RESULTS OF THE DEPARTMENT OF AGRICULTURE'S FISCAL YEAR 1999 FINANCIAL STATEMENTS AUDIT

HEARING

BEFORE THE

SUBCOMMITTEE ON GOVERNMENT MANAGEMENT, INFORMATION, AND TECHNOLOGY

OF THE

COMMITTEE ON GOVERNMENT REFORM

HOUSE OF REPRESENTATIVES

ONE HUNDRED SIXTH CONGRESS

SECOND SESSION

MARCH 21, 2000

Serial No. 106–166

Printed for the use of the Committee on Government Reform

Available via the World Wide Web: http://www.gpo.gov/congress/house
http://www.house.gov/reform

U.S. GOVERNMENT PRINTING OFFICE

67–250 CC WASHINGTON : 2000

COMMITTEE ON GOVERNMENT REFORM

DAN BURTON, Indiana, *Chairman*

BENJAMIN A. GILMAN, New York
CONSTANCE A. MORELLA, Maryland
CHRISTOPHER SHAYS, Connecticut
ILEANA ROS-LEHTINEN, Florida
JOHN M. McHUGH, New York
STEPHEN HORN, California
JOHN L. MICA, Florida
THOMAS M. DAVIS, Virginia
DAVID M. McINTOSH, Indiana
MARK E. SOUDER, Indiana
JOE SCARBOROUGH, Florida
STEVEN C. LaTOURETTE, Ohio
MARSHALL "MARK" SANFORD, South Carolina
BOB BARR, Georgia
DAN MILLER, Florida
ASA HUTCHINSON, Arkansas
LEE TERRY, Nebraska
JUDY BIGGERT, Illinois
GREG WALDEN, Oregon
DOUG OSE, California
PAUL RYAN, Wisconsin
HELEN CHENOWETH-HAGE, Idaho
DAVID VITTER, Louisiana

HENRY A. WAXMAN, California
TOM LANTOS, California
ROBERT E. WISE, Jr., West Virginia
MAJOR R. OWENS, New York
EDOLPHUS TOWNS, New York
PAUL E. KANJORSKI, Pennsylvania
PATSY T. MINK, Hawaii
CAROLYN B. MALONEY, New York
ELEANOR HOLMES NORTON, Washington, DC
CHAKA FATTAH, Pennsylvania
ELIJAH E. CUMMINGS, Maryland
DENNIS J. KUCINICH, Ohio
ROD R. BLAGOJEVICH, Illinois
DANNY K. DAVIS, Illinois
JOHN F. TIERNEY, Massachusetts
JIM TURNER, Texas
THOMAS H. ALLEN, Maine
HAROLD E. FORD, Jr., Tennessee
JANICE D. SCHAKOWSKY, Illinois

BERNARD SANDERS, Vermont (Independent)

Kevin Binger, *Staff Director*
Daniel R. Moll, *Deputy Staff Director*
David A. Kass, *Deputy Counsel and Parliamentarian*
Lisa Smith Arafune, *Chief Clerk*
Phil Schiliro, *Minority Staff Director*

Subcommittee on Government Management, Information, and Technology

STEPHEN HORN, California, *Chairman*

JUDY BIGGERT, Illinois
THOMAS M. DAVIS, Virginia
GREG WALDEN, Oregon
DOUG OSE, California
PAUL RYAN, Wisconsin

JIM TURNER, Texas
PAUL E. KANJORSKI, Pennsylvania
MAJOR R. OWENS, New York
PATSY T. MINK, Hawaii
CAROLYN B. MALONEY, New York

Ex Officio

DAN BURTON, Indiana
HENRY A. WAXMAN, California

J. Russell George, *Staff Director and Chief Counsel*
Bonnie Heald, *Director of Communications/Professional Staff Member*
Bryan Sisk, *Clerk*
Trey Henderson, *Minority Counsel*

CONTENTS

RESULTS OF THE DEPARTMENT OF AGRICULTURE'S FISCAL YEAR 1999 FINANCIAL STATEMENTS AUDIT

TUESDAY, MARCH 21, 2000

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON GOVERNMENT MANAGEMENT,
INFORMATION, AND TECHNOLOGY,
COMMITTEE ON GOVERNMENT REFORM,
Washington, DC.

The subcommittee met, pursuant to notice, at 2 p.m., in room 2154, Rayburn House Office Building, Hon. Stephen Horn (chairman of the subcommittee) presiding.

Present: Representatives Horn, Walden, and Owens.

Staff present: Russell George, staff director; Louise DiBenedetto, GAO detailee; Bryan Sisk, clerk; Bonnie Heald, director of communications; Jean Gosa, minority staff assistant; and Trey Henderson, minority counsel.

Mr. HORN. The subcommittee on Government Management, Information, and Technology will come to order. This hearing is the third in a series of hearings to examine the results of the financial audits of selected Federal agencies. We began this series in February and have examined financial audits of the Internal Revenue Service and the Health Care Financing Administration.

