THE DEPARTMENT OF AGRICULTURE: WHAT MUST BE DONE TO RESOLVE USDA'S LONGSTANDING FINANCIAL MANAGEMENT PROBLEMS?

HEARING

BEFORE THE

SUBCOMMITTEE ON GOVERNMENT EFFICIENCY, FINANCIAL MANAGEMENT AND INTERGOVERNMENTAL RELATIONS

OF THE

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THE DEPARTMENT OF AGRICULTURE: WHAT MUST BE DONE TO RESOLVE USDA'S LONG-STANDING FINANCIAL MANAGEMENT PROBLEMS?

TUESDAY, MAY 8, 2001

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON GOVERNMENT EFFICIENCY, FINANCIAL MANAGEMENT AND INTERGOVERNMENTAL RELATIONS,
COMMITTEE ON GOVERNMENT REFORM,
Washington, DC.

The subcommittee met, pursuant to notice, at 1:30 p.m., in room 2154, Rayburn House Office Building, Hon. Stephen Horn (chairman of the subcommittee) presiding.

Present: Representatives Horn, Putnam and Schakowsky.

Staff present: J. Russell George, staff director and chief counsel; Bonnie Heald, director of communications; Earl Thomas Pierce, professional staff member; Grant Newman, clerk; Alex Hurowitz, intern; Mark Stephenson, minority professional staff member; and Jean Gosa, minority assistant clerk.

Mr. HORN. A quorum being present, this hearing of the Subcommittee on Government Efficiency, Financial Management and Intergovernmental Relations will come to order.

We're here today to continue our examination of how the executive branch departments and agencies in the Federal Government account for the billions of tax dollars they spend each year. This morning we examine financial issues at one of the government's largest agencies, the Department of Defense, and one of its smaller agencies, the Agency for International Development. This afternoon, we'll focus on the financial issues at the Department of Agriculture.

The Department of Agriculture, along with the Department of Defense, is cited as being one of the primary reasons the Federal Government is unable to prepare reliable financial statements. Similar to the Department of Defense and the Agency for International Development, the Department of Agriculture received a failing grade on the subcommittee's financial management report card for fiscal year 2000. The Department's Inspector General reported that significant financial problems continued to plague the agency in fiscal year 2000. In addition to its inability to appopriately value its loans, the Department of Agriculture was unable to support its cash balances with the Department of the Treasury and the amounts it reported as property, plant and equipment.

The Inspector General also found that the Department's internal controls and antiquated financial systems were ineffective. These systems will not be fully corrected until fiscal year 2003 at the earliest, when replacement systems are fully deployed in all of Agriculture's agencies. These ongoing problems prevent the agency from using financial data in its day-to-day management or for the preparation of its financial statements.

The Department of Agriculture manages a wide spectrum of programs that affect millions of people, from making loans to farmers, to administering major nutrition programs such as food stamps. The Department's net cost of operations for fiscal year 2000 was reported to be $75 billion, more than $32 billion of which was spent for nutritional programs.

In addition, the Department administers $124 billion in loans and loan guarantees. In many cases, it is the lender of last resort or loan guarantor for businesses and families involved in agriculture.

Agriculture's loan portfolio is valued at about $70 billion after allowances for loan losses are taken into account. Unfortunately, the Department is unable to reasonably estimate its loan losses. Therefore, the government does not know the true cost of these programs. Furthermore, the government does not maintain a cost accounting system and has no plans to institute one, yet how can the Department effectively control the cost of its operations without such basic accounting information and systems?

Now we have a new administration which we hope will focus close attention on the Department of Agriculture's continuing inability to address its longstanding financial management problems. We welcome our witnesses today, the Honorable Roger C. Viadero, Inspector General, U.S. Department of Agriculture, and Patricia Healy, Acting Chief Financial Officer, U.S. Department of Agriculture. We look forward to your testimony, your insight, your recommendations toward ending this intolerable financial situation at the Department of Agriculture.

Now, some of you know how we conduct this thing, and when we have you in the agenda here, and we simply go down the line on that, and we have, for example, Mr. Viadero, the Inspector General. He's accompanied by Mr. Ebbitt, Assistant Inspector General for Audit; and the Acting Chief Financial Officer, Patricia Healy. Your full text will be put immediately in the hearing record after I call you in accord with the agenda.

No. 2, we'd like you to not read your statement. That's in. We know about it. But summarize it for us, somewhere between 5 minutes and 10 minutes; 10 minutes, let's say, today. And what we want to do is get the key things on the record besides the whole text already being in the record. And, No. 2, what we're interested in is the chance for questioning, either between the Chief Financial Officer or the Inspector General or simply with the Members here. So we would like to spend most of our time this afternoon on the questions and answers.

So if you'll stand and raise your right hands, we'll swear you into office here for the testimony.

[Witnesses sworn.]

Mr. HORN. The clerk will note that all three witnesses affirmed the oath. And now we begin with the Inspector General, the Honorable Roger C. Viadero.

STATEMENTS OF ROGER C. VIADERO, INSPECTOR GENERAL, U.S. DEPARTMENT OF AGRICULTURE, ACCOMPANIED BY JAMES R. EBBITT, ASSISTANT INSPECTOR GENERAL FOR AUDIT; AND PATRICIA HEALY, ACTING CHIEF FINANCIAL OFFICER, U.S. DEPARTMENT OF AGRICULTURE

Mr. VIADERO. Thank you, Mr. Chairman, and members of the committee. I'm more than pleased to be here to provide testimony about the Department of Agriculture's financial management. With me today is James Ebbitt, the Assistant Inspector General for Audit.

In order for government managers to administer their responsibilities, they must have reliable financial information at their fingertips, just as corporate leaders must have. One can readily imagine how long any company would stay in business if it did not know its level of cash, how much money it owed, or how much it was owed, or what its asset base was. Yet this is the environment in which USDA has operated.

In the absence of shareholders demanding accountability, the deep-seated financial weaknesses in the Department have persisted throughout the years. Financial data do not represent meaningless numbers on some obscure statements examined only by a few. It represents the information needed to direct activities. Accurate and timely financial information serves as the steering mechanism by which programs can be managed in an effective, efficient and economical manner. Without this capability, the course cannot be navigated. The vessel may be propelled in circles and drift aimlessly.

We issued a disclaimer of opinion on the Department's financial statements for fiscal year 2000. The disclaimer in this case means the information needed to conduct the audit was not provided to us so that we could conduct sufficient work to determine the reliability of the $124 billion in assets and other amounts on the USDA financial statements. In addition, the extent of internal control weaknesses in the Department's financial systems and operations means the amounts presented are highly questionable.

The timeliness of the data is as important as the accuracy of the data. Reliability of information is needed in real time to manage effectively, not 6 months after the end of the fiscal year. Whereas corporate America fundamentally closes its books daily, the Forest Service provided us with draft financial statements in November. Then they continued to modify them until February. Financial information that changes so frequently is of little utility. Similarly, the Commodity Credit Corp. [CCC], was unable to provide us with auditable statements until April 25th of this year. The Comptroller General recently testified before this subcommittee on this very crucial issue. Audit opinions are not the be all and end all. Viable systems which produce timely and reliable financial information are, though.

I do need to emphasize that although in the past things have been bleak, we do have a brightening future. In fact, it's rather bright. The most positive news we have is that the Central Accounting System [CAS], is in its next to last year of phase-out. Fiscal year 2001 will still be negatively impacted, however, in that a potentially material percentage of the Department's administrative payments will still be processed through CAS.

The problems with CAS have been well chronicled. This system is so inherently flawed that the books cook themselves. Starting with the next fiscal year, October 1, 2001, the culmination of a strategy launched in 1993 will be achieved with the implementation of a new system. The new system, entitled the Foundation Financial Information System [FFIS], will be operational for all of the agencies' administrative payments. The implementation of FFIS has not been without problems. A critical decision at the outset of the implementation of FFIS, to retain the legacy of feeder systems, has hindered implementation.

Two USDA agencies, the Forest Service and CCC, committed Antideficiency Act violations in fiscal year 2000. The Forest Service obligated $274 million in excess of available funds to fight fires. The violation occurred primarily due to incurring obligations without inputting the data into the system. CCC represented to us it had disbursed $50,000 more than it had appropriated for the livestock indemnity program. These violations of law are examples of the negative impact the absence of reliable accounting systems and/or operational weaknesses can have.

Another long-standing, highly complex and very material encumbrance to the Department's efforts to secure a clean opinion has been its implementation of the credit reform legislation. USDA has a portfolio of loans totaling nearly $97 billion that is subject to credit reform. It is the largest direct lender in the entire Federal Government.

The Department has launched an aggressive corrective action plan to overcome the noncompliance with credit reform requirements that we first reported in 1994. Whereas initial actions by the individual agencies were inadequate at best, under the leadership of the Chief Financial Officer, a task force including representatives of my office was formed to redirect the sideways movement. A series of cash-flow models have been devised to capture and analyze the necessary elements to yield meaningful subsidiary estimates and reestimates.

Legislative requirements impacting cash-flows have now been identified, and calculation methodologies have been developed. Achievements in the area of credit reform have been significant, to include the development of two new cash-flow models for Rural Development's nonhousing direct loans and guaranteed loans. If actions planned are taken in an efficient and effective manner, we believe this problem area, which impacts both the departmental and governmentwide financial statements, can be corrected.

Another long-standing and major encumbrance to a clean opinion is the Forest Service's accounting for real property. As of September 30, 2000, the Forest Service reported about $4.7 billion in real property assets. About 55 percent of this dollar value or $2.6 billion, is attributable to what is referred to as pooled assets, primarily roads. The remainder represents individual assets such as buildings.

An extraordinary breakthrough occurred this year in this area. For the first time, the agency was able to reasonably estimate the value of its pooled assets. Due to the absence of historical cost data, a strategy was needed to estimate cost. Forest Service and OIG partnered to develop such a strategy. The Forest Service compiled the inventory data and the best cost information available and then computed a reasonable balance.

A significant problem persists in the valuation of the individual real property assets. Audit tests disclosed the values of about 24 percent of the assets examined were overstated, 5 percent understated, and 7 percent did not have any documentation to support any valuation whatsoever.

The cumulative errors were too high to allow us to project the total variances, but nonetheless, we were unable to obtain assurance regarding the fairness of the balance of the line item as presented on the statements.

Now, let me address what the Department needs to do to strengthen its financial management and obtain an upgraded audit opinion. First, FFIS must be fully functional and not beset by significant weaknesses.

Second, credit reform remains an obstacle to an improved audit opinion because of the breadth and complexity of the issue. Although some of the cash-flow models have progressed to the point where data verification procedures can be performed, others, frankly, have not. While the Department's plans call for the problems to be resolved by the next fiscal year, much remains to be accomplished. An intensive commitment from all affected agencies is needed to ensure the impact on the financial statements will be eliminated as soon as possible.

Third, Forest Service real property is another very difficult matter. Considerable resources will be needed to compile valuation data, and controls must be put in place to verify the amounts as supportable.

Last, the Forest Service and CCC must strengthen their financial processes to ensure they are capable of producing timely and reliable data.

Despite these extraordinary encumbrances, the Department is making headway and deserves a significant amount of credit for their efforts and accomplishments to date.

Mr. Chairman, this ends my oral statement. I appreciate your time, and any questions you may have.

[The prepared statement of Mr. Viadero follows:]

TESTIMONY OF

ROGER C. VIADERO
INSPECTOR GENERAL
U.S. DEPARTMENT OF AGRICULTURE

before the
House Committee on Government
Reform's Subcommittee on Government
Efficiency, Financial Management and
Intergovernment Relations

on the
Status of Financial Management
at the Department of Agriculture

May 8, 2001

Thank you, Mr. Chairman and members of the Committee. I am pleased to be here to provide testimony about the Department of Agriculture's financial management. With me today is James Ebbitt, Assistant Inspector General for Audit.

In order for Government managers to administer their responsibilities they must have reliable financial information at their fingertips just as corporate leaders must have. One can readily imagine how long any company could stay in business if it did not know its level of cash, how much it owed or was owed, or what its asset posture was. Yet this is the environment in which USDA has operated. In the absence of shareholders demanding accountability, the deep-seated financial weaknesses in the Department have persisted throughout the years. Financial data do not represent meaningless numbers on some obscure statements examined by only a few. It represents the information needed to direct activities. Accurate and timely financial information serves as the steering mechanism by which programs can be managed in an effective, efficient, and economical manner. Without this capability, the course cannot be navigated; the vessel may be propelled in circles or drift aimlessly.

We issued a disclaimer of opinion on the Department's fiscal year 2000 financial statements. A disclaimer, in this case, means the information needed to conduct the audit was not provided to us so that we could perform sufficient work to determine the reliability of the $124 billion in assets and other amounts in the USDA financial statements. In addition, the extent of internal control weaknesses in the Department's financial systems and operations means that the amounts presented are highly questionable. Also, the timeliness of the availability of data is as important as the accuracy of the data. Reliable information is needed in "real time" to manage effectively, not 6 months after the end of the fiscal year. Whereas corporate America closes it books daily, the Forest Service provided us with draft financial statements in November but then continued to modify them until February. Financial information so mercurial is of no utility at all. Similarly, the Commodity Credit Corporation (CCC) was unable to provide us with auditable statements until April 27 of this year. The Comptroller General recently testified before this Subcommittee on this crucial issue – audit opinions are not the "be all and end all;" viable systems which produce timely and reliable financial data are. However, I do need to emphasize that although the past has been bleak, the future is bright, or at least brightening.

The most positive news we have is that the Central Accounting System, or CAS, is in its penultimate year of phase-out. Fiscal year 2001 will still be negatively impacted, however, in that a potentially material percentage of the Department's administrative payments will yet be processed by CAS. The problems with CAS have been well chronicled – it is poorly documented, provides for only summary, and not detailed, data and does not meet Governmentwide accounting requirements. CAS does not have an adequate audit trail and so-called reconciliations are not always performed and adjustments are processed extensively, without justification and in error. This system is so inherently flawed that it cooks its own books.

Starting with the next fiscal year, October 1, 2001, the culmination of a strategy launched in 1993 will be achieved with the implementation of a new system. The new system, entitled the Foundation Financial Information System (FFIS) will be operational for all agencies' administrative payment activities. FFIS establishes a common coding structure, interfaces or integrates data from other financial and mixed systems, and modernizes or replaces several existing administrative, financial and mixed systems. The implementation of FFIS has not been without problems, however. A critical decision at the outset of the implementation of FFIS has hindered implementation and significantly driven up costs. Specifically, the Department, in concert with the user agencies, opted to retain many of the legacy "feeder" systems and interface them with the new core package. The interfaced "feeder" system transactions require complex analytical processes (called mapping) to generate FFIS general ledger entries. Because the "feeder" systems are old and poorly documented, problems have been encountered when "mapping" these transactions to FFIS. Retaining the "feeder" systems has had the effect of reintroducing the same bad blood after a transfusion.

