delinquent debt dropped by 64 percent over the same period, which indicates that fewer borrowers are delinquent in their payments. Write offs of delinquent debt decreased by 80 percent, which indicates that less debt is reaching the point that it is uncollectible and as a last resort must be written off.

These issues from the audit combine for an extensive list of management challenges. I am pleased to share both our accomplishments to date and our plans to remedy outstanding issues that are preventing USDA from achieving an unqualified audit opinion.

Mr. Chairman, I would be happy to respond to any questions that you or your colleagues may have. Thank you, again, for arranging this forum to discuss financial management issues.