Today we will focus on the Department of Agriculture, one of the oldest and ablest Departments in the Federal Government. President Abraham Lincoln established this agency in 1862 calling it the People's Department. As the Nation's economy expanded beyond agriculture, the Department's scope of responsibilities also broadened. From the farm supports and soil conservation programs of the 1930's and the food supplement and inspection programs of the 1960's, the Department is now responsible for administering $118 billion in assets and $122 billion in direct loans and outstanding loan guarantees.

Despite this vast financial responsibility, the Inspector General has been unable to verify the reliability of the Department's financial statements for the last 6 years. The Departments's underlying financial information is simply not reliable.

For the past 3 years, this subcommittee has been grading the financial management of the 24 largest departments and agencies in the executive branch. Because of its long-standing financial weaknesses, the Department of Agriculture has consistently received an F. Now, I happen to have the highest regard for Secretary Glickman. He was a very fine legislator. And I am sure that, under his leadership, the necessary actions will be taken to correct those problems.

The Inspector General and the General Accounting Office have both reported that the Department is unable to make reasonable cost estimates on its loans and loan guarantees. In 1990, Congress passed the Credit Reform Act precisely because it wanted to know the cost of these programs. We are interested today in hearing why the Department still cannot estimate these costs, and what actions are being taken to resolve this unacceptable situation.

[The prepared statement of Hon. Stephen Horn follows:]

ONE HUNDRED SIXTH CONGRESS

Congress of the United States

House of Representatives

COMMITTEE ON GOVERNMENT REFORM

2157 RAYBURN HOUSE OFFICE BUILDING

WASHINGTON, DC 20515–6143

MAJORITY (202) 225–5074
MINORITY (202) 225–5051
TTY (202) 225–6852

"Results of the Department of Agriculture's Fiscal Year 1999 Financial Statements Audit"
CHAIRMAN STEPHEN HORN (R-CA)
OPENING STATEMENT
March 21, 2000

A quorum being present, the Subcommittee on Government Management, Information, and Technology will come to order.

This hearing is the third in a series of hearings to examine the results of financial audits of selected federal agencies. We began this series in February and have examined financial audits of the Internal Revenue Service and the Health Care Financing Administration.

Today, we will focus on the Department of Agriculture -- one of the older departments in the federal government. President Abraham Lincoln established this agency in 1862, calling it "the peoples department." As the nation's economy expanded beyond agriculture, the department's scope of responsibilities also broadened. From the farm supports and soil conservation programs of the 1930s and the food supplement and inspection programs of the 1960s, the department is now responsible for administering $118 billion in assets and $122 billion in direct loans and outstanding loan guarantees.

Despite this vast financial responsibility, the Inspector General has been unable to verify the reliability of the department's financial statements for the last six years. The department's underlying financial information is simply not reliable.

For the past three years, this subcommittee has been grading the financial management of the 24 largest departments and agencies in the executive branch. Because of its long-standing financial weaknesses, the Department of Agriculture has consistently received an "F." I have the highest regard for Secretary of Agriculture Glickman. He was a fine legislator, and I am sure that, under his leadership, this vital government agency will take the necessary actions to correct these problems.

The Inspector General and the General Accounting Office have both reported that the department is unable to make reasonable cost estimates on its loans and loan guarantees. In 1990, Congress passed the Credit Reform Act precisely because it wanted to know the cost of these programs. We are interested today in hearing why the department still cannot estimate these costs, and what actions are being taken to resolve this unacceptable situation.

We welcome our witnesses today and look forward to their testimony.

Mr. HORN. We welcome our witnesses today and look forward to their testimony. Panel one will include the Honorable Roger Viadero, Inspector General, Department of Agriculture, who is accompanied by Robert W. Young, Deputy Assistant Inspector General for audit; Linda Calbom, Director, Resources Community and Economic Development, Accounting and Financial Management Issues, Accounting and Information Management Division, U.S. General Accounting Office. Now that's got to be something for Paul Light and some of his——

Ms. CALBOM. Hard to get on a business card.

Mr. HORN. And she is accompanied by McCoy Williams the Assistant Director. Sally Thompson the Chief Financial Officer, Department of Agriculture, is accompanied by Keith Kelly, Administrator of the Farm Service Agency; James Newby, Senior Policy Advisor for Rural Development, Department of Agriculture; and Vincette Goerl, Deputy Chief for Finance, U.S. Forest Service. So if you will—all the names that I named out there you're sitting at the table or behind, please stand, raise your right hand and take the oath.

[Witnesses sworn.]

Mr. HORN. The clerk will note that eight have responded to the oath.

And the way we operate here is to go down the line of the witness list and your full statement is automatically put in the record. A lot of you know that. You've been here before. But there are some newcomers. So full statement automatically goes in the record. I don't need to make another motion and so forth. But we would like you to summarize that statement and not read it to us. We can read. But we would like just from your heart what you say there. And we would appreciate it if you could do it within 5 minutes. If you will go to 10, I won't be pained by it; but Mr. Viadero has to leave at 3:30 as I remember; and we want to accommodate you and get in some questions also. So we will begin with the Inspector General. And it's all yours.