We have recommended that the "feeder" systems be reassessed and consolidated, integrated, and/or reengineered as appropriate. The Department completed its own study more than a year ago of selected OCFO/NFC feeder systems to identify candidates for consolidation and/or update. This study noted that for the eight OCFO/NFC feeder systems analyzed, five could be eliminated if FFIS functionality was used. The OCFO is working with the business process owners to address the problems with the legacy feeder systems, with the objective to provide an improved integration of the financial management architecture in the Department. Because no final decision has been made, however, the legacy of the legacy systems stays with us.

The task of converting data from CAS to FFIS is critical to the success of FFIS. We have found, however, that data integrity problems with ending CAS balances continue to impact current FFIS financial statements. Material dollar amounts contained in CAS have been identified as potentially invalid by some agencies. For example, we noted where one agency converted its financial operations to the FFIS effective October 1, 1999. Prior to conversion, the agency performed a massive review to identify activity recorded in CAS that was not supported. This activity was converted to FFIS using "alternate" fund codes. During fiscal year 2000, the agency planned to research this activity and either transfer supported amounts to the correct fund code or adjust erroneous balances, as appropriate. As of September 30, 2000, about $874 million in unsupported prior year activity (absolute value) remained in these alternate fund codes, and were reported in the agency's financial statements. As additional agencies convert to FFIS, it is imperative that they clean up the data converted to the alternate fund codes in a timely manner.

Fund Balance with Treasury

Another accounting problem at NFC is so severe and sensitive that it warrants special note. What I am referring to is the Department's "Fund Balance with Treasury" account or, simply put, cash-in-bank. NFC's account, has not reconciled with Treasury records since at least 1992, when we first reported on it. NFC's annual "fix" of this problem was to plug its accounts to reconcile with Treasury. The unreconciled difference as of September 30, 1999 was about $5 billion (the absolute value). This problem is of paramount importance for several reasons—the amount of money involved, the inherent vulnerability of cash to theft or misappropriation, and the fact that both CAS and the new FFIS are similarly impacted. The causes of the variances are numerous and oftentimes difficult to track down, but the primary problem stems from posting models erroneously recording cash transactions. Further, timing differences frequently occur. For example, the Forest Service lockbox financial institution may promptly remit proceeds to the Treasury, but the Forest Service may not forward the supporting documentation to NFC for several months. In an attempt to resolve these problems, the Department brought in a "Big 5"

CPA firm to reconcile the cash at NFC. Although the Department has made significant headway, and the posting model problems in CAS and FFIS are being rectified, all issues have not been resolved and new out-of-balance conditions loom daily. Of particular concern is that the posting models in FFIS have not been corrected, and FFIS, unlike its much-maligned predecessor CAS, does not have a process that adequately identifies variances. The positive news is that the out-of-balance condition was reduced to about $550 million at yearend. The Department wrote off about $160 million with the approval of Treasury and the Office of Management and Budget (the remainder was still being researched).

Antideficiency Act Violations

Two USDA agencies, the Forest Service and CCC, committed Antideficiency Act violations in fiscal year 2000. The Forest Service obligated $274 million in excess of available funds to fight fires. The violation occurred primarily due to incurring obligations without inputting the data to the system. CCC represented to us that it had disbursed $50,000 more than had been appropriated for the livestock Indemnity Program. These violations of law are examples of the negative impact the absence of reliable accounting systems and/or operational weaknesses can have.

Credit Reform

Another longstanding, highly complex and very material encumbrance to the Department's efforts to secure a clean opinion has been its implementation of the credit reform legislation. USDA has a portfolio of loans totaling nearly $97 billion that is subject to credit reform (it is the largest direct lender in the Federal Government). Affected programs include: the Rural Housing

Service's Single Family and Multifamily Housing programs; the Farm Services Agency's Farmer Program Ownership and Operating Loan programs; the Rural Business Service's Business and Industry loan program; and the Rural Utilities Service Electric and Telephone Loan programs. The Federal Credit Reform Act of 1990 rectified an inherent disparity in that accounting data, loans disbursed, loan payments received, loan write-offs, etc., were recorded on a cash basis. This distorted the costs of the programs and precluded meaningful comparative analyses. The law required that the cost of extending or guaranteeing credit be recognized in the period in which it was incurred. This cost, called the subsidy cost, must now be accounted for as the present value of the disbursements over the life of the loan less the estimated payments to be made back to the Government. A significant amount of historical data needs to be analyzed to compute these estimates, such as interest rate fluctuations and loan default rates. The initial predictions, or estimates, are to be reestimated at the end of the year to reflect any changes in the assumptions made and estimated impact on future loan performance.

The Department's loan accounting systems were not equipped to provide the extensive detail necessary to fulfill credit reform requirements. Congress recognized the potential lack of historical data in the accounting for loans and therefore reduced requirements for all loans made prior to fiscal year 1992. Due to the long term duration of USDA's loans (up to 50 years), however, the characteristics of these older loans (made before 1992) must be analyzed to predict future performance.

The Department has launched an aggressive corrective action plan to overcome the noncompliance with credit reform requirements that we first reported in 1994. Whereas initial actions by the individual agencies were inadequate at best, under the leadership of the Chief Financial Officer, a task force including representatives of OIG was formed to redirect the sideways movement. Significant achievements in the area of credit reform include the development of two new cash flow models for Rural Development's non-housing direct loans and guaranteed loans.

Despite the actions already taken by the Department, significant issues remain which require resolution. These include:

- The Department needs to establish a methodology for performing timely reestimates for all of its credit reform programs for budgetary and financial statement reporting.
- The accounting treatment of loans made prior to 1992 must be reviewed using the same systemic process as loans made after 1992.
- The Department has not implemented a process as required by Federal Accounting Standards Advisory Board (FASAB) accounting standards to adjust its estimated loan loss allowances in consideration of future and forecasted economic events, and fully comply with all technical guidance.

In summary, the Department has made significant strides in resolving longstanding credit reform problems. If actions planned are taken in an efficient and effective manner, we believe this problem, which impacts both the Departmental and Governmentwide financial statements, can be corrected.

Commodity Credit Corporation (CCC)

Significant problems continue to be encountered in our audits of CCC. This entity represents an example of a case where the implementation of a new accounting system does not, by itself, result in accurate and timely financial data. CCC instituted a new system called CORE over two years ago. However, since loan subsidy systems and credit reform financing systems have still not been fully automated and integrated to CORE, numerous manual interventions are necessary and these have proven to be fraught with error. Numerous sizeable adjustments have been needed long after the fiscal yearend. Although by law, audited financial statements are due by March 1 of each year, we received CCC's statements so late and they were in such poor shape, that we still cannot issue the audit report. The Department has made progress in several areas, but CCC is not one of them.

Cost Accounting

One of the required financial statements is the Statement of Net Cost. The purpose of the statement is self-explantory -- to provide users with the full cost of Federal programs. One of the fundamental accounting tenets, as promulgated by the Federal Accounting Standards Advisory Board, mandates cost accounting. USDA, however, has no cost accounting system and, due to other priorities, has no plans to institute one. This will directly impact upon the reliability of the Statement of Net Cost and thus the audit opinion.

Real Property

Another longstanding and major encumbrance to a clean opinion is the Forest Service's accounting for real property. As of the September 30, 2000, the Forest Service reported about $4.7 billion in real property assets. About 55 percent of this dollar value, or $2.6 billion, is attributable to what is referred to as "pooled assets" – primarily roads. The remainder represents individual assets such as buildings. An extraordinary breakthrough occurred in this area in fiscal year 2000; for the first time, the agency was able to reasonably estimate the value of its pooled assets. Due to the absence of historical cost data, a strategy was needed to estimate costs. Forest Service and OIG partnered to develop such a strategy. The Forest Service compiled the inventory data and the best cost information available, and then computed a reasonable balance. A significant problem persists, however, in the valuation of the individual real property assets. Audit tests disclosed that the values of about 24 percent of the assets examined were overstated, 5 percent were understated, and 7 percent did not have adequate documentation to support any valuation. The cumulative error rates were too high to allow us to project the total variances, but, nonetheless, we were unable to obtain assurance balance of the of line item as presented on the statements.

Corrective Actions Needed

Now, let me address what the Department needs to do to strengthen its financial management and obtain an upgraded audit opinion. First, FFIS must be fully functional and not beset by significant weaknesses.

Second, we must address the issue of cash. Significant progress has been made to reduce the unreconciled items but, as noted, new variances continue to occur. Due to the sensitivity of this account, the materiality level that could result in a qualification or disclaimer of audit opinion is much lower than the level for accounts such as buildings, which are less vulnerable to loss, misappropriation or abuse. This issue remains a concern, although it is being addressed.

Third, credit reform remains an obstacle to an improved audit opinion because of the breadth and complexity of the issue. Although some of the cash flow models have progressed to the point where data verification procedures can be performed, others have not. While the Department's plans call for the problems to be resolved by the next fiscal year, much remains to be accomplished. An intensive commitment from all affected agencies is needed to assure the impact on the financial statements will be eliminated as soon as possible.

Fourth, Forest Service real property is another very difficult matter. Considerable resources will be needed to compile valuation data, and controls must put in place to verify that the amounts are supportable.

Lastly, the Forest Service and CCC must strengthen their financial processes to ensure they are capable of producing timely and reliable data.

Despite the extraordinary encumbrances, the Department is making headway and deserves a significant amount of credit for its efforts and accomplishments to date.

Mr. HORN. We thank you for that presentation, and we now turn to Patricia Healy, the Acting Chief Financial Officer for the U.S. Department of Agriculture. Ms. Healy.

Ms. HEALY. Thank you, Chairman Horn.

Chairman Horn and members of the committee, I appreciate the opportunity to talk with you today about the progress we have made in financial management at USDA in fiscal year 2000 and about how we plan to address our remaining issues that keep us from obtaining a clean audit opinion.

Over the last year, my colleagues and I have been working very hard with the General Accounting Office, the Office of Management and Budget and the Inspector General to tackle some of the larger issues facing the Department. We've made significant progress on many fronts to address the underlying problems affecting the data reported on our financial statements.

Providing effective financial management for an organization as large and diverse as USDA is a tremendous challenge. If USDA were a corporation, the Department's spending would make it the country's sixth largest corporation and one of its largest banks. USDA is the government's largest direct lender, holding about one-third of the government's outstanding direct loans. USDA employees and facilities are spread throughout the United States and in many countries, providing benefits to nearly 70 million individuals a year. Managing financial and administrative operations is made even more challenging by the fact that staffing levels within the Department have declined while demands for USDA programs have not.

I also want to emphasize that although there are problems remaining, the top priority for financial managers at USDA is safeguarding taxpayers' money against fraud, waste and abuse.

We've made progress on several fronts during this past year, including the accelerated implementation of the Foundation Financial Information System [FFIS], which is the cornerstone of financial management and administrative systems improvements at USDA. The success of USDA in implementing the system according to the aggressive schedule that we committed to in fiscal year 1999, led us to accelerate the implementation for fiscal year 2000. As a result, on October 1, 2001, all but two of our agencies will be using FFIS.

We also have clean opinions on three of the six stand-alone statements produced by USDA agencies. The agencies with clean opinions are the Food and Nutrition Service, which is the USDA agency with the largest budget; the Rural Telephone Bank; and the Federal Crop Insurance Corp. The remaining three agencies with stand-alone statements, Rural Development, the Forest Service and the Commodity Credit Corp., have made significant progress in improving their audit results. Rural Development has a qualified opinion for fiscal year 2000.

Mr. Chairman, while progress has been made, we recognize that we still have much to do. We recognize that receiving a clean audit opinion will be a hollow victory if we do not put in place the systems and processes necessary to produce a sustainable process that will provide accurate, reliable, and useful financial information that can be used by program managers at USDA. We are committed to sustainable improvement as we address the challenges before us.

The following are highlights of our major challenges and plans for improvement. In the area of credit reform, there are two USDA agencies affected: Farm Service Agency, including the programs funded by the Commodity Credit Corp., and Rural Development. As a response to audit findings in 1999, USDA formed a working group comprised of USDA credit agencies, CFO, OMB, and OIG representatives, to develop the needed cash-flow models and documentation. GAO assisted the group by providing a standard "best practices" methodology to implement credit reform.

During fiscal year 2000, USDA's Credit Reform Working Group made significant progress toward resolving credit reform issues. All USDA credit agencies revised a portion of their credit models during the past year to improve budget and financial statement estimates for loan allowances. Several data validity reviews performed as a partnership with the OIG and GAO concluded that the integrity of the data used to develop the credit models is sound. Agencies also improved documentation supporting the models and worked to revamp their accounting procedures.

During fiscal year 2001, USDA plans to complete the credit reform models and finalize procedures that will address most of the remaining OIG concerns related to credit reform financial statement line items. We will also continue to address the challenge to ensure sufficient staff is available to support credit reform activities.

Old, legacy administrative "feeder" systems of USDA have also caused numerous financial management problems for the Department and the FFIS implementation. These problems include issues that affect our ability to reconcile our cash accounts with Treasury and to provide current online access to information for our managers in a timely manner.

In fiscal year 2000, the Chief Financial Officer, working with the Chief Information Officer and the Assistant Secretary for Administration, led a Corporate Administrative Systems Executive Committee tasked with developing a corporate strategy for dealing with the administrative and financial feeder systems. The systems in the corporate strategy and their priorities for implementation are: accounting and budget execution, telecommunications infrastructure and security, procurement, payroll, human resources, travel, property, and budget formulation.

We plan to complete the necessary implementation of these systems within 5 years. A constraint in our ability to implement the entire corporate strategy has been the availability of funding. We are grateful to Congress for the language provided in last year's Agricultural Appropriations Act, allowing the Secretary of Agriculture, with the Appropriations Committees' approval, to transfer unobligated balances of appropriated funds to the Working Capital Fund to assist with the acquisition of needed financial, administrative, information technology services. We will be providing a plan to the committee shortly to seek this approval.

Reconciling our fund balances with the Treasury progressed well in fiscal year 2000. Mr. Chairman, I want to stress that the out-of-balance condition was due to reporting differences to Treasury that had not been corrected in a timely manner. The differences did not result in a loss of taxpayer money.

We are continuing to work on resolving the remaining issues affecting our ability to reconcile our cash accounts with Treasury's fund balance in a timely manner and have been working with staff at the National Finance Center and the agencies to implement a sustainable process for reconciling cash.

The major component of the general property, plant and equipment line item in USDA's financial statements is the Forest Service real property, consisting of pooled assets, for example, road costs; and individual real property assets, for example, buildings. During fiscal year 2000, the Forest Service initiatives with property began to show results. The OIG has accepted support for $2.57 billion of their 381,000 miles of roads. In fiscal year 2001, the Forest Service plans to revise its inventory instructions for the field for the remaining real property assets and provide additional training with a goal of ensuring that all their real property assets will pass the audit tests for fiscal year 2001.

Mr. Chairman, these issues from the audit combine for an extensive list of management and audit challenges. I am pleased to share both our accomplishments today 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 for arranging this forum to discuss the financial management issues at USDA.