STATEMENTS OF ROGER VIADERO, INSPECTOR GENERAL, DEPARTMENT OF AGRICULTURE, ACCOMPANIED BY ROBERT W. YOUNG, DEPUTY ASSISTANT INSPECTOR GENERAL FOR AUDIT; LINDA CALBOM, DIRECTOR, RESOURCES, COMMUNITY, AND ECONOMIC DEVELOPMENT, ACCOUNTING AND FINANCIAL MANAGEMENT ISSUES, ACCOUNTING AND INFORMATION MANAGEMENT DIVISION, U.S. GENERAL ACCOUNTING OFFICE, ACCOMPANIED BY MCCOY WILLIAMS, ASSISTANT DIRECTOR; SALLY THOMPSON, CHIEF FINANCIAL OFFICER, DEPARTMENT OF AGRICULTURE, ACCOMPANIED BY KEITH KELLY, ADMINISTRATOR, FARM SERVICE AGENCY; JAMES NEWBY, SENIOR POLICY ADVISOR FOR RURAL DEVELOPMENT, DEPARTMENT OF AGRICULTURE; AND VINCETTE GOERL, DEPUTY CHIEF FOR FINANCE, U.S. FOREST SERVICE

Mr. VIADERO. Thank you, Mr. Chairman, and members of the committee. I'm more than pleased to be here today to testify about the Department of Agriculture's financial management. And with me today, as you mentioned, Robert Young, Deputy Assistant IG for Audit. In order to be effective, management must have reliable financial information. For the Department to fulfill its mission and otherwise serve the public, it must know how much money has been received, spent, and is needed. It must know where the assets are and where they need to be repaired or replaced. It must know the cost of its operations to make informed decisions and to identify where efficiencies and economies need to be implemented.

Financial information in USDA is on whole not reliable. We have issued disclaimers of opinion for the past 6 years. In other words, the books and records of the Department have been so poorly maintained that we have been unable to compile and analyze sufficient evidence to enable us to reach an opinion. What we are saying is that we don't know how fairly the financial numbers of the Department such as the $118 billion in assets are presented. More critically, this also means that the managers of the programs and operations also don't know. And in the absence of this essential information, their capability to perform their jobs is significantly impaired.

I'm going to briefly discuss the primary problems preventing USDA from getting an improved or hopefully in the future a clean opinion on its financial statements. The financial management systems of the Department process almost $10 billion in collections and over $64 billion in program costs. One of the Department's most critical systems is the national finance—is at the National Finance Center's central accounting system [CAS]. The problems with CAS has been well chronicled. It is poorly documented, provides only summary and not detailed data, and does not meet governmentwide accounting requirements.

Only one clear course of action is apparent to enable this Department to emerge from the murky pool of bad data, simply jettison the system. The Department is therefore developing a new system to replace CAS. This new system is called the Foundation Financial Information System [FFIS]. The core of FFIS is a commercial off-the-shelf product that is compliant with government accounting and system requirements.

A critical decision was made, however, at the outset in implementation of that FFIS that has stymied the implementation and significantly driven up the cost. Specifically, the Department in concert with the user agencies opted to retain many of the legacy or feeder systems and interface them with the core off-the-shelf package. Because the feeder systems are old and poorly maintained and documented, retaining them has had the effect of reintroducing the same old blood after a transfusion.

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 several highly unique loan programs subject to credit reform that total over $70 billion. The original loan accounting systems were not equipped to provide the extensive detail necessary to fulfill the requirements of credit reform.

In the absence of reliable historical data, USDA agencies have extensively used the judgment of program managers to estimate future loan performance. No studies or analysis are on hand to support these critical assumptions. The breadth and the complexity of the issue is extraordinary, though the Department, GAO, and my office are all working in tandem to attempt to resolve it.

Another major problem confronting the Department is the Forest Service accounting for real property. The Forest Service has about $2.6 billion in real property assets. About 60 percent of the dollar value or about $1.5 billion is attributable to what is referred to as "pooled assets," preliminary roads. The remainder represents individual assets such as buildings. The Forest Service is unable to support the valuation of these pooled assets, again estimated at about $1.5 billion. A significant problem also persists in the valuation of individual real property assets. We statistically sampled in our audit and projected that these assets were overstated by about $135 million and understated by about $80 million.

Now let me address what the Department needs to do to strengthen its system and obtain an upgraded audit opinion. First, FFIS must be fully functional, the feeder system problem corrected, and data conversion from existing systems successfully accomplished. These are extraordinary barriers to overcome by the end of this fiscal year.

Second, the Department must compile and analyze supportable credit reform data and implement workable cash-flow models. It appears unlikely that this hurdle will be done this year.

Third, resolution of the Forest Service real property accounting weaknesses will require considerable resources just to compile the inventory valuation data, and the pooled asset issue must be further studied and a viable methodology to estimate the values of assets where supporting documentation has not been retained and must be developed. This remains a major impediment to an improved audit opinion.

All that having been said, in my 6 years as the Inspector General at USDA, and after having issued six disclaimers, I would like to say something on behalf of the current top financial management of this Department. They have brought a new philosophy, a level of commitment and focus to this critical function. They are making progress. And they do deserve a significant amount of credit for their accomplishments. It's difficult to make improvements when you have to do it piecemeal based upon the antiquated legacy central accounting system. Mr. Chairman, this happily concludes my statement, and I'll be more than happy to answer any questions you or any of the other Members have.

Mr. HORN. Thank you very much.

[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
Management Information and Technology

on the
Status of Financial Management
at the Department of Agriculture

March 21, 2000

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 Robert Young, Deputy Assistant Inspector General for Audit.

In order to be effective, management must have reliable financial information. This is essential. Reliable financial data cannot be viewed as being in the "nice to have" category, but as a necessity. The need for this information resounds throughout all activities, from the more obvious stewardship over assets, fiduciary responsibilities, and budgeting, to operational matters such as performance measurement. For the Department to fulfill its mission and otherwise serve the public, it must know how much money has been received, spent, and is needed. It must know where its assets are and when they need to be repaired or replaced. It must know the costs of its operations to make informed decisions and identify where efficiencies and economies need to be implemented.

Financial information in USDA is, on the whole, not reliable. Our annual financial statement audits, which we have performed since 1991, have disclosed only a limited correlation between the accounting numbers the Department reports and the resources or events those numbers are to represent. Our initial audit opinions on the Department were adverse -- meaning the Department did not conform with prescribed accounting principles. We have issued disclaimers of opinions for the past 6 years. In other words, the books and records of the Department have been so poorly maintained we have been unable to compile and analyze sufficient evidence to enable us to reach an opinion. What we are saying is that, due to the significance of the deficiencies in the Department's accounting systems, the resulting limitations on the scope of our audits were so material that we could not possibly do enough work to determine the reliability of the amounts in the USDA financial statements, such as its $118 billion in assets. And, given the extent of internal control weaknesses, amounts presented on USDA's statements are highly questionable. More critically, this also means that the managers of the programs and operations may be relying on this highly questionable information. Thus, their ability to do their jobs effectively and efficiently would be significantly impaired.

I will discuss the primary problems preventing USDA from getting an improved opinion on their financial statements.

Department's Accounting Systems

The Department has six primary accounting systems used to account for program costs of over $60 billion. Key to this activity are the financial management systems maintained at the National Finance Center, or NFC. NFC's, and one of the Department's most critical systems is the Central Accounting System, or 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. An example of the impact of this systemic weakness on the Department's financial statements is the Forest Service's $195 million in accounts receivable. In the absence of a subsidiary ledger, individual cash collections or write-offs cannot be matched to the specific receivable. As a result, this material account becomes unauditable. CAS does not have an adequate audit trail and so-called reconciliations and adjustments are processed extensively and without justification. These actions, to artificially bring accounts into balance, have an ugly nickname and even uglier connotation -- plugs. If you have to plug it's analogous to a golfer's shank. There's little worse, you don't want to acknowledge it, and you have to live with the consequences.

Simply stated, CAS does not work and cannot be fixed. Only one clear course of action was apparent to enable the Department to emerge from the murky pool of bad data that seeps from CAS--jettison the system. The Department embarked on fulfilling this goal in 1993 through an initiative referred to as the Financial Information System Vision and Strategy, or FISVIS. The purpose of this significant undertaking was to replace CAS with a new system that came to be called the Foundation Financial Information System (FFIS), establish a common coding structure, interface or integrate data from other financial, and mixed systems, and modernize or replace existing administrative, financial and mixed systems. The primary goal was to improve financial management in USDA by providing timely, accurate, and cost effective information to policy, management, and operating personnel. At the core of FFIS is a commercial off-the-shelf system, which is compliant with Government accounting and system requirements, to replace CAS. A critical decision at the outset of the implementation of FFIS has stymied 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.

The "feeder" systems are poorly documented, operationally complex, deficient in appropriate control mechanisms, and costly to maintain. The "feeder" for purchases, for example, costs over $6 million per year to operate and maintain. We have recommended that the "feeder" systems be reassessed and consolidated, integrated, and/or reengineered as appropriate. A review performed by the Department shared this view and recommended that 11 of the "feeder" systems be eliminated or integrated into either FFIS or a new administrative system.

The task of converting data from CAS to FFIS is critical to the success of FFIS. Our reviews identified problem areas related to the conversion of personal property data, data clean-up, and write-off of unreconciled amounts. For example, from just the three Forest Service regions converted into FFIS, over $500 million in unvalidated accounting data was disclosed. These three regions represent only about one third of the Forest Service's financial activity.

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, which totals over $5.5 billion, 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 differences as of September 30, 1999, was $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. For example, "schedules" of remittances or disbursements may not be traceable to Treasury data because feeder systems assign incorrect numbers to the schedules. In addition, posting models erroneously record 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 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.

Personal Property

Our fiscal year 1999 financial statement audit identified another issue which would impact the Department's opinion unless rectified. Specifically, because of significant weaknesses, we were unable to substantiate whether the financial statements were free from material misstatements for personal property valued at over $888 million. The problem stems from one of NFC's "feeder" systems, called PROP. Although system weaknesses exist, the primary cause of the misstatements is attributable to lack of required actions, such as annual inventories, by accountable officials. In addition, system reports have not been used by the agencies. For example, our review of properties valued at over $1 million identified, among other questionable items, a $97 million vehicle and an $11 million microscope. USDA's inflated accounting for assets appears to make NASA's $600 toilet seats look cheap in comparison.