Mr. HORN. Thank you very much, Ms. Healy.

[The prepared statement of Ms. Healy follows:]

STATEMENT OF
PATRICIA E. HEALY
ACTING CHIEF FINANCIAL OFFICER
U.S. DEPARTMENT OF AGRICULTURE
BEFORE THE
SUBCOMMITTEE ON GOVERNMENT EFFICIENCY,
FINANCIAL MANAGEMENT AND INTERGOVERNMENTAL RELATIONS
OF THE
HOUSE COMMITTEE ON GOVERNMENT REFORM
RESULTS OF THE FY 2000 FINANCIAL AUDIT OF THE
U.S. DEPARTMENT OF AGRICULTURE

May 8, 2001
1:00 PM

Introduction

Chairman Horn, Congresswoman Schakowsky and Members of the Subcommittee, thank you for the opportunity to share with you the progress we have made in financial management at USDA in fiscal year (FY) 2000.

Mr. Chairman, providing effective financial management for an organization as large and diverse as the USDA is a tremendous challenge. If USDA were a corporation, the Department's spending would make it the country's sixth largest corporation and one of the largest banks in the country. USDA is the government's largest direct lender, holding almost one third of the Government's direct loans outstanding at the end of FY 2000. USDA employees and facilities are spread throughout the United States and many countries, providing benefits to nearly 70 million individuals a year. Managing financial and administrative operations is made even more challenging by the fact that staffing levels within the Department have declined while the demands for USDA programs have not. For example, in USDA agencies providing loans and other services to rural residents, staffing has declined by about 28 percent between 1993 and 2000. At the same time, these agencies must administer a 51 percent increase in program dollars. These increases in program dollars were critical and necessary to USDA's core mission as the steward of rural America. However, the discrepancy in funding for programs and staffing serves to illustrate the extent of the difficulties that agencies face in delivering time-sensitive program funds while achieving the necessary financial management goals.

Over the last year, my colleagues and I have been working very hard with the General Accounting Office (GAO), the Office of Management and Budget (OMB), and the Office of Inspector General (OIG) to tackle some of the larger issues facing the Department. We have made significant progress on many fronts in addressing the underlying problems that affect the data reported on our financial statements. I also want to emphasize that although there are problems remaining, the top priority for financial managers at USDA is the safeguarding of taxpayers' money against fraud, waste and abuse. Progress made during the past year includes:

Integrated Financial Management System: USDA continues to make significant progress in implementing the Foundation Financial Information System (FFIS), the cornerstone of financial management and administrative systems improvements at USDA. The success of USDA in implementing the system according to the aggressive schedule that we committed to in fiscal year 1999, led us to accelerate the implementation schedule for FY 2000. As a result, over 78 percent of our employees are now served by FFIS. On October 1, 2001, all but two of our agencies will be using FFIS.

Debt Collection Improvement Act of 1996: USDA debt constitutes about 37 percent of all non-tax debt owed to the Federal Government. The majority of our $102.8 billion portfolio relates to $100.5 billion in loans for rural housing units; rural utilities; farm operating, ownership and disaster assistance; international export and development; and rural business enterprises. During FY 2000, USDA collected $188.0 million in delinquent debt through Treasury's Administrative Offset Program and other debt collection tools. This figure represents a 38 percent increase over the $136.2 million collected in FY 1999, a 100 percent increase over the $93.9 million collected in FY 1998, and a 163 percent increase over the $71.5 million collected in FY 1997. In addition, the FY 2000 delinquent receivables totaled $6.3 billion, a decrease of nearly 16 percent from the $7.5 billion in delinquencies reported in FY 1997. Collections of delinquent USDA debt have almost tripled (from $63.2 million to $188.0 million) since 1996 as a result of the Debt Collection Improvement Act of 1996 (DCIA) and a greater reliance on referring debts for Treasury offset, cross-servicing, Internal Revenue Service (IRS) 1099 reporting, and internal/external offset programs.

Financial Statements: For the third consecutive year, USDA submitted its consolidated financial statements to OMB by the March 1 deadline. We have also been working on automating the statement preparation process to improve the efficiency and consistency of data processing. USDA produces six stand-alone audited, financial statements in addition to a consolidated statement. Three of these financial statements - the Food and Nutrition Service (the USDA agency with the largest budget), the Rural Telephone Bank, and the Federal Crop Insurance Corporation - have received unqualified or "clean" audit opinions for several years. The remaining three agencies with stand-alone statements, - Rural Development (RD), the Forest Service (FS), and Commodity Credit Corporation (CCC)- have made significant progress in improving their audit results. OCFO is working closely with RD, the Farm Service Agency (FSA) and CCC on a credit reform working group, comprised of representatives from these agencies, the Office of Inspector General, and OMB, with GAO as an advisor, to address the credit reform issues keeping these agencies from a clean opinion. We are also working closely with the Forest Service on its plans for financial management improvements. We are hopeful that these efforts will result in an improved USDA consolidated financial statement audit opinion for FY 2001.

Government Performance and Results Act (GPRA): In FY 2000, USDA issued a restructured strategic plan for FY 2000-2005 focused on five overall USDA goals that cross organizational lines in the Department. The OFCO led the Department-wide Planning Team that developed the new plan using a corporate management approach to strategic planning. As a result, the previous strategic plan, which consisted of 30 different agency plans, has been replaced by a streamlined plan written in plain language. The strategic plan as well as the FY 2002 performance plan reflect a corporate approach to performance management.

Remaining Challenges and Plans for Improvement

Mr. Chairman, while progress has been made, we recognize that there is still much to do if we are to pass the first test of good financial management, an unqualified ("clean") audit opinion. However, we recognize that receiving a clean audit opinion will be a hollow victory if we do not put in place the systems and processes necessary not only to sustain the clean opinion, but to provide accurate, reliable and useful financial information about our operations that can be used by program managers to effectively and efficiently manage the vast resources entrusted to USDA. We are committed to sustainable improvement as we address the challenges before us and take the actions necessary to improve our financial operations. The following are highlights of our major challenges and plans for improvement.

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

The Federal Credit Reform Act of 1990 (FCRA) changed the method for credit (loan) program budget formulation and the way loan programs are accounted for in the financial statements. The Act changed credit programs from a cash basis to a net present value basis for both budgeting and accounting. To calculate the credit programs on a net present value basis, the cash disbursements and receipts are converted into a projected cost for the life of a loan during budget formulation. This cost is used to determine how much money should be appropriated each year to fund each credit program.

There are two USDA agencies affected by credit reform: FSA, including programs funded by the CCC, and RD. In order to project cash flows, agencies must develop a tool (cash flow model) to estimate the cash disbursements and receipts. These cash flow models need to be clearly documented to allow OIG and OMB to verify that the model formulas are correct and the cash flow estimates are reasonable. This process is challenging, especially because USDA systems did not store the historical information needed to prepare these estimates until 1992.

As a response to audit findings, USDA formed a working group in 1999, comprised of the USDA credit agencies, CFO and OIG representatives, to develop the needed cash flow models and documentation. GAO assisted the group by providing a standard methodology to document the regulations of each program, develop good cash flow models and reasonable estimates, perform sensitivity analysis to determine the most important items being estimated, verify the source of information for the estimates, and document the entire process. The standard methodology is referred to as "best practices."

During FY 2000, USDA's Credit Reform Working Group made significant progress towards resolving credit reform issues cited in previous audit reports. All USDA credit agencies revised a portion of their credit models during the past year to improve budget and financial statement estimates for loan allowances. It is important to note that difficulties in estimating future loan performance and subsidy costs does not necessarily mean that Federal funds are at risk. In fact, several data validity reviews associated with the models concluded that the integrity of the data used to develop the estimation is sound. Specific agency accomplishments include:

- RD developed direct and guaranteed loan cash flow models that estimate the cost of the guaranteed loan, direct community facilities, business and industry, electric, telecommunications, and water and environmental programs. Sensitivity analyses were completed for these models to identify the cash flow data that have the most impact on the cost of these programs. Key cash flow data elements used in the models were validated with source documents to ensure that the automated system captured valid data for material programs. The verifications were performed as a partnership among RD agency personnel, GAO, and OIG, with both sets of auditors concluding that the data supporting the subsidy cost elements was valid. This verification assures the auditors that the systems contain supportable data for the cash flow components. As a result of these efforts, as of September 30, 2000, RD is now able to more accurately estimate the subsidy cost for $27.3 billion (over 70 percent) of the $38.4 billion direct and guaranteed loan portfolio subject to Credit Reform. OIG was also able to remove its qualification of opinion on the FY 2000 financial statement line item, "Estimated Losses from Loan Guarantees."

- FSA completed a new guaranteed loan program model during FY 2000, and the OIG reviewed this model sufficiently to determine that, pending data validation efforts, the model appeared to be reasonably constructed and should be used to perform subsidy estimates. During FY 2001, FSA began an effort to reconstruct their model for estimating direct loan subsidies. This model is nearing completion and has been given to OIG for their review.

- CCC also revamped both its guaranteed and direct credit models in FY 2000. They procured a contractor to automate and document many of the estimation processes and accounting procedures in order to ensure that the new models will provide timely and accurate data for FY 2001.

During FY 2001, USDA plans to complete the credit reform models and finalize procedures that will address the remaining OIG concerns related to the credit reform financial statement line items. Specific items planned for completion include: development of the RD Single Family and Multi-Family Housing direct loan model; data validation reviews for the FSA guaranteed loan model and the RD housing model; completion of model documentation for all USDA credit agencies, development of a time schedule for RD reestimates that is approved by both the OIG and OMB, and development of a methodology for valuing pre-credit reform loan portfolios that will enable the OIG to feel comfortable providing assurance on those balances.

Once these are complete, a continuing challenge for USDA will be to ensure that sufficient staff are available to support ongoing credit reform budgeting and accounting and financial statement preparation. OCFO will continue to work with each of the agency Chief Financial Officers and the OIG to ensure that credit reform budget and accounting issues are addressed with appropriate consistency throughout the Department, and that we leverage our resources to share lessons learned.

Integrated Financial Management System

As indicated above, a major accomplishment of USDA in the last few years has been the successful implementation of the FFIS, the cornerstone of financial management and administrative systems improvements at USDA. The implementation of FFIS is a critical success for the Department as it will address many long-standing financial systems issues identified by the OIG. When fully implemented, FFIS will include integrated budget execution and accounting as well as a financial data warehouse with a powerful reporting capability. It will also include a tool to help resolve a major audit finding by improving Department reconciliation of its cash accounts to Treasury records. The reliable, accurate data provided in FFIS records, coupled with the powerful reporting tool, will increase USDA's ability to monitor operations and report results. Further, when FFIS is linked to the critical corporate systems in USDA's Corporate Systems Strategy (discussed below), USDA will be able to obtain the corporate information required to effectively manage operations.

The success of USDA in implementing the system according to the aggressive schedule that we committed to in fiscal year 1999, led us to accelerate the implementation schedule for FY 2000. As a result, four major agencies, the Animal and Plant Health Inspection Service (APHIS), RD agencies, FSA and the Natural Resources Conservation Service (NRCS), were all implemented on October 1, 2000. Three of these agencies were implemented ahead of schedule. Work is on schedule to implement eight agencies on October 1, 2001. These are: Agricultural Research Service (ARS); Cooperative State Research, Education, and Extension Service (CSREES); Economic Research Service (ERS); National Agricultural Statistics Service (NASS); Agricultural Marketing Service (AMS); Food and Nutrition Service (FNS); the OIG; and Departmental Administration (DA) and Staff Offices, including the Working Capital Fund (WCF). Currently 78 percent of the USDA workforce is served by FFIS. Final implementation will occur on October 1, 2002 with the Grain Inspection, Packers & Stockyards Administration (GIPSA) and the Foreign Agricultural Service (FAS).

Corporate Administrative and Financial Systems

The old, legacy administrative "feeder" systems of USDA have caused numerous financial management problems for the Department and the FFIS implementation. These problems include issues that affect our ability to timely reconcile our cash accounts with Treasury and to provide current online access to information for our managers. In a 1999 evaluation report, OIG recommended that the CFO analyze the need for each "feeder" system and based upon the analysis, develop long-range plans to consolidate, integrate and/or reengineer the "feeder" systems.

In FY 2000, the Chief Financial Officer, working with the Chief Information Officer and Assistant Secretary for Administration, led the Corporate Administrative Systems Executive Committee tasked with developing a corporate strategy for dealing with the administrative/financial feeder systems. The Committee met extensively over a six-month period to examine the eight (8) corporate systems identified as most critical for the successful operation of USDA. The Committee evaluated each system component, the criticality of the system to the Department's overall administrative/financial operations, and the urgency of the need to have the functionality implemented. The systems in the corporate strategy and their priorities for implementation are: accounting/budget execution; telecommunications infrastructure/security; procurement; payroll; human resources; travel; property; and budget formulation.

The fundamental objective is to complete the necessary implementation of these systems within five (5) years. With the implementation of FFIS, the accounting/budget execution system will be substantially complete. A constraint in our ability to implement the entire corporate strategy has been the availability of funding. We are grateful to Congress for the language provided in last year's Agriculture Appropriations Act allowing the Secretary of Agriculture, with the Appropriations Committees' approval, to transfer unobligated balances of appropriated funds to the WCF for the acquisition of plant and capital equipment necessary for the delivery of financial, administrative, and information technology services of primary benefit to the agencies of the Department of Agriculture. We will be providing a plan to the Appropriations Committees shortly, which will explain the need for corporate systems and the strategy for obtaining them, including resource requirements.

Fund Balance with Treasury

We have made significant progress in reconciling our fund balances with Treasury. In May 1999, USDA implemented a rigorous project approach to resolving the out-of-balance conditions. As a result of this effort, we significantly reduced our out-of-balance condition with Treasury in FY 2000. Mr. Chairman, I want to stress that the out-of-balance condition was due to reporting differences to Treasury that had not been corrected in a timely manner. These differences did not result in a loss of taxpayer money.

We are continuing to work on resolving the remaining issues affecting our ability to timely reconcile our cash accounts with Treasury's fund balance. We have corrected the problems that the OIG identified with the data received from the USDA "feeder" systems (known as the posting model problem) and have been working with staff at the National Finance Center (NFC) and the agencies to implement a sustainable process for reconciling cash. A cash reconciliation branch has been established at NFC to provide the necessary staff support. To improve their accountability for cash reconciliation, the Forest Service and Food Safety and Inspection Service (FSIS) have elected to perform their own cash reconciliations. In March, the

OCFO held a meeting with all the agencies to emphasize the importance of timely reconciliations to the Department and to identify actions needed to ensure that final resolution of the outstanding balances is complete by the end of fiscal year 2001. In addition, OCFO has developed a tool to facilitate the timely reconciliation of cash and is working on enhancements requested by the agencies. We also intend to identify those issues affecting our ability to timely reconcile cash that are outside USDA's control and address them with the appropriate agencies. Our goal is a sustainable, Department-wide process so that once we have fully reconciled our outstanding cash balances, our accounts will continue to be routinely reconciled as a matter of practice. We expect to substantially reach this goal in FY 2001 and will regularly monitor the results at NFC, Forest Service and FSIS to ensure we remain on target.