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 over $70 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 that 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 future loan performance.

The Department's loan accounting systems were not equipped to provide the extensive detail necessary to fulfill credit reform requirements. Further, due to systemic deficiencies, much of the data generated by these systems was incorrect. 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.

OMB has issued guidance for deriving cash flow inputs to subsidy models for budget formulation and reestimates of all credit programs. The guidance requires current and complete documentation and justification for the estimation methods and assumptions used in determining the cash flow figures in the subsidy model. In the absence of reliable historical data, USDA agencies have relied almost exclusively on the judgment of program managers to estimate, for example, the likely performance of loans in the 11^{th} year of a 33-year note. No statistically valid studies or analyses are on hand, however, to support these critical assumptions. Although the systems were changed in 1992 to begin to capture the needed data, too many unknowns continue to exist regarding prior year activity which undermine the support for the estimates used.

The Department has launched an aggressive corrective action plan to overcome the noncompliances 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. A series of cash flow models have been devised to capture and analyze the necessary elements to yield meaningful subsidy estimates and reestimates. Legislative requirements impacting cash flow have been identified with emphasis on those having a material effect, and calculation methodologies have been developed. GAO is also participating in this venture. Substantial work remains, however, in that some of the key models, such as RHS' for Single Family Housing and those for all of FSA's programs, require a significant amount of further review and refinement. Further, field testing needs to be performed to verify the key assumptions used.

In addition, our current audit work has disclosed weaknesses in the accounting for credit reform by the Commodity Credit Corporation (CCC). Our reviews have disclosed that accounting postings were frequently in error and the calculation and recording of subsidy estimates and reestimates were incorrect. CCC is hindered in this effort due to an absence of written procedures and its organizational structure related to foreign credits and guarantees does not currently foster or facilitate reliable accounting.

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, 1999, the Forest Service reported about $2.6 billion in real property assets. About 60 percent of this dollar value is attributable to what is referred to as "pooled assets" – primarily roads. The remainder represents individual assets such as buildings. The Forest Service is unable to support the valuation of its pooled assets, which is estimated to be $1.5 billion. Reliable records are not available which document the cost of the roads or the timeframe they were put into service, a critical factor needed to estimate depreciation and the value of their remaining useful life. The Forest Service, in concert with OIG, is working to develop a strategy whereby this data can be reasonably estimated. During fiscal year 1998, the Forest Service completed an agency-wide inventory and valuation of its individual real property assets (non-pooled assets). This was an extraordinary undertaking and a major step towards achieving accountability. Our reviews disclosed problems in the inventory process, however, in that adequate documentation was not always maintained and the agency's real property system, called INFRA, was not fully populated with the assets not previously accounted for, nor were abandoned items removed. Further, a significant problem persists in the valuation of the individual real property assets. Our audit tests statistically projected that these assets were overstated by about $135 million and understated by almost $80 million. The most prevalent problem identified was the same one that has impaired the Forest Service's accounting for these assets since our audits were first initiated – the lack of adequate supporting documentation to verify capitalized costs and in-service dates. To remedy this material weakness, the Forest Service is about to embark on another inventory with emphasis on compiling the requisite support.

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. As of October 1, 1999, the Food Safety and Inspection Service and the remainder of the Forest Service were implemented (two of the nine Forest Service regions came on line the prior year, along with the Risk Management Agency). The plans call for the Animal and Plant Health Inspection Service, Rural Development, the Natural Resources Conservation Service, and the Farm Service Agency to be implemented on October 1, 2000. Thus, after a slow start, the implementation is aggressively unfolding. Regarding resolution of the problems we identified in FFIS, the Department provided a very positive response to our report which describes, in part, analyses to be undertaken to eliminate the problem-causing feeder systems. The direction is therefore clear; the uncertainty stems from the speed and effectiveness with which these significant issues can be overcome.

The next area of concern is the cash issue. Significant progress has been made to reduce the unreconciled items but, as noted, new variances continue to occur. The Department intends to implement an automated tool to identify cash variances arising out of FFIS by December 31, 2000. Due to the sensitivity of this account, the materiality level that could cause 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, though it is being addressed.

In terms of personal property, we believe if our recommendations are implemented this problem area can be overcome. A broad based commitment by the Department's accountable officials is needed however, and years have elapsed since this commitment has been manifested.

Credit reform remains a huge obstacle to an improved audit opinion because of the breadth and complexity of the issue. Although some of the cash flow models are progressing to the point that data verification procedures can be performed, most have not. While the Department's plans call for the problems to be resolved this fiscal year, much remains to be accomplished. The intensive commitment by all affected agencies is needed to assure the impact on the financial statements will be eliminated as soon as possible.

Forest Service real property is another very difficult matter that cannot be eliminated by flicking a switch. Considerable resources will be needed to compile data; with the shortcomings already known, a viable model must be derived that can generate reliable data in the absence of much of the underlying support.