General Property, Plant and Equipment

The major component of the general property, plant and equipment line item in USDA's financial statements is the Forest Service real property consisting of pooled assets (i.e., road costs, recreation trails and improvements to forest habitat) and individual real property assets (i.e., buildings, administrative sites, recreation sites, improvements to recreation sites, dams, and utility systems). In FY 2000, the Forest Service real property was valued at \$4.5 billion. During FY 2000, the Forest Service worked aggressively to address its long-standing issues related to accounting for property. In cooperation with the OIG, the Forest Service developed a methodology for valuing historical (pre-1995) road costs for which there was little or no original acquisition documentation. The Forest Service developed cost matrices to estimate road bed and surfacing costs. Each Region was then responsible for populating the cost matrices based on local costs, basic road configurations, and typical local construction practices found in contract packages, regional standard drawings, cost guides, etc. This was a considerable effort involving Forest Service personnel not only in finance, but engineers and other personnel in the field organizations. The effort has paid off and it is expected that the OIG will accept the \$2.57 billion reported for the agency's 381,000 miles of roads as a supportable valuation for the roads.

While the Forest Service has also made progress in the valuation of its buildings in cases where there was no original acquisition documentation, additional work will be required in FY 2001 to completely document the individual real property items. Actions to address outstanding findings include: providing additional training to headquarters and field personnel, monitoring the quality and progress of documentation efforts, and providing additional assistance to field units as needed to complete the work necessary to document the value of Forest Service real property. In addition, we are working with Forest Service and OIG to determine a more appropriate real property asset capitalization threshold than the current \$5,000 level. The Forest Service currently must invest significant resources to account for small dollar assets. A recent Forest Service study revealed that approximately 90 percent of their real property values are associated with 20 percent of the assets; thus a higher capitalization threshold is needed to ensure the Forest Service invests its resources in accounting and documenting assets of a material dollar value. Redirecting resources to higher valued assets should permit the Forest Service to properly account for their real property assets in accordance with existing standards in a more-timely manner. Our goal is to have the capitalization threshold decision made by June 2001. Once these items are complete, we expect the Forest Service real property to pass the audits tests for the FY 2001 audit.

Personal property for the Forest Service totals $340 million. The Forest Service also continues to make significant progress on reporting the values of personal property. Of the $11.3 million assets sampled, the OIG found discrepancies amounting to approximately $350,000, or only 3 percent. These results were based on a judgmental selected sample. While the OIG identified compliance issues that must be improved, the dollars associated with these assets are relatively small. Additional actions the Forest Service will take include insuring the interfaces between the personal property systems and FFIS are run timely, monitoring the quality of documentation, and assisting field units who may need additional help to develop documentation for personal property values that will withstand audit.

From a Department-wide perspective, the Department's property management office will provide oversight to all agencies regarding physical inventories and develop a statistical sample to validate the inventory process. This office is also leading the efforts to identify potential commercial off-the-shelf replacement systems for property that meet Joint Financial Management Improvement Program (JFMIP) standards. This review will be conducted in conjunction with USDA's overall corporate system strategy that addresses all administrative systems.

Federal Managers' Financial Integrity Act Report (FMFIA)

The OCFO has placed increased emphasis on the timely completion of corrective actions associated with material deficiencies included in our FMFIA Report. During the third quarter of FY 2000, OCFO implemented a quarterly reporting process whereby agencies are required to report on the status of their efforts to complete corrective actions scheduled for that quarter. Agencies are also required to provide detailed explanations for slippages in completion dates.

Beginning with the first quarter FY 2001, OCFO reviewed and analyzed the information received and reported the results to the respective agency administrators. Agency administrators were instructed to take the necessary steps, where less than 100 percent of the actions are proceeding as scheduled, to ensure that remedial actions are taken to either correct the weakness or get back on course to complete future actions as scheduled. The impacts of increased monitoring and reporting to agency senior management are expected to be realized by fiscal year-end and improve overall timeliness in completing corrective actions for material deficiencies in the future.

Security

Both the GAO and the OIG continue to document shortcomings in the Department's ability to protect the integrity and the confidentiality of the USDA's financial information and its other sensitive information assets. Based on the significance of these findings, the GAO has recommended that the Department declare its computer security program as a material internal control weakness under the FMFIA.

The Department takes this challenge seriously. In August of 1999, the OCFO, with the Office of the Chief Information Officer (OCIO) developed an action plan to strengthen USDA Information Security. Since that time, we established a central USDA Cyber-Security Program within the OCIO, hired an experienced Associate CIO for Cyber-Security to lead this program, and have been systematically implementing a comprehensive cyber-security strategy modeled on the "best practices" of public and private organizations. This strategy includes: strengthening the OCIO central Cyber-Security Program by hiring professionals experienced in a broad range of security disciplines such as security engineering, telecommunications and mainframe security, and disaster recovery; establishing a risk management program to evaluate and assist agencies in managing risk to our information assets throughout the full life of our systems; and creating a department-wide information security architecture to secure our corporate network.

When fully implemented, the OCIO Cyber-Security program will ensure that all USDA agencies implement comprehensive security practices, and increase our ability to materially enhance our security in today's networked environment where the information privacy and integrity challenges will continue to grow exponentially.

Financial Statements

During FY 2000, the Department undertook a major initiative to improve its financial reporting processes through the development of a Financial Statements Data Warehouse (FSDW). The FSDW will be used to improve the efficiency and consistency of the process to consolidate USDA's data for financial reporting. Staff and funding constraints have slowed this effort, but we are continuing to work on this system to ensure we can be responsive to ever-increasing Government-wide reporting requirements. The FSDW is part of the Corporate Administrative/Financial Systems plan being sent for Appropriations Committees for approval.

Because of continuing accounting operational and system implementation problems, CCC and Forest Service were unable to complete their financial statements on time and their audits continued into April 2001. In the case of the Forest Service, OCFO, the agency and the OIG agreed to continue the audit so the Forest Service staff could have the benefit of a full audit to ascertain the effectiveness of the actions they had taken to improve their financial management systems and processes. This will provide the Forest Service with baseline information for continued improvements. We expect the Forest Service to benefit from this in FY 2001 and their audit results will continue to improve.

CCC's audit continued past the deadline in the hope of obtaining an improved audit result from FY 1999. CCC was working to resolve open credit reform issues from FY 1998 and FY 1999 while continuing to work on FY 2000 audit. Resource constraints reduced their ability to timely resolve credit reform issues in relation to statement preparation and audit processes.

The OCFO is working closely with CCC and Forest Service and all USDA agencies to address issues affecting timeliness and audit results. Working with the agencies, we have developed an audit plan, including timelines for the consolidated audit. We are refining this plan in cooperation with the OIG and the agencies and will use it to monitor the progress of the audit. We are also in the process of sending to each agency, information about items they need to address in their audit plans. I plan to meet regularly with the agencies to monitor their progress in addressing audit findings.

Debt Collection

A major credit agency, USDA constitutes about 37 percent of all non-tax debt owed to the Federal Government. As I noted previously, the majority of our $102.8 billion portfolio relates to $100.5 billion in loans for rural housing units; rural utilities; farm operating, ownership and disaster assistance; international export and development; and rural business enterprises.

Since the enactment of the DCIA of 1996, USDA has concentrated on reducing the percentage of collectible delinquencies in relation to the total receivables. As the number of total receivables falls, the percentage of collectible delinquencies in relation to those total receivables should decline as well.

Two issues to consider are that USDA can only control collectible delinquencies, and that a decrease in this category of delinquencies signifies that USDA is improving its management of the debt portfolio and delinquencies. Collectible delinquencies are those that have a possibility of being collected, and include past due loans owed to USDA, fines levied against arsonists in the national forests, and debts from USDA employees. The FY 2000 delinquent receivables totaled $6.3 billion. Of this amount, only $1.3 billion is considered collectible, while $5.0 billion is considered uncollectible. Uncollectible delinquencies are debts that are precluded from collection because of statutory or administrative requirements. These debts may be in bankruptcy, in litigation, payments from foreign or sovereign entities, or which have passed the statute of limitations for legal collection.

In FY 2000, USDA had an average delinquency rate of about six percent, compared to the Government-wide average of about 20 percent. This figure means that of all debt owed to USDA in a one-year period only six percent is delinquent. During FY 2000, USDA collected $188.0 million in delinquent debt through Treasury's Administrative Offset Program and other debt collection tools. This figure represents a 38 percent increase over the $136.2 million collected in FY 1999, a 100 percent increase over the $93.9 million collected in FY 1998, and a 163 percent increase over the $71.5 million collected in FY 1997. In addition, the FY 2000 delinquent receivables totaled $6.3 billion, a decrease of nearly 16 percent from the $7.5 billion in delinquencies reported for FY 1997. Collections of delinquent USDA debt have almost tripled (from $63.2 million to $188.0 million) since 1996 as a result of the DCIA and a greater reliance on referring debts for Treasury offset, cross-servicing, Internal Revenue Service (IRS) 1099 reporting, and internal/external offset programs.

These issues from the audit combine for an extensive list of management and audit 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 for arranging this forum to discuss financial management issues.

Contact Information: For additional information, please contact the Office of the Chief Financial Officer at (202) 720-5539.

Mr. HORN. The ranking member has come in. If you would like to have your statement at the beginning and go to questions, you're certainly free to. We'll submit it into the record right after my own statement. Without objection.

So let me move, then, to the 10-minute period that each of us will have, including Mr. Putnam.

Mr. Viadero, if I heard you correctly, two of the Department of Agriculture's agencies, the Forest Service and the Commodity Credit Corp., spend more money than was provided by Congress; is that true?

Mr. VIADERO. Yes, sir.

Mr. HORN. How do you think that happened?

Mr. VIADERO. I think it happened, sir, because of poor accounting systems, not on the part of the CFO, but what we were discussing, that CAS system, the Central Accounting System, and the transition into the new updated, streamlined, soup-to-nuts Foundation Financial Information System, which is struggling by itself. Again, as I mentioned—and there was no play on words—the CAS system sort of cooks its own books as it goes along. Between the lack of timeliness of the data and the unreliability of the data, that just caused the train wreck here.

Mr. HORN. I'm curious. Where is the Chief Information Officer? I would think they would appear at a situation like this. Ms. Healy, does he report to you or she report to you or——

Ms. HEALY. The Chief Information Officer?

Mr. HORN. Right. CIO.

Ms. HEALY. No. They do not report to me.

Mr. HORN. To whom do they report?

Ms. HEALY. The Chief Information Officer at USDA reports to the Secretary.

Mr. HORN. Directly to the Secretary?

Ms. HEALY. Yes; not the Forest Service one, the Chief Information Officer for USDA.

Mr. HORN. OK. And to whom do you report?

Ms. HEALY. The Secretary.

Mr. HORN. The Secretary?

Ms. HEALY. Yes.

Mr. HORN. OK. So there's a chance for the Secretary to get the two of you in the chairs, at least, to get you working together. It seems to me if you can solve this problem, you've got to get the CIO, the CFO——

Ms. HEALY. Uh-huh.

Mr. HORN [continuing]. And all of them to get on the same team.

Ms. HEALY. And we are. The Corporate Administrative Systems Committee that we had last year was a combined effort of the Chief Financial Officer, the Chief Information Officer, and the Assistant Secretary for Administration, and we had a number of the agencies in there as well, recognizing that we have to work together to solve these problems, that we all have a piece of them, and that the CIO needs to come to the table and provide the critical infrastructure. We need to get the systems out to where people are, the functional people have to be able to write good requirements, and ensure that all of our systems are not developed the way they were in the past in a stovepipe manner so they don't talk to each other. They make running the agencies extremely difficult if we can't get corporate information.

And so what came out of that was corporate strategy for the systems that will work together with FFIS to give us the information that we need to manage the agency. That strategy coupled with a financial data warehouse that we're also building at the same time, will allow us to combine financial information, program information and any other information the agency wants to combine together in this warehouse so that we can get the corporate information. We have the plan. We have the strategy, and the Appropriations Committees this year finally gave us a mechanism to get the funding. That has really been what has been holding us back.

So we have the plan together. It's undergoing internal review, and as soon as we can get it up to the committees, once we get those dollars, we are going to work closely together with the same parties monitoring how this money is spent, how these projects are going, and to implement the most critical ones. These are the telecommunications and security, which safeguard the assets, and the procurement system, which is the main system that feeds into the accounting system and keeps track of our purchases.

Mr. HORN. Ms. Healy, is it correct that the Commodity Credit Corp. and Forest Service have spent more money than were provided by Congress?

Ms. HEALY. I do know for sure about the Forest Service. I just became aware of the Commodity Credit Corp. today, and I think it was a small amount of $50,000 that I think they believe they have internal authorities to cover. I don't have the details on that. I'd have to get someone from the agency to give you the information.

With respect to the Forest Service, that is true.

Mr. HORN. So it is true on the Forest Service?

Ms. HEALY. Yes, sir.

Mr. HORN. And how much did they overspend?

Ms. HEALY. $274 million.

Mr. HORN. $274 million?

Ms. HEALY. Yes.

Mr. HORN. And you're saying Commodity Credit is $50,000?

Ms. HEALY. Yes.

Mr. HORN. Is it true that you maintain two sets of books, one for reporting the value of loans for the financial statements and another for reporting on the budget? How does that system work? I'm just curious.

Ms. HEALY. Well, I think it isn't two sets in the traditional sense. It refers to the way that we're required to do loans for country valuations. This is for the foreign loans, and we look at the default rates for the countries and how to value the subsidy costs for the foreign loans. This is based on a subsidy rate established by the ICRA system at OMB, and when we look at it with our auditors, we're looking at reestimating the subsidy on an annual basis, as I understand it. There are some differences in how we have to present the figures; but the loans are the same no matter which way you go. It's just a matter of which way you want to look at the subsidy cost.

Mr. HORN. But essentially, in order to help the Department along, I take it you've got two sets of books; is that right?

Ms. HEALY. Yes. For that small portion, for the foreign loans.

Mr. HORN. And it's just the foreign loans?

Ms. HEALY. Yes, as I understand it.

Mr. HORN. How would you define that in relation to the other loans that—say the Commodity Credit Corp. puts out loans. Now, are those typically foreign loans, or are they all in the United States to farmers here?

Ms. HEALY. I really don't know. I'd have to check on that.

Mr. HORN. OK. Could you? And without objection, that will be entered at this point in the record with a letter from the Chief Financial Officer.

[The information referred to follows:]

Commodity Credit Corporation's (CCC) foreign debt relates to: (1) title I of the Agricultural Trade Development and Assistance Act of 1954 (P.L. 480) and (2) the Export Credit Guarantee Programs (GSM-102 and GSM-103).

Under title I of P.L. 480, CCC finances, on concessional credit terms, purchases of U.S. agricultural commodities by foreign governments. Repayment for the credit may extend up to thirty years with a five-year grace period for payment of principal. Interest charged ranges between one and four percent per annum.

The GSM-102 and GSM-103 programs make available export credit guarantees to encourage U.S. private sector financing of foreign purchases of U.S. agricultural commodities on credit terms. Under GSM-102, credit guarantees are issued for terms of up to three years. Under GSM-103, credit guarantees are issued for terms of three years to ten years.

FACT SHEET:

CCC Export Credit Guarantee Programs (GSM-102/103)

January 2001

The U.S. Department of Agriculture administers export credit guarantee programs for commercial financing of U.S. agricultural exports. These USDA Commodity Credit Corporation (CCC) programs encourage exports to buyers in countries where credit is necessary to maintain or increase U.S. sales, but where financing may not be available without such credit guarantees.

Two programs underwrite credit extended by the private banking sector in the United States (or, less commonly, by the U.S. exporter) to approved foreign banks using dollar-denominated, irrevocable letters of credit to pay for food and agricultural products sold to foreign buyers. The Export Credit Guarantee Program (GSM-102) covers credit terms up to three years. The Intermediate Export Credit Guarantee Program (GSM-103) covers longer credit terms up to 10 years.

Under these programs, which are administered by the Foreign Agricultural Service (FAS), the CCC does not provide financing, but guarantees payments due from foreign banks. Typically, 98 percent of principal and a portion of interest at an adjustable rate is covered.

Because payment is guaranteed, financial institutions in the United States can offer competitive credit terms to the foreign banks, usually with interest rates based on the London Inter-Bank Offered Rate (LIBOR). Any follow-on credit arrangements between the foreign bank and the importer are negotiated separately and are not covered by the CCC guarantee.

Program announcements provide information on specific country and commodity allocations, length of credit period, and other program information and requirements.

***Eligible Countries or Regions:** Interested parties, including U.S. exporters, foreign buyers, and banks, may request that the CCC establish a GSM-102 or GSM-103 program for a country or region. Prior to announcing the availability of guarantees, the CCC evaluates the ability of each country and foreign bank to service CCC-guaranteed debt. New banks may be added or levels of approval for others increased or decreased as information becomes available.*

***Eligible Commodities:** The CCC selects agricultural commodities and products according to market potential.*

***Participation:** The CCC must qualify exporters for participation before accepting guarantee applications. An exporter must have a business office in the United States and must not be debarred or suspended from participating in any U.S. government program. Financial institutions must also meet established criteria and be approved by the CCC. The CCC sets limits and advises each approved foreign bank on the maximum outstanding amount the CCC can guarantee for that bank.*

The exporter negotiates the terms of the export credit sale with the importer. If the exporter anticipates being paid at the time of shipment, the exporter and importer must work closely during negotiations with the eligible U.S. financial institution and the eligible foreign bank. This will help ensure that arrangements are firmly in place for the U.S. financial institution to pay the exporter and to extend credit to the foreign bank.

Once a firm sale exists, the qualified U.S. exporter must apply for a payment guarantee before the date of export. The exporter pays a fee calculated on the dollar amount guaranteed, based on a schedule of rates applicable to different credit periods.

***Financing:** The CCC-approved foreign bank issues a dollar-denominated, irrevocable letter of credit in favor of the U.S. exporter, ordinarily advised or confirmed by the financial institution in the United States agreeing to* *extend credit to the foreign bank. The U.S. exporter may negotiate an arrangement to be paid as exports occur by assigning to the U.S. financial institution the right to proceeds that may become payable under the guarantee, and later presenting required documents to that financial institution. Such documents normally include a copy of the export report, which also must be submitted to the CCC.*

Defaults/Claims: *If the foreign bank fails to make any payment as agreed, the exporter or assignee must submit a notice of default to the CCC. A claim for loss also may be filed, and the CCC will promptly pay claims found to be in good order.*

For CCC audit purposes, the U.S. exporter must obtain documentation to show that the commodity arrived in the eligible country, and must maintain all transaction documents for five years from the date of completion of all payments.

Additional Information: *If you wish to participate in the GSM-102 or GSM-103 programs, call (202) 720-3224 or send a fax to (202) 720-2949 to request program regulations and applicable notices and announcements.*

For further information, contact: Program Planning, Development, and Evaluation Division, Export Credits, FAS-USDA, Stop 1034, 1400 Independence Ave. SW, Washington, DC 20250-1034; tel. (202) 720-4221; fax (202) 690-0251.

General information about FAS programs, resources, and services is available on the Internet at the FAS home page: http://www.fas.usda.gov

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The U.S. Department of Agriculture (USDA) prohibits discrimination in all its programs and activities on the basis of race, color, national origin, sex, religion, age, disability, political beliefs, sexual orientation, and marital or family status. (Not all prohibited bases apply to all programs.) Persons with disabilities who require alternative means for communication of program information (Braille, large print, audiotape, etc.) should contact USDA's TARGET Center at (202) 720-2600 (voice and TDD).

To file a complaint of discrimination, write USDA, Director, Office of Civil Rights, Room 326-W, Whitten Building, 14th and Independence Avenue, SW, Washington DC 20250-9410 or call (202) 720-5964 (voice or TDD). USDA is an equal opportunity provider and employer.

Last modified: Friday, April 13, 2001

FOOD AID PROGRAMS

January 1998

PUBLIC LAW 480 SALES PROGRAM: A BRIEF EXPLANATION OF TITLE I

General

Title I of the Agricultural Trade Development and Assistance Act of 1954, as amended, (Public Law 480, 83rd Congress) provides for U.S. government financing of sales of U.S. agricultural commodities to developing countries and private entities (hereafter called "participants") on concessional credit terms. Sales are made by private business firms on a bid basis in response to Invitations for Bids or "IFB's" issued in the United States by the participant. Sales are made at competitive U.S. market prices. The agreement's concessionality results from its extended credit periods and low rates of interest charged for the financing.

All agricultural commodities and products, other than alcoholic beverages, are eligible for consideration in programing unless the Secretary of Agriculture determines that the use of a commodity would reduce the domestic supply lower than that needed to meet domestic requirements and provide an adequate carryover.

The Foreign Agricultural Service (FAS) of the U.S. Department of Agriculture (USDA) is the agency responsible for administering agreements made under Title I.

In accordance with the Federal Agriculture Improvement and Reform Act of 1996, a Public Law 480, Title I agreement may now be signed with either a nongovernmental "private entity" or with a foreign government.

Commodities programed in recent years include wheat, corn, grain sorghum, rice, vegetable oil, wheat flour, cotton, tallow, soybeans, soybean meal, and wood products.

Negotiation of Agreements

Title I agreements are negotiated with foreign governments or private entities. In most cases, negotiations are conducted overseas by U.S. agricultural counselors or attaches. The Secretary of Agriculture determines the kinds and quantities of commodities to be included in agreements.

An agreement may require the government of the importing country to maintain normal imports of agricultural commodities from commercial sources in the United States and other free world countries. These "usual marketing requirements" (UMR's) are required, when applicable, in order to insure that Title I sales will not unduly disrupt world agricultural commodity prices and normal patterns of commercial trade. Agreements prohibit the resale or transshipment of Title I commodities ("export restrictions") and may prohibit or limit the export of similar commodities ("export limitations") in order to insure that Title I commodities are not used to increase the commercial exports of the importing country.

The U.S. government generally consults governments of other countries which export commodities included in the agreement to insure that Title I sales do not unduly disrupt normal world commercial trade.

Eligibility of Commodity Suppliers

U.S. commodity suppliers interested in selling commodities under P.L. 480, Title I, must submit the following information to USDA, which will determine their eligibility:

1. A current financial statement (preferably audited) of the person or firm wishing to become eligible, as evidence of financial responsibility.

2. A statement containing general background information about the firm, with particular reference to the firm's experience as an exporter of U.S. agricultural commodities, and any other information available relating to whether the person or firm is a responsible party and able to perform its obligations under the P.L. 480, Title I regulations and the purchase authorization.

Financing and Purchasing Procedures (Commodity)

After an agreement has been signed, the participant applies to FAS for one or more purchase authorizations (PA's) to be issued by USDA. Each PA includes such details as the particular grade or type of commodity to be purchased, the approximate quantity of the commodity and the maximum dollar amount authorized, the period during which contracts may be entered into, the period during which deliveries must be made, the conditions under which financing will be made available for the commodity sales, and any authorized ocean transportation costs. Normally, the earliest date that contracts may be entered into is seven days after the date the PA is issued. Further purchasing information can usually be obtained from the Washington Embassy of the importing country or its shipping agent.

The purchase authorization provides for commodity financing by the Commodity Credit Corporation (CCC), a U.S. government agency within USDA.

The commodity supplier will present documents to CCC, which will pay the supplier directly after the documents are found to be complete and in good order. CCC will also pay the supplier of ocean transportation directly for the ocean freight differential on U.S.-flag vessels and for any other ocean freight costs which are financed by CCC. However, when CCC pays only the ocean freight differential on a U.S.-flag voyage, the buyer must open a letter of credit for the balance of the ocean freight.

The following is an outline of commodity financing and purchasing procedures:

1. The P.L. 480, Title I regulations require that all purchases of commodities be made on the basis of an invitation for bids (IFB) which has been reviewed and approved by USDA before issuance. The IFB must be publicly advertised in the United States, and offers must conform to the terms of the IFB and must be received and publicly opened in the United States. Suppliers may offer for any portion of an IFB; also, an IFB may not establish minimum acceptable quantities. All offers received, regardless of size, must be considered, and all

awards must be made in conformance with the terms of the IFB.

2. As a prerequisite for CCC financing, the successful supplier(s) must register the sale with USDA and obtain approval of the contract terms, including price. Sales are registered with the P.L. 480 Operations Division, telephone (202) 720-5780.

3. The U.S. supplier delivers the commodities to the named U.S. port and receives a bill of lading as a receipt for the commodities loaded on board. The supplier presents the bill of lading, weight and inspection certificates, and any other documents required by the regulations and the IFB, to CCC.

4. CCC examines the documents and pays the supplier in dollars.

5. The participant then repays dollars or local currency to CCC, with interest, in accordance with the repayment terms specified in the agreement.

Small Business

This program is conducted on a non-discriminatory basis as are all USDA export programs.

In order to insure that small business firms have an equal opportunity to participate, the P.L. 480, Title I financing regulations prohibit buyers from establishing minimum quantities to be offered. All offers, regardless of size, must be considered (Section 17.5(c)(2)(v) of the Title I regulations).

In addition, the invitations for bids issued by importing countries cannot limit the right to submit offers to any specified group or class of suppliers; IFB's must permit submission of offers by any supplier who meets the requirements of the regulations (Section 17.5(c)(2)(iii) of the Title I regulations).

Ocean Transportation

In accordance with the cargo preference provisions of the Merchant Marine Act, 1936, as amended, at least 75 percent of the gross tonnage of commodities exported under Title I, P.L. 480, must be shipped on privately owned U.S. flag commercial vessels to the extent such vessels are available at fair and reasonable rates.

The participants or their appointed agents arrange for the ocean transportation of commodities purchased under Title I. The Director, P.L. 480 Operations Division, will determine the quantity of the commodity to be shipped on U.S.-flag commercial vessels. Open public freight invitations for bids (IFB's) are required for both U.S. and non-U.S. flag vessels when CCC is financing any portion of the ocean freight. Unless otherwise authorized by the USDA, IFB's are also required for non-U.S. flag vessels even though CCC is not financing any portion of the ocean freight.

The pertinent terms of all proposed charters or liner bookings, regardless of whether any portion of ocean freight is financed by CCC, must be sent to USDA for review and approval prior to fixture of the vessels. Approvals are obtained from the Director, P.L. 480 Operations Division, FAS, U.S. Department of Agriculture, Washington, DC 20250-1033.

Under a Title I agreement, CCC responsibility for ocean freight is generally limited to payment of the ocean freight differential, if any, which exists between the cost of U.S. flag and non-U.S. flag shipments. In certain exceptional cases, CCC may also finance on credit terms the balance of freight costs on U.S.

flag vessels, as well as foreign flag freight charges to selected countries, when specifically provided for in the applicable agreement and related purchase authorization. Ocean freight differential is determined by the Director, P.L. 480 Operations Division, FAS.

Compliance

Each commodity sales agreement contains specific provisions described under "Negotiations of Agreements," above, as *usual marketing requirements* (UMR's); *export restrictions* on P.L. 480 commodities; and *export limitations* on commodities the same as, or similar to, those imported under P.L. 480.

USDA has established procedures designed to monitor the importing country's compliance with these requirements. If the country fails to comply, agreement signings and purchase authorizations could be withheld; the failure to comply would also be taken into account in considering any future P.L. 480 agreements. The compliance function also addresses arrivals and reconciliation of P.L. 480 shipments, P.L. 480 commodity use, publicity requirements for P.L. 480 sales agreements, deposit and payment requirements for P.L. 480 sales agreements, and development plans associated with agreements.

The Act requires compliance reporting by importing countries. U.S. embassies and agricultural attaches will help the importing countries meet the statutory requirements of the Act. To inquire about compliance reporting, contact the Program Evaluation Branch, CCC Program Support Division, Foreign Agricultural Service, U.S. Department of Agriculture, 1400 Independence Avenue, S.W., Washington, DC 20250-1031.

Reporting Requirements

Commodity suppliers in the P.L. 480, Title I program may have a reporting responsibility under Section 602 of the Agricultural Trade Act of 1978. This is a mandatory program involving the reporting of export sales and exports of the major grains, oilseeds and products, cotton, rice, and cattle hides and skins.

To obtain information on reporting requirements or to inquire about your reporting status, contact the Export Sales Reporting Branch, Foreign Agricultural Service, U.S. Department of Agriculture, Washington, DC 20250-1025. Telephone: (202) 720-3273.

Further Information and Press Releases

All FAS news releases issued each day are available through FAX polling. To receive the releases, callers should dial (202) 720-1728 and set their FAX machine for polling.

If you wish to be placed on the mailing list to receive copies of purchase authorizations, *state specific commodity interest* and write to:

P.L. 480 Operations Division
Foreign Agricultural Service
U.S. Department of Agriculture
Washington, DC 20250-1033

Copies of the Title I, P.L. 480 financing regulations and related forms are also available from the P.L. 480 Operations Division, FAS, at the above address. In the event of any inconsistency between the regulations and this explanation, the regulations will control.

Recordings are available which provide information on agreements signed and purchase authorizations issued. Updated information is available after 3:30 p.m. Washington, DC time each business day by calling (202) 690-1621 for information on agreements signed and (202) 720-5938 for information on purchase authorizations issued.

Hearing-impaired or speech-impaired individuals may connect with any of the above phone numbers by calling the *Federal Information Relay System* at (800) 877-8339.

Last modified: Friday, April 10, 1998

Mr. HORN. It just seems to me that double bookkeeping is sort of what somebody is trying to do to get away from the IRS or something. One set of books——

Ms. HEALY. Uh-huh.

Mr. HORN [continuing]. That is for the family, and one set of books is for the IRS. So how do we get this corporation, the agency, and the Secretary in the Department to get it so that it's one system that people can find for either management purposes or finance purposes? What is it that the CFO will do, having listened to all the Inspector Generals comments, and what's your plan so we don't go through this again?

Ms. HEALY. Well, with respect to the data that we're getting in from CCC with the financial statements and for the loans, what we need to do with respect to estimating the loans for CCC is get the Office of the Inspector General and OMB to agree on the same way that we estimate the subsidy. That's one thing. And we will work on that.

With respect to the systems and the data needed to do the financial statements, we are setting up a system to try to get the data that comes into the financial systems from the individual systems put into one place in order to easily produce financial statements and be able to trace the data back to the originating systems. We're never going to redo all the various program systems, etc., that we have in the Department, not at least in the short term. So what we have to make sure of is that the data that we're getting in from the systems, loan systems, etc., is good, valid data. That's what we've been working on with the credit reform—making sure that the data is good, then making sure we have a place where there is a good repository, so that we can do good regular reporting with what everybody can agree are the same numbers, and that the numbers are traceable back to their source.

That is what we're working on. We're trying to make sure that the fundamental data is correct first; that we then have a tool in which to put the data, which is this financial statement warehouse that we're also developing; and that we can use that with the auditors and then with other people in the agencies as well to produce reports that they can use to manage operations. But the key is first making sure that we concentrate on getting good, solid data at the base and that's——

Mr. HORN. Do you feel you have that now?

Ms. HEALY. I think we're very close. I think what's——

Mr. HORN. And that's based on seeing the last train wreck? In other words, you've got better tracks, better cars, better locomotives? Is that—do you have a budget that you can use, or is it in the CIO's——

Ms. HEALY. Well, the budget for the financial systems resides with the CFO organization. We get it through the Working Capital Fund. So we do have control of that. And with the unobligated balances, we will set up a special fund in the Working Capital Fund so that we will have that.

With respect to the program systems, the loan systems, etc., the individual agencies get money in their budgets to correct those. They work with the CIO. We do have a capital planning process that we go through to make sure that the money is well spent. So we do try to complete the whole to make sure that we're giving money to systems that make sense, that are going to correct problems, and that we monitor how the systems are moving along.

With respect to the administrative side and the S&E accounts and the systems at the National Finance Center, we've made a tremendous amount of progress with FFIS. We basically retooled that project in fiscal year 1999, and by October 1, 2002, we will have all the agencies of USDA up, which is 17 individual applications in 4 years. This is a phenomenal amount of progress. Together with that we're continuing to work on these corporate systems. When we get the money for corporate systems we're ready to launch with our procurement system. We're ready to look at some approaches for our payroll systems. I think we're very well positioned to move forward.

Mr. HORN. Now, do you have that money now, or is it in the current fiscal year, or is it waiting for the next fiscal year?

Ms. HEALY. We will get it once we get the plan—the approval from the Appropriations Committees, House and Senate, then we should get that money this year, and it will become basically, as I understand it, available until expended in the Working Capital Fund.

Mr. HORN. What are we talking about in numbers; how much?

Ms. HEALY. Right now the preliminary plan we've developed for the administrative systems was about $160 million, to the best of my knowledge. And then there was one of the commodity systems that was about an additional $90 million.

Mr. HORN. What programming money do you have that you can utilize and get this show on the road?

Ms. HEALY. I'm not entirely sure what is available.

Mr. HORN. Usually in an agency budget, they give reprogramming authority.

Ms. HEALY. Oh, I see.

Mr. HORN. That the Secretary could signoff on.

Ms. HEALY. Right.

Mr. HORN. And that the ranking member and the majority Chair——

Ms. HEALY. Right.

Mr. HORN [continuing]. Could sign it off. That would save you a lot of going through this drudgery of budgets and appropriations at all. And that's what we told them to do on the Y2K thing. I don't know if you were around then.

Ms. HEALY. No, I wasn't.

Mr. HORN. But that was the way a lot of agencies solved the problem, and that's what they ought to be doing with money at the end of the year, not just waste it, but put it to good use.

Ms. HEALY. Well, I think part of the constraint here is that in the CFO's office, we only have an appropriated budget of about $5 million. So there really isn't money budgeted there for the administrative financial systems. The money comes from the Working Capital Fund, and what we do is we go before a Working Capital Fund committee to justify the expenditures, and then basically we get the money from the individual agencies into the Working Capital Fund.

The struggle has been and remains, that their budgets have been declining, there has not been a lot of extra money around to fund this, and we did have FFIS ongoing, presenting a large expense to the agencies. So that's why we did ask for this authority to try to tap into unobligated balances so we could go across agency lines, which we really can't do now in the Chief Financial Officer's office.

Mr. HORN. I'm going to my 10-minute mark, so I'm yielding to the ranking member here, Ms. Schakowsky, to ask questions.

Ms. SCHAKOWSKY. I'm new to this subcommittee and relatively new to this Congress, and I have to tell you, I'm pretty astonished by the differences. One would think that there might be some best practices that then get adopted by not only agencies within the Department, but between agencies. So that it seems like when we—in the three hearings that we have had on Defense and USAID and now Agriculture, that—everybody sort of starting from ground zero and trying to figure out—you have the new FFIS system. Someone else has Phoenix, an off-the-shelf system, and everybody has to figure it all out from scratch.

Did I just hear you say that agencies within the Department have not been able to cross-communicate? I'm just trying to understand these—what seem to be fundamental inefficiencies that happen, if they're just historical, and how soon—I guess for the bottom-line, how soon do you think that you'll be able to have—receive an opinion on your financial statements?

Ms. HEALY. Well, I didn't say that the agencies didn't cooperate. It's the money that can't be transferred across the agency boundaries. But I think one good thing is I've been at USDA a little less than 3 years, and before that I was in the Department of Treasury, and before that I was at the National Institutes of Health. There are a lot of common problems across the government, and I think one of the things that was encouraging here at USDA is that they have centralized a lot of their administrative and financial processes, at least for the S&E accounts, which is really good, at the National Finance Center. The problem is there is not a funding source that was readily available to keep those systems upgraded and well funded, to keep them new and working well, and to provide good internal controls in order to move with the times.

The National Finance Center is fully funded by reimbursements from agencies. They get no appropriation, and what this means is that all the users, through the fees that they're charged, pay for the services. But there is not a good mechanism for providing capital money to the National Finance Center to upgrade systems, etc. So, when you go to do these systems, these huge systems that need to be done, you go out to the agencies and you start trying to ask them for money that they have there. Although they have budgeted for programs, they haven't necessarily budgeted for these systems, because in many respects, they're not there before them. They're looking at their own systems and program areas. They're not looking at what we might need for the centralized systems. So, if there's a flaw in how this was designed it is that there was no sustaining source of capital money to make improvements to NFC.

Now, realizing that, last year we worked very hard with all the people in USDA to get a proposal to the Hill, and with the agencies to talk to OMB and to work with the committees to ask to be able to use these unobligated balances that probably won't be used. If we can tap into those balances, we can get this desperately needed capital money to upgrade these systems.

I think you'll find throughout the government that one of the problems is just trying to fuse capital money into things for administrative operations. Also, over the last number of years, particularly over at USDA, we have lost a considerable amount of administrative staff, and it promises to get worse as the retirements that you hear about and you've been reading about in the papers and that Mr. Walker is concerned about come on the horizon.

So we are facing the problem. We think we have a plan to address it, but funding and resources is key, and also being able to attract new people into the government to fill our shoes. A lot of us are getting old, gray and rickety, and there aren't people behind us, and that troubles me more than anything. When we try to hire people to come in to get the institutional knowledge, and you have to have some, they're simply not there.

Ms. SCHAKOWSKY. Well, so how soon do you think that we will be able to—I mean, I understand all these problems, but, nonetheless, the U.S. taxpayers will want to be able to look and see that the agency is run efficiently and that the money is being spent well. When do you think that we will be able to have an auditable opinion on the financial statements?

Ms. HEALY. I am hopeful that the opinion for the fiscal year 2001 statements will be an improved opinion. I think the key is we're getting FFIS up. That's going to take care of a major material weakness. We have major efforts that have been completed and efforts that are promising to be completed in the next number of months before the end of the fiscal year in credit reform.

The Forest Service has worked very, very hard on correcting their financial management deficiencies, particularly in the area of property. And property is material to the USDA consolidated statements. They already have the roads taken care of, which is 57 percent of their real property. They're working with their field now to get the rest of the real property.

I went out with them last year to look at what their problems were. They are addressing them and putting resources to these problems. They are taking it very seriously.

With respect to one other item, the cash reconciliation, we put in a major effort at the National Finance Center into reconciling our fund balances with Treasury. In March, I was at a meeting with all of the agencies and with the National Finance Center to identify the last items that we need to address to take care of the old items and to stop the problems going forward, and we have identified those things. We have an action plan, and we intend to put in a sustainable process and to watch this and to make sure that we do not slip backward.

We're always going to have timing issues with respect to cash, but we just want it to be timing issues and then we want to be able to address those timing issues and to try to reconcile cash as soon as possible. So I think we have a very good shot at at least a qualified opinion next year. I don't like to promise an opinion. It is Roger's opinion. It's not mine. But I do think we have a very good shot at it.

There's a lot of people working very hard, very diligently, taking this very seriously. I can assure you we do not want to be sitting out here with a disclaimer, and we want sustainable processes. I do not want to have one of these heroic efforts that every year we kill people to get to a number, then next year we've got to kill people again. So that's what we've been focusing on, fixing the core problems; and I think if we get these corporate administrative systems that will help us fix another core problem that will stop feeding us bad data into our ledgers.

Ms. SCHAKOWSKY. Let me ask another question that you actually may have answered before I came in. I know that you've dealt with the Federal credit issues, but the Federal credit agencies have been required to estimate the cost of their loan programs in accordance with the requirements of the Federal Credit Reform Act since 1992. And USDA is currently the largest direct lender in the Federal Government that is not capable of reasonably estimating the cost of its credit programs. These requirements are over 8 years old. Why has it taken so long to address this issue?

Ms. HEALY. As I said, I've only been here a little over 2½ years, so I am not entirely sure of the history. I do know in 1999, recognizing that this was not moving forward, the Chief Financial Officer at the time did convene a working group with all the agencies involved, with the IG, GAO, and OMB to address the issues and to get it on track, and it is on track now.

Ms. SCHAKOWSKY. OK. Thank you very much. I would yield back.

Mr. HORN. Gentleman from Florida, Mr. Putnam, for questions.

Mr. PUTNAM. Thank you, Mr. Chairman. I appreciate your having this hearing. I happen to serve on the Agriculture Committee and on the Budget Committee. So I feel like we've kind of come full circle. We gave them the money. We have some sense of how we're instructing them to spend it, and now we're addressing the consequences of that.

Ms. Healy, I understand the difficulties of trying to put together a perfect financial statement, particularly for an agency like forestry, where you have millions of acres and roads and barns and tractors and equipment and everything else. So I can understand the inherent difficulty in managing that.

But $274 million? I mean, that's more than forgetting to include the pool barn in the Black Water National Forest in the Panhandle of Florida. I mean, this is of criminal proportions, the extent to which there is neglect or lack of accountability. Could you give us some estimate of the amount of overpayments or improper payments that your vendors received in the course of doing business with the Department of Agriculture, perhaps payments for goods and services that aren't received, things of that nature?

Ms. HEALY. The $274 million was not for improper overpayments. What caused that was really a manifestation of the fire season last year. That was an extraordinary fire season. It was a late fire season, and what happened was people did not put obligations into the financial system in a timely manner so people could do good estimates about what they thought the fire was going to cost. As I understand it, Forest Service has internal authority to move money around and did not realize how much money would have to be moved in a timely manner to move it by September 30th.

The $274 million are legitimate obligations that they did incur as a result of fire. There were obligations with various States, with vendors, etc. The Forest Service did take this seriously and have formed a group. I can also assure you that the Secretary of Agriculture takes it seriously. Many people have been involved in looking at what happened, why it happened, and how we can stop it from happening again.

There will be fires every year. We have to have good processes in place, and some of these processes are not systems. They're simply having good procedures and policies in place out in your organization so the people know what to do, when to do it, and how to do it.

I think part of—you had the fire season. You had them just up that year on the new accounting system, learning things. I think one of the things we have to make sure we do very well is make sure that people out in the field clearly understand how to do their jobs with the new system, how to get things in there in a timely manner, how to get these things to the right place so they can be entered, and what the communication lines are.

I think, coupled with bringing up a new financial system and having an extraordinary fire season, I think some of the things simply just got lost. Not lost in that they were misplaced but that people just didn't get them there in a timely manner. They were able to quantify that, though, within a matter of time, how much it was, but they were too late to save the September 30th day.

Mr. PUTNAM. Outside of the $274 million, though, do you have an estimate on instances and totals of improper payments or payments for goods and services not received? Does that ever happen in——

Ms. HEALY. I am not aware of any audit findings related to improper payments with our administrative and financial systems.

Mr. PUTNAM. Not even in the food stamp or nutrition program?

Ms. HEALY. In food stamps I think there may have been some things, but I don't know all the details on the food stamp——

Mr. PUTNAM. Isn't that part of the USDA?

Ms. HEALY. Yes, it is.

Mr. PUTNAM. And you're the Chief Financial Officer of USDA?

Ms. HEALY. Yes, sir, I am.

Mr. PUTNAM. Now, does the Inspector General have an estimate on overpayments or improper payments in that area?

Mr. VIADERO. On food stamps we estimate it at about $1.2 billion. That's money that the States and individuals owe us. It's a combination of excessive payments to recipients and payments to the States that were offered certain administrative payments and didn't do their job.

Mr. PUTNAM. $1.2 billion. Is that——

Mr. VIADERO. Yes, sir.

Mr. PUTNAM. It's about that every year?

Mr. VIADERO. Yes. Although it has been decreasing to some extent over the past few years.

Mr. PUTNAM. Now, are there any other glaring areas within the Department that have a higher than usual number of improper payments or accounting problems?

Mr. VIADERO. Mr. Putnam, I'd ask Mr. Ebbitt to join me on this.

Mr. EBBITT. Mr. Putnam, the food stamps are probably the most measurable—it's the most measured. They have a regular system—a quality control system in place that actually measures the rate of error. While that number is exceptionally high, there's no doubt about it, when you're talking in terms of gross dollars, the rate is actually down.

The last report from the Food and Nutrition Service brings that rate of overpayment down—I just talked to the folks last week. It was down around 6 percent, 6 percent overpayment rate. You factor in a certain amount of underpayment rate, that pushes that rate up to 8 or 9 percent across the country, and you come up with roughly $1.3 billion.

There are no similar measurement systems currently in place. For example, in the National School Lunch Program that feeds all of our Nation's children throughout the country, there is not a similar process to measure overpayments within that program. So, I mean, the USDA has about 300 programs that operate, and food stamps would come out—would stick out as the most—as I indicated, the most measured as far as overpayments are concerned.