One final issue is the Statement of Net Cost, which became a reporting requirement in fiscal year 1998. Although our audits have been focused elsewhere due to the extent of the Department's problems, we have concerns over the adequacy of the cost accounting system in place to generate reliable costing data. For example, the Forest Service's $3.5 billion in reported costs included $1.3 billion that was allocated based upon budgetary estimates, and not actual costs as required.

All that having been said, I would like to say something on behalf of current top financial management in the Department. These people have brought a new philosophy, level of commitment, and focus to this critical function. They have had to deal with financial management weaknesses similar in magnitude to potholes the size of the Grand Canyon. Nonetheless, they are making a bona fide, concerted effort to make financial management viable in the Department. Despite the extraordinary encumbrances, they are making headway and deserve a significant amount of credit for their efforts and accomplishments to date.

Mr. HORN. As you know we go to the next witness, and then we'll open it up to questions after the third principle witness. So we have Linda Calbom, the Director of Resources, Community, and Economic Development and in the General Accounting Office.

Ms. CALBOM. Thank you, Mr. Chairman. And thank you for allowing us to be here today to talk about the Department of Agriculture's financial management issues. As Mr. Viadero just testified, USDA has been trying for a number of years to get its financial house in order. But it continues to have serious problems with the accountability over its $118 billion in assets and its well over $100 billion in taxpayer funds provided annually for its operations.

In my written statement I outlined a number of key issues that USDA needs to address before it can get its financial house in order. I want to just talk about three issues here today. Mr. Viadero has touched on some of those, as have you. First is this inability to estimate the cost of the loan programs. The second thing is the unreconciled fund balance with Treasury accounts. And last, I want to mention a little bit about where Forest Service stands in its financial management issues.

As far as the loan program goes, as you mentioned, Mr. Chairman, the Credit Reform Act of 1990, as well as Federal accounting standards that were effective in 1994, require credit agencies to estimate up front what the cost of their loan programs will be. These estimates are then used as a basis to determine the amount of loans that will be made available to these programs. Because these are up-front estimates and they're very complex, you have to make projections of the cash going out and the cash coming in over the life of the loans.

Unfortunately, USDA has not kept very good track of the historical information needed to make these projections and doesn't have good systems for capturing the information they do have. The CFO established a task force in March 1999 to assist in resolving the agency's problems in this area. However, to date USDA has not provided the resources needed to properly address this problem. So progress has been slow.

There are some major ramifications to this problem. USDA is the largest direct lender in the Federal Government with over $70 billion in outstanding loans, which is material to the U.S. Government's consolidated financial statements. The agency's inability to properly account for these loan program costs is one of the key reasons GAO is unable to give an opinion on the U.S. Government's consolidated financial statements. In addition, because the program costs drive the amount of lending authority provided to the agency, the lack of reliable cost estimates means that Congress does not have valid data in making decisions about whether to scale back or increase some of these loan programs.

The next issue I want to cover is fund balance with Treasury. This is a particularly critical account because nearly all the disbursements and receipts of the agency flow through this account. In that sense it's very similar to a checking account. And as you know, if we can't balance our checking account, that means that we've either made a mistake or the bank has made a mistake or we're just not very good at math.

USDA is currently undertaking significant efforts to reconcile these accounts; but until they complete this process, the agency can't be sure that all funds spent and received are properly accounted for. And just as important, the agency needs to establish a process so that going forward on an ongoing basis they'll be able to keep these accounts in balance and be able to feel comfortable that their receipts and disbursements are being properly recorded. Until they do this, the integrity of much of the agency's financial data is questionable; and the agency is actually exposed to inappropriate use of these funds.

Last, I want to mention a little bit about Forest Service. I have testified before this subcommittee before about the serious financial management problems that plague the Forest Service. As you know, because of the pervasive nature of these problems, we designated Forest Service financial management as a high-risk area back in January 1999. Forest Service has made good progress, particularly in implementing their new accounting system, which they did last October. And this new system is a critical step toward cleaning up some of their other basic accounting deficiencies.

However, the secondary systems that feed data into the main accounting system still remain problematic. And as you know, if you feed bad data even into a good accounting system you're still going to get bad accounting data. So it's still a very big problem. This is the USDA-wide problem. This is a system Mr. Viadero was talking about, this FFIS. So this problem has to be cleaned up before real accountability can be achieved, not only at Forest Service but USDA-wide.

In addition, the Forest Service still doesn't seem to have a good handle on the assets that it has out in the field. That includes its equipment, its buildings, and its massive system of roads. As you recall from prior testimonies, their system of roads exceeds the number of miles in our whole national highway system. So it's pretty massive. The accountability for these assets is hampered by the autonomous field structure that Forest Service maintains. This structure makes it very difficult for headquarters to carry out the efforts needed to address their problems accounting for property and equipment as well as to correct just the other basic accounting deficiencies.

Currently, consideration is being given to establishing Chief Financial Officer positions in each of the regions and we believe that creation of these positions with direct reporting links to headquarters would help Forest Service make great strides toward accountability over its field assets.

In conclusion, USDA is a large complex agency with many difficult issues to address before it can be accountable to you the Congress, and to taxpayers, for the money provided it to carry out its varied missions. Many of these problems are deep rooted and will take time to correct. They'll take significant upper-management oversight, and substantial resources. Therefore, continued congressional oversight such as this hearing is really essential to ensure that USDA focuses adequate attention on getting and keeping its financial house in order.

Thank you, Mr. Chairman.

Mr. HORN. Thank you very much, Ms. Calbom. We'll be getting back to a lot of your statement when we get to the question period.

[The prepared statement of Ms. Calbom follows:]

United States General Accounting Office

GAO

Testimony

Before the Subcommittee on Government Management, Information and Technology, Committee on Government Reform, House of Representatives

For Release on Delivery
Expected at
2 p.m.
Tuesday,
March 21, 2000

FINANCIAL MANAGEMENT

USDA Faces Major Financial Management Challenges

Statement of Linda M. Calbom
Director, Resources, Community, and Economic Development, Accounting and Financial Management Issues
Accounting and Information Management Division

G A O
Accountability * Integrity * Reliability

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss U. S. Department of Agriculture (USDA) financial management issues. As evidenced by the Inspector General's sixth disclaimer of opinion in a row on USDA's consolidated financial statements, the agency has serious accountability problems over the $118 billion in assets and $120 billion in budgetary resources provided for fiscal year 1999 to carry out its diverse missions. Before USDA can achieve financial accountability, it or its component agencies must address a number of issues that we or USDA's Office of Inspector General (IG) have reported as serious problems. My statement will focus on problems the agency has encountered in five major areas: (1) implementing the Federal Credit Reform Act of 1990 and related accounting standards,[1] (2) reconciling its Fund Balance with Treasury accounts, (3) addressing weaknesses in the Forest Service's financial accounting and reporting, (4) correcting certain other material internal control weaknesses, and (5) complying with some key laws and regulations. I will also briefly discuss our assessments of the Rural Utilities Service's (RUS) electric loan program policies and procedures and the risk of loss to the federal government from direct loans or loan guarantees RUS provides to electric cooperatives.

USDA is responsible for a variety of major programs that (1) boost farm production and exports, (2) promote small community and rural development, (3) ensure a safe food supply for the nation, (4) manage natural resources, and (5) improve the nutrition of families and individuals with low incomes. The financial results of the activities of these programs are reported in USDA's consolidated financial statements and make up a significant portion of certain components of the consolidated financial statements of the U.S. government. For example, USDA is responsible for managing the nation's largest federal direct loan portfolio, with reported net credit program receivables of about $70.7 billion as of September 30, 1999. In addition, USDA reported net costs of $32.7 billion for fiscal year 1999 for its food assistance programs such as the Food Stamp Program (FSP) and Child Nutrition Programs (CNP), that represent a significant portion of income security net cost reported in the U. S. consolidated financial statements.

[1] The Federal Accounting Standards Advisory Board (FASAB) developed the accounting standard for credit programs, Statement of Federal Financial Accounting Standards (SFFAS) No. 2, *Accounting for Direct Loans and Loan Guarantees* (SFFAS No. 2), which became effective beginning in fiscal year 1994.

Background

Improving financial accountability throughout the federal government has been an area of emphasis since implementation of the Chief Financial Officers (CFO) Act of 1990, which required a CFO structure in 24 major agencies and the Office of Management and Budget (OMB) to provide the necessary financial management leadership and focus. To help instill greater accountability and fix pervasive and costly control breakdowns, financial statements were required to be prepared and audited, beginning with those for fiscal year 1991, for revolving and trust funds and commercial activities. For 10 agencies–including USDA–audited financial statements were required as part of a pilot program to test this concept for an agency's entire operations.

Since USDA's participation in the pilot program in 1991, USDA and several of its component agencies have received a series of unfavorable financial audit reports due to deficiencies in financial reporting that are attributable primarily to weaknesses in the agency's financial management systems. USDA's Chief Financial Officer recognizes the seriousness of these problems and has a number of efforts underway to address these issues.

The Government Management Reform Act (GMRA) of 1994 expanded the CFO Act by mandating that (1) major departments and agencies produce annual financial statements subject to independent audit, beginning with those for fiscal year 1996, and (2) the Secretary of the Treasury, in cooperation with the Director of the Office of Management and Budget, prepare financial statements for the U.S. government that are audited by GAO, starting with those for fiscal year 1997.

In addition, the Congress passed the Federal Financial Management Improvement Act (FFMIA) of 1996, Public Law 104-208. FFMIA requires auditors for each of the 24 major departments and agencies named in the CFO Act to report, as part of their audit report on agencies' annual financial statements, whether the agencies' financial management systems comply substantially with three requirements: (1) federal financial management systems requirements, (2) applicable federal accounting standards, and (3) the *U. S. Government Standard General Ledger* (SGL)[2] at the transaction level. These requirements are critical for ensuring that agency financial management activities are consistently and accurately recorded and promptly and uniformly reported throughout the federal government. Departments and agencies must comply with these

[2]The SGL provides a standard chart of accounts and standardized transactions that agencies are to use in all their financial systems.

requirements in order to maximize their performance and ensure their accountability.