I am just trying to think out loud here.

The Secretary in the report that comes up on the semiannual basis indicates two things. It indicated amounts of claims that are established throughout the Department and then amounts of recoveries associated with those claims. I don't know those off the top of my head, but I know there's information there that will give you that kind of information.

Mr. PUTNAM. Is there a mechanism in place to audit or provide some accountability for not just the food stamp program but for all of the different commodities programs, the AMTA payments and things of that sort? Is there some type of an audit mechanism in those programs?

Mr. EBBITT. Well, absolutely. That's what we do on a daily basis with Farm Service Agency.

For example, in AMTA payments, all the payments that occur to Farm Service Agency, what we want to do is be out there as soon as the program is announced, as soon as farmers are coming in to sign up. We want to have the auditors out there working with Farm Service Agency staff as those applications come in. So that, if we see a problem early on, we can get it to management and they can deal with it before the overpayment occurs.

Hopefully, we either stop overpayments before they're happening, No. 1, or, No. 2, we make sure that farmers get what they're deserving of in that particular program. That's where we're most effective, when we can be onsite doing that kind of an effort.

And we do that every time. Each year as these new programs come out, any new emergency programs or whatever, that's when we want to be out there; and we have a good working relationship with Farm Service Agency. With Rural Development, the people that are administering the credit programs, we do the same kind of thing.

Mr. PUTNAM. Ms. Healy, one of the reasons that you attributed to a number of these financial problems was a reduction in the number of people working in this area. How many people do work in this area in the financial administration portion of the Department?

Ms. HEALY. Overall in the Department? I don't have the figure at my fingertips at the moment, but I could get it for you.

Mr. HORN. Without objection, it will be entered into the record at this point.

Ms. HEALY. OK.

[The information referred to follows:]

Administrative and Financial Management Employees within USDA: FY 1993 baseline 9,560; FY 2000 actual 7,132; Decrease 2,428.

Ms. HEALY. But I do know that overall in the Department there's been about a 28 percent decline in the number of people working in those areas.

Mr. PUTNAM. In what areas?

Ms. HEALY. Administrative and financial areas since about 1995.

Mr. PUTNAM. 28 percent from——

Ms. HEALY. Uh-huh.

Mr. PUTNAM. But you don't know 28 percent from what? 28 percent——

Ms. HEALY. I don't have the figure. I know last year this was one of the issues we were discussing when we were talking about the administrative and financial systems. Part of the rationale for how quickly we needed to get them done was that the administrative and financial people had been cut, and this has happened throughout the government, too, where they've been cut in anticipation of systems coming on-line that haven't come on-line. But I don't know the overall number. I'd have to get the information for you.

Mr. PUTNAM. Do you know—I know there's no reason why you would know this, but do you happen to know, since you're not the information technology person, what your Department spends on the information systems to process these types of accounting measures?

Ms. HEALY. Overall, no, I don't. I can get you that figure as well, too.

Mr. PUTNAM. I would appreciate that.

Ms. HEALY. OK.

[The information referred to follows:]

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Unique Identifier	Title	FY2000	FY2001	FY2002	FY2000	FY2001	FY2002	FY2000	FY2001	FY2002
US Department of Agriculture, Total Agency IT Investments		**$1,277**	**$1,384**	**$1,488**	**$235**	**$387**	**$417**	**$410**	**$438**	**$463**
005-00-01-00-00-0000-00	Part 1. Data on IT Systems By Mission Area	$751	$856	$909	$169	$250	$277	$317	$342	$366
005-00-01-01-00-0000-00	Mission Area 1: Financial Management	$120	$124	$127	$8	$24	$29	$4	$4	$4
005-00-01-01-01-1040-02	Agency Financial Management System (AFMS)	$4	$3	$3	$0	$0	$0	$3	$3	$3
005-03-01-01-01-1020-02	Foundation Financial Information System (FFIS)	$26	$25	$17	$0	$0	$0	$0	$0	$0
005-49-01-01-01-1030-02	Core Accounting System (CORE)# 006	$3	$2	$2	$2	$1	$1	$1	$1	$1
005-49-01-01-01-1060-02	Program Fund Control System (PFCS) #082	$1	$0	$3	$1	$0	$3	$0	$0	$0
005-55-01-01-01-1050-02	New Guaranteed Loan Accounting System (NGLS)	$3	$11	$9	$3	$11	$9	$0	$0	$0
005-55-01-01-01-1061-02	Program Fund Control System	$0	$3	$12	$0	$3	$12	$0	$0	$0
005-55-01-01-01-1070-02	RUS Modernization	$3	$9	$4	$3	$9	$4	$0	$0	$0
005-00-01-01-03-1000-02	Small/Other Projects for Mission Area	$13	$15	$19						
005-00-01-01-02-2045-02	Automated Funds Control System (AFCS)	$1	$1	$1						
005-32-01-01-02-2035-02	APHIS Financial Systems	$0	$0	$0						
005-35-01-01-02-2095-02	Modernize the Accounting System	$2	$2	$2						
005-41-01-01-02-2090-02	FNS Foundation Financial Information System (FFIS)	$0	$0	$0						
005-49-01-01-02-2065-02	Subsidiary Accounting Systems # 005	$4	$3	$4						
005-49-01-01-02-2075-02	Program Loan Accounting System (PLAS) # 016	$3	$2	$2						
005-49-01-01-02-2080-02	GSM 2000 System # 007	$1	$1	$1						
005-49-01-01-02-2085-02	Integrated Management Information System (IMIS) # 004	$2	$1	$4						
005-53-01-01-02-1041-02	NRCS-Finaicial Management Information System - Legacy (FMIS-MIDAS)	$7	$8	$8						
005-55-01-01-02-2075-02	Program Loan Accounting System (PLAS)	$1	$1	$1						
005-55-01-01-02-2115-02	AMAS Industry Interface	$0	$0	$0						
005-96-01-01-02-2010-02	FIN - CAS - BUDG/LEDG (BUDG and LEDG Systems for Central Accounting System)	$0	$0	$0						
005-96-01-01-02-2020-02	FIN - FFIS (Foundation Financial Information System)	$35	$21	$21						

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Unique Identifier	Title	FY2000	FY2001	FY2002	FY2000	FY2001	FY2002	FY2000	FY2001	FY2002
005-96-01-01-02-2021-02	National Financial Applications	$1	$1	$1						
005-96-01-01-02-2022-02	Electronic Benefit Transfer (EBT) -- Account Management Agent (AMA)	$2	$3	$3						
005-96-01-01-02-2024-02	FIN - CAS - Feeders (Feeder Systems for Central Accounting System)	$8	$7	$7						
005-96-01-01-02-2030-02	Enterprise-wide Data Warehouse	$1	$2	$2						
005-96-01-01-02-2040-02	Budget Formulation and Execution System (BFES)	$1	$1	$0						
005-96-01-01-02-2175-02	FIN - ATSA (Automated Timber Sale Accounting)	$1	$1	$1						
005-00-01-11-00-0000-00	Mission Area 11: Natural Resources & Environment	$92	$90	$102	$28	$27	$33	$12	$15	$19
005-96-01-11-01-1010-02	IPS -- Integrated (Interim) Personnel System (Rev2)	$10	$11	$10	$2	$2	$2	$7	$8	$8
005-96-01-11-01-1020-02	ConnectHR (Previously called IPS21)	$3	$3	$7	$3	$3	$5	$0	$0	$2
005-96-01-11-01-1030-02	INFRA	$6	$6	$8	$5	$5	$5	$1	$1	$2
005-96-01-11-01-1040-02	FM (Y2K#590) TIM - (Timber Information Manager)	$7	$11	$15	$5	$9	$12	$2	$3	$3
005-96-01-11-01-1050-02	EMC -- NRIS (Natural Resource Information System)	$13	$12	$12	$12	$9	$8	$2	$3	$3
005-00-01-11-03-1000-02	Small/Other Projects for Mission Area	$36	$33	$34						
005-53-01-11-02-2010-02	NRCS-Water and Climate Information System (W&C)	$3	$3	$2						
005-53-01-11-02-2020-02	NRCS-Strategic Analysis and Assessment Information System (SAAIS)	$4	$2	$4						
005-96-01-11-02-2010-02	LANDS (Y2K#7) - ALP (Automated Lands Project)	$3	$4	$4						
005-96-01-11-02-2020-02	WSA - WIMS (Weather Information Management System)	$1	$1	$1						
005-96-01-11-02-2030-02	FAM--ROSS (Resource Ordering and Status System)	$6	$6	$5						
005-00-01-21-00-0000-00	Mission Area 21: Research, Education & Economics	$41	$47	$45	$2	$2	$3	$0	$0	$0
005-20-01-21-01-1010-02	Research, Education, and Economics Information Systems (REEIS)	$2	$2	$3	$2	$2	$3	$0	$0	$0
005-00-01-21-03-1000-02	Small/Other Projects for Mission Area	$24	$25	$26						
005-15-01-21-02-2010-02	Estimates Processing and Dissemination	$3	$3	$3						
005-15-01-21-02-2020-02	Census and Survey Processing Systems	$3	$6	$5						
005-15-01-21-02-2030-02	Information Technology Support and Delivery	$7	$9	$6						

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Unique Identifier	Title	FY2000	FY2001	FY2002	FY2000	FY2001	FY2002	FY2000	FY2001	FY2002
005-15-01-21-02-2040-02	NASS Research System	$1	$2	$2						
005-18-01-21-02-2050-02	Integrated Program Management System	$1	$1	$1						
005-00-01-31-00-0000-00	Mission Area 31: Food Safety	$12	$13	$16	$8	$8	$12	$0	$0	$0
005-35-01-31-01-1040-02	FAIM - Field Automation and Information Management	$8	$8	$12	$8	$8	$12	$0	$0	$0
005-00-01-31-03-1000-02	Small/Other Projects for Mission Area	$4	$5	$4						
005-00-01-41-00-0000-00	Mission Area 41: Food, Nutrition & Consumer Services	$392	$424	$457	$94	$102	$114	$290	$312	$333
005-84-01-41-01-1010-02	Advanced Planning Documents (APDs)	$284	$301	$323	$85	$90	$101	$199	$211	$223
005-84-01-41-01-1010-02	Electronic Benefit Transfer (EBT) -- Grants to States	$93	$106	$117	$7	$10	$11	$86	$96	$106
005-84-01-41-01-1010-02	Processed Commodities Inventory Management System (PCIMS)	$6	$6	$6	$2	$2	$2	$4	$4	$3
005-84-01-41-01-1050-02	FSP Grantee Reporting (FSPIIS Legacy System)	$2	$1	$1	$0	$0	$0	$2	$1	$1
005-00-01-41-03-1000-02	Small/Other Projects for Mission Area	$2	$2	$2						
005-84-01-41-02-1030-02	Electronic Benefit Transfer (EBT) -- FNS Direct Operations	$2	$2	$2						
005-84-01-41-02-1031-02	FSP-Certification and Issuance Support (DRS, CRIMS)	$1	$1	$1						
005-84-01-41-02-1031-02	FSP Store Tracking, Authorization and Redemption System (STARS)	$4	$5	$5						
005-00-01-51-00-0000-00	Mission Area 51: Farm & Foreign Agricultural Services	$41	$35	$53	$2	$2	$3	$3	$3	$4
005-47-01-51-01-1020-02	RMA-13 Emerging Information Technology Architecture	$1	$0	$3	$1	$0	$2	$0	$0	$1
005-49-01-51-01-1010-02	Processed Commodity Inventory Management System (PCIMS) # 036	$4	$5	$4	$1	$2	$1	$3	$3	$3
005-00-01-51-03-1000-02	Small/Other Projects for Mission Area	$17	$18	$22						
005-49-01-51-02-2011-02	Grain Inventory Management System (GIMS) # 021	$1	$1	$1						
005-49-01-51-02-2012-02	Management of Agricultural Credit Systems (MAC) #043	$1	$1	$1						
005-49-01-51-02-2013-02	Debt and Loan Restructuring System (DALRS) #041	$2	$1	$1						
005-49-01-51-02-2014-02	Farm Loan Information and Delivery System # 011	$1	$1	$4						
005-49-01-51-02-2015-02	Farm and Home Plan (FHP) # 042	$1	$1	$1						
005-49-01-51-02-2016-02	Guaranteed Loan System (GLS) # 015	$2	$1	$1						

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005-49-01-51-02-2017-02	Cotton Management Systems (CMS) # 009	$2	$2	$3						
005-49-01-51-02-2018-02	AMTA Enrollment and PFC Payments System # 030	$1	$1	$1						
005-49-01-51-02-2019-02	Acreage Reporting and Compliance Systems # 031	$1	$1	$1						
005-49-01-51-02-2020-02	Automated Price Support System (APSS) # 048	$2	$2	$2						
005-49-01-51-02-2021-02	Geological Information System (GIS) # 84	$4	$1	$7						
005-68-01-51-02-2010-02	1. IT Investment: IT - 07 Financial Accounting and Reporting System (FARS)	$1	$1	$1						
005-00-01-61-00-0000-00	Mission Area 61: Marketing & Regulatory Programs	$14	$22	$15	$7	$8	$6	$1	$1	$1
005-45-01-61-01-1010-02	Processed Commodities Inventory Management System (PCIMS)	$3	$3	$1	$2	$2	$0	$1	$1	$1
005-45-01-61-01-1020-02	Livestock Mandatory Price Reporting	$5	$6	$6	$5	$6	$6	$0	$0	$0
005-00-01-61-03-1000-02	Small/Other Projects for Mission Area	$2	$6	$4						
005-32-01-61-02-2010-02	Automated Targeting System (ATS)	$1	$1	$1						
005-32-01-61-02-2020-02	Wildlife Services MIS 2000	$1	$4	$1						
005-32-01-61-02-2030-02	Port Information Network Operations (PIN-Ops)	$1	$1	$1						
005-45-01-61-02-2010-02	Market News	$1	$2	$2						
005-00-01-71-00-0000-00	Mission Area 71: Rural Development	$21	$28	$21	$4	$6	$6	$7	$7	$6
005-55-01-71-01-1010-02	Automated Multi-Housing System (AMAS)	$3	$4	$3	$1	$3	$2	$1	$1	$1
005-55-01-71-01-1020-02	Dedicated Loan Origination and Servicing System (DLOS)	$8	$9	$8	$3	$3	$4	$5	$5	$5
005-00-01-71-03-1000-02	Small/Other Projects for Mission Area	$8	$12	$2						
005-55-01-71-02-2010-02	Centralized Help Desk (CHD)	$2	$2	$2						
005-55-01-71-02-2020-02	Executive Information System (EIS)	$0	$0	$0						
005-55-01-71-02-2030-02	Order Tracking and Inventory System (OTIS)	$0	$0	$0						
005-55-01-71-02-2040-02	Data Warehousing	$0	$1	$2						
005-55-01-71-02-2050-02	Paperwork Elimination	$0	$0	$2						
005-55-01-71-02-2060-02	Credit Reform	$0	$0	$2						
005-00-01-81-00-0000-00	Mission Area 81: Department Administration, Staff Offices, and Service Center	$17	$74	$71	$16	$71	$70	$0	$1	$0

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005-03-01-81-01-1010-02	USDA Capital Planning and Investment Control w/ I-TIPS	$0	$2	$0	$0	$1	$0	$0	$1	$0
005-03-01-81-01-1070-02	Service Center Modernization Initiative - Information Technology	$13	$60	$59	$13	$60	$59	$0	$0	$0
005-05-01-81-01-1010-02	Employments Complaints Tracking System	$0	$0	$0	$0	$0	$0	$0	$0	$0
005-05-01-81-01-1020-02	Integrated Acquisition System (IAS)	$3	$10	$10	$3	$10	$10	$0	$0	$0
005-00-01-81-03-1000-02	Small/Other Projects for Mission Area	$1	$2	$1						
005-00-02-00-00-0000-00	Part 02. IT Infrastructure and Office Automation	$522	$524	$574	$66	$137	$140	$93	$96	$97
005-03-02-01-01-1001-02	USDA Universal Telecommunications Network	$3	$8	$12	$1	$5	$8	$2	$2	$4
005-04-02-01-01-1070-02	Common Computing Environment (CCE)	$0	$0	$0	$13	$75	$75	$0	$0	$0
005-32-02-01-01-1060-02	Integrated Systems Acquisition Project	$19	$18	$18	$6	$6	$6	$12	$12	$12
005-32-02-01-01-1065-02	APHIS Radio Management	$0	$0	$0	$0	$0	$0	$0	$0	$0
005-35-02-01-01-1050-02	FAIM - State implementation	$4	$4	$3	$4	$4	$3	$0	$0	$0
005-47-02-01-01-1010-02	RMA-04 - Infrastructure Modernization, Support, and Training	$10	$5	$11	$7	$4	$10	$3	$1	$1
005-53-02-01-01-1010-02	NRCS-Human Resources Information Systems - New Combined Administrative Management System (CAMS-HR)	$2	$0	$3	$0	$0	$1	$2	$0	$1
005-96-02-01-01-1010-02	FS IT Infrastructure -- IBM (Project 615)	$109	$123	$115	$36	$42	$37	$73	$81	$78
005-00-02-01-03-9999-02	Small/other projects for Mission Area and Total	$248	$258	$289						
005-32-02-01-02-2090-02	Food Program Information Infrastructure Modernization (FPIIM)	$3	$4	$4						
005-49-02-01-02-2022-02	Common Computing Environment (CCE) Hardware and Software # 069	$32	$0	$0						
005-49-02-01-02-2023-02	Information Systems Security Program # 026	$1	$1	$2						
005-49-02-01-02-2024-02	Field Office Telecommunication # 056	$1	$1	$1						
005-49-02-01-02-2025-02	Field Office Voice and Data Support # 051	$1	$1	$1						
005-49-02-01-02-2026-02	LAN, MAN, WAN, and Server Hardware # 054	$3	$3	$3						
005-49-02-01-02-2027-02	Microcomputer Hardware - KC Complex # 053	$2	$2	$2						
005-49-02-01-02-2028-02	PC Software and Support # 052	$2	$3	$3						
005-49-02-01-02-2029-02	Service Center Hardware Maintenance # 059	$9	$4	$6						

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Investments are in Millions of Dollars (some rounding errors may occur and zeros may actually reflect a number of $500 thousand or less)

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Blue indicates part of the Exhibit and red indicates a mission area

		Total Investments*			Development, Enhancement, Modernization (DME)			Steady State (SS)		
Unique Identifier	Title	FY2000	FY2001	FY2002	FY2000	FY2001	FY2002	FY2000	FY2001	FY2002
005-49-02-01-02-2030-02	Provide Microcomputer Hardware and Software # 063	$5	$3	$4						
005-49-02-01-02-2031-02	Lan/Wan/Voice Project - Service Center Implementation #85	$3	$4	$4						
005-53-02-01-02-1060-02	NRCS-Field Level IS Common Computing Environment/Shared Information System (CCE/SIS)	$20	$19	$30						
005-53-02-01-02-1070-02	NRCS-Telecommunications Infrastructure (Telecom)	$17	$18	$32						
005-68-02-01-02-2010-02	IT - 02 FAS Core Information and Communication Systems	$7	$7	$5						
005-68-02-01-02-2020-02	IT - 01 Overseas Computer Systems	$1	$2	$4						
005-96-02-01-02-2091-02	FS IT Infrastructure - Radio Comm (Agency Total)	$20	$36	$22						
005-00-03-00-00-0000-00	Part 03. IT Architecture and Planning	$4	$4	$5	$0	$0	$0	$0	$0	$0
005-00-03-99-03-9999-02	Total, All Small/Other Projects, All IT Architecture	$4	$3	$4						
005-68-03-01-02-2030-02	IT-25 FAS-Wide E-Commerce/ (GPEA)&(FFMIA) Implementation	$0	$1	$1						

Mr. PUTNAM. Mr. Chairman, my time is expired.

Mr. HORN. Well, you can continue another 2 minutes.

Mr. PUTNAM. Thank you, Mr. Chairman.

Ms. Healy, you have worked in a number of different departments. You said that you worked for Treasury and NIH. In addition, you worked with Agriculture. Is there something endemic to government—this isn't unique to USDA. We had the Pentagon this morning. Y'all just happen to be the biggest, which means that y'all are the worst. And you haven't produced a clean statement in 5 years, and who knows before that, because Congress couldn't produce a clean statement before 5 years ago, and so they probably didn't bother to ask anybody else to produce one.

But what is it about government that nobody seems to be able to produce good numbers? Or if they can manage to produce a clean audit, it's kind of a snapshot. We've got everybody moving in the same direction and managed to meet the deadline and got it this year, but we didn't have it last year, and we're probably not going to get it this year. There's no system. There's no good accountability at any level. Based on your experience in a number of different departments of this government, how can we improve that?

Ms. HEALY. Well, I think we are in the process of improving it, and I think we're very early in the process. It doesn't seem that way, but in many respects, it is.

When the Chief Financial Officer's Act was passed in 1990, basically the way the government worked was you got a budget, you spent your budget, and that was pretty much the results that people were looking for. Now with the Chief Financial Officer's Act, there were new requirements that were put out there about actually having financial statements, much like the corporate world. And there are differences.

I think part of the struggle you're seeing is that the government is not a corporation. There are other things we have to deal with, including budgets, and appropriations language and a variety of other parameters that are put on us that aren't out there in the private sector. Plus, we have to deal with the fact that we don't always choose our customers, and we have problems that corporations don't have or choose not to have.

So I do think we're in the early stages of doing this. As Chief Financial Officer of USDA, I am on the CFO Council. This is something that we discuss often. When the CFO Council started, we were trying to work together cross-government to share "best practices" with each other, to look at things that can be improved, to look at processes that we can work on together to improve and also to look at the processes that are out there in the central agencies that could be causing everyone difficulties. Are we being well served by the Treasury systems? Are we being well served by other systems that we're required to use out there?

So I do think we're early in the process, but you have an awful lot of people who are looking at this and trying to move forward with it.

I think, with respect to USDA, as I said, we were hampered by internal resources. Everybody has been to a degree, and that's why you see heroic efforts. People know what has to be done. I think we're at a time when the resources are limited.

Also, my personal opinion is we have to take a look at some of the requirements we're putting out there to say, does this make sense overall? Will this help us manage the government better?

Certainly a clean audit opinion is a marker. It says, at a minimum, your numbers are fairly stated. But you don't use those financial statements to manage the government. You use the underlying data. So can we collect the data well? Do we know what data we need to manage? Do we know what performance measures are right for us?

I think we're early in that process, too, but a lot of people are working hard and earnestly to get us there. I think it will take some time, some iteration. I think we've gone down some paths that maybe—well, that isn't exactly where we need to go.

I should also point out that, as we go forward with these processes of audit, one of the things that I've discovered is that it's a learning process, not only for those of us in the financial community but for those in the audit community. The auditors in the government previously didn't audit financial statements the way the private sector does, so we're learning together, and we're learning to figure out what makes sense for government with some of the problems that we have that you wouldn't encounter in the private sector.

So, it isn't that we can't do it. We're just new at doing it. I think we will get to good financial numbers. I think this is giving us the discipline, these financial statements. I don't think they're the final answer, but I know that we are on the track to get there.

I do think we are limited by resource constraints, and I would say the thing that is creeping up, that David Walker is talking about, is the idea of human capital. We need to get some good talent into government. Even if you contract it out and if you agree with the concept of contracting out, you need good people to manage the contractors, who understand what the programs are about, who have institutional memory, who can point this out to people.

So I think we need to attend on a variety of fronts if we're going to be successful moving forward and managing our departments well.

Mr. HORN. I think that's well said on the matter of human capital. Both Congress and the executive branch have, frankly, lagged behind as to what's needed in the next generation, as some very able people are looking for retirement, and those slots have to be filled. And particularly it is important for those in information management and also in the finance situation. It's a lot more difficult than it is in most private corporations, and there's also a lot more responsibility when you get into government.

You'd be sitting around in a lot of corporations for 10 years before you did much. Whereas bright people coming into government can have a lot of responsibility, and they certainly do in the services, but we also are doing it in the nonservices. In the 1930's and 1940's we had a real program of interns that one could see what's around and see if they want to stay. I happen to be a big drum beater for interns and being given responsible positions.

I am going to close with something dear to my heart, which is the debt collection situation. What processes does the Department of Agriculture use to identify and recover the improper payments that have been made at various agencies of the Department throughout the Department? You have a big center in New Orleans, how much are we doing to get improper payments back in control, into the taxpayers' Treasury?

Ms. HEALY. Well, what we're doing is referring debt over to the Treasury offset program for collection, and we're referring more and more of it, including some of the food stamp debt and the NFC debt. So, we are sending more for the offset, and, until the 180-day parameter, we are using our internal collection procedures to improve our collection activities. We are working our loan portfolios.

Mr. HORN. Well, are you collecting it yourself, or are you turning it over to financial management in the Treasury?

Ms. HEALY. We're doing both.

I think with respect to the recent waiver that I saw for—and I may misspeak this, so I may need to be corrected here—for Rural Development was we didn't want to just have our program payments offset by Treasury, because it would be using government money to pay off a government debt. So, some of that was exempted. But the rest of it we are getting ready to send off to offset. We haven't done that yet, but we are working to do that and to make sure that we can use the tools available to us for debt collection.

Mr. HORN. Well, before you do that, is there a way that the person that holds the loan or has defaulted on the loan or whatever you want to call it, does anybody phone them up?

Ms. HEALY. Oh, yes.

Mr. HORN. Does anybody send them a letter?

Ms. HEALY. Yes. My understanding from when I went out to the center in St. Louis was that they do make lots of efforts to get the person who borrowed the money to pay it back. They work with the individual to restructure the loans if need be. So they do a significant amount of work in that area.

Mr. HORN. Could you give us an idea of the nutritional benefit programs? We all know about the food stamp program. We know about the school lunch program. What else is there?

Ms. HEALY. I am afraid I don't know.

Mr. HORN. Well, the Inspector General has a nice neat plastic clip there, I think, that has all who does what.

Ms. HEALY. OK. I don't have one.

Mr. VIADERO. I have neat things on this plastic clip, Mr. Chairman. But if we can get back to a statement you just made.

Mr. HORN. How many have we got—you must know—on all the nutritional programs?

Mr. VIADERO. Oh, quite a few. We have the Child and Adult Care Feeding program, WIC, the nutrition education program.

Mr. HORN. I would just like—if you could put your heads together, and let's get it in the record. I'd just like to see the scope of this.

Mr. VIADERO. What I would like to get on the record, Mr. Chairman, is that Rural Development insofar as getting these loans paid back, delinquencies and debt recovered, they need to publish regulations to get this done. They haven't published any regulations in that venue yet.

Mr. HORN. So where is that? Is that in the Chief Financial Office of the Chief Information Officer?

Mr. VIADERO. That's with the Under Secretray for Rural Development, and they've known about that for quite a while.

Mr. HORN. How about it, Ms. Healy? Is that something you've got on your agenda?

Ms. HEALY. I will certainly talk to them about it.

Mr. HORN. Yeah. Well, I would hope that when new appointees are—and I've said that on our transition bit for the Presidents and their Cabinet, is that they would talk to the Inspectors General, look at what they have, and also with the Comptroller General and the General Accounting Office, also with the budget examiners in OMB. If you hit those three groups, you would know what you're needed to do in your particular area, and that's very important.

And I think as the Inspector General and others of your colleagues, which are very essential in this government, on the human capital bit, are there papers being put out by the Inspectors General on where an agency is going and at the trend line of retirement where the vacancies are going to be?

Mr. VIADERO. Well, sir, just in the past 5 years my office alone has suffered a 24 percent reduction in personnel because of—well, basically, we got flatlined on the budget. We had zero growth. And since we have many criminal investigators on board, their pensions are computed differently.

So when—you know, people come out with an FTE. An FTE is not a full FTE. If you're a criminal investigator, that's like a 0.7 of an FTE, if you will. So we keep losing in the FTE camp as it goes up. We're finding it very, very difficult just to maintain what we have.

Our staff is very loyal and very dedicated. Of course, Mr. Ebbitt is leaving us at the end of the month. He's the—Mr. Mosley's Deputy Inspector General at the end of the month. So there again, human capital, Agriculture is losing a key player here.

Mr. HORN. So you're going to AID?

Mr. EBBITT. Yes, sir.

Mr. VIADERO. You can see him next year, too.

Mr. HORN. That's right.

Mr. EBBITT. Earlier time?

Mr. HORN. Well, anything you'd like to say in summing up that we haven't said?

Ms. HEALY. I'd just like to thank you for giving us this forum and also to thank the Appropriations Committees for the opportunity to apply a plan for the unobligated balances which will be critical for us to move forward. We will keep working on these issues, Mr. Chairman; and I do hope to have a better result for you next year.

Mr. HORN. Well, thank you. Both the majority and the minority will probably have some questions to ask and put in the record. This will be done without objection at this point in the record.

Let me thank the people that have been staffing these three hearings: J. Russell George is right behind me, the staff director and chief counsel.

Diane Guensberg, on loan from the General Accounting Office. I am sorry to say that she will be returning to the General Accounting Office. She has done a great job for us over the years, and we appreciate it.

Bonnie Heald, director of communications, also back there; Earl Pierce, professional staff; Grant Newman, assistant to the committee and the clerk and the sergeant at arms, the whole works. Alex Hurowitz is a new intern.

And we have the minority staff: Mark Stephenson, professional staff; and then Jean Gosa, minority clerk; and our two very good reporters. Our court reporters are Leanne Dotson and Julie Thomas.

With that, we adjourn and go into a markup.

[Whereupon, at 2:40 p.m., the subcommittee was adjourned.]

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