As USDA's financial statements have continued to be subjected to annual audits, the agency's history of deficiencies in financial reporting has continued. Many of these weaknesses persist because of (1) an outdated accounting system and (2) problems with supporting computerized systems–referred to by USDA as feeder systems. The USDA IG has reported that the old accounting system does not comply with the requirements of FFMIA because, among other things, it does not conform with the SGL. In addition, the IG reported that the feeder systems–which include information such as billing, purchases, and real and personal property activities–are poorly documented, operationally complex, deficient in appropriate control processes, and costly to maintain.

In order to help address these systems problems, on December 23, 1994, the Office of the Chief Financial Officer (OCFO) purchased a new accounting system, the Foundation Financial Information System (FFIS), with the goal of replacing the old accounting system USDA-wide. But while USDA has implemented the new system in several component agencies, it has experienced delays in agencywide implementation. The agency plans to complete implementation of the system USDA-wide by October 1, 2002. Meanwhile, USDA's CFO has agreed with the IG's recommendation to develop a long-range plan to consolidate, integrate, and/or reengineer the feeder systems.

USDA's fiscal year 1999 audit was conducted by the Office of Inspector General. We reviewed the IG's workpapers between January and February 2000. We shared a draft of this statement with USDA officials, who provided us some clarifying comments. We have incorporated their comments where appropriate. Our work was conducted in accordance with generally accepted government auditing standards.

Barriers to Implementing Credit Reform

Prior to the implementation of the Federal Credit Reform Act (FCRA) of 1990, credit programs—like most other federal programs—were reported in the budget on a cash basis. Thus, loan guarantees appeared to be free in the budget year, while direct loans appeared to be as expensive as grants. As a result, costs were distorted and credit programs could not be compared meaningfully with other programs and with each other. FCRA and the related accounting standard, together known as credit reform, were enacted to more accurately measure the government's costs of federal loan programs and to permit better comparisons both among credit programs and between credit and noncredit programs. As part of implementing credit reform, agencies are required to estimate the net cost of extending credit, generally referred to as subsidy costs, based on the present value[3] of estimated net cash flows, excluding administrative costs.

Since 1994,[4] the IG has reported material weaknesses in the processes and procedures used by USDA's lending agencies to estimate and reestimate loan subsidy costs. In January 1999, we reported[5] that the agency was unable to make reasonable estimates of the cost of its loan programs because it did not maintain key historical data needed as a basis to estimate future cash flows and that USDA's computer systems were not configured to capture the data needed to make the estimates. The USDA CFO established a task force in March 1999 to assist in resolving the agency's credit reform problems. To date, USDA has not provided the resources needed to properly address this problem. As a result, progress has been slow.

Since USDA is the largest direct lender in the federal government and the amount involved is material, the agency's inability to properly implement credit reform will continue to contribute to our inability to give an opinion on the consolidated financial statements of the U.S. government. Additionally, for most of USDA's credit programs, cost estimates based on unreliable data can affect the availability of credit programs to potential borrowers because changes in these estimates can affect the number and amount of loans and guarantees which can be made.

USDA Lacks Adequate Systems and Historical Data to Reasonably Estimate the Cost of Its Credit Programs

Because loan program cost estimates are based on estimated cash flows, agencies have to be able to predict borrower behavior–how many borrowers will pay early, pay late, or default on their loans, and at what point in time. Generally, the best predictor of borrower behavior is prior historical data adjusted for expected changes in future economic events. Agencies use this historical information and sophisticated computer models, known as cash flow models, to estimate the cost of a loan program. USDA has not been able to make reasonable financial statement cost estimates for its loan programs because it does not maintain some of

[3]Present value is the worth of a future stream of returns or costs in terms of money paid immediately. In calculating present value, prevailing interest rates provide the basis for converting future amounts into their "money now" equivalents.

[4]1994 was the first year in which agencies were to apply credit reform in their financial reporting, following FASAB's publication of SFFAS No. 2 in July 1993.

[5]*Credit Reform: Key Credit Agencies Had Difficulty Making Reasonable Loan Program Cost Estimates* (GAO/AIMD-99-31, January 29, 1999).

the key historical data needed to predict borrower behavior. This problem also raises questions about the quality of the budget data related to USDA's loan programs since the accounting data underlying credit reform is generally derived from the same sources as the related budget data.

Because USDA lacks historical information, it bases some of its predictions of borrower behavior, such as the amount and timing of future defaults and prepayments, primarily on the opinion of program managers. While program management opinion may be used when a new or unique program is established, it should only be an interim method and does not provide the reliable basis for estimating borrower behavior that historical data adjusted for changes in future economic events does. Further, program manager opinion, when used, should be compared to actual cash flow data to corroborate the reasonableness of management's judgement. However, USDA does not routinely perform these comparisons.

The lack of historical data is largely the result of system inadequacies. Prior to the implementation of credit reform, USDA systems did not track certain key cash flow data that are critical to estimating the cost of a loan program. For example, because USDA's systems were incapable of accumulating summary level information on when borrowers had paid their loans early, the agency's ability to calculate reasonable estimates of future borrower early payments was limited. In addition, some of the key cash flow data in the system are suspect. For example, USDA's system for reporting some of its non-housing direct loans contains inaccurate data on the number of payments borrowers make each year. As a result, the agency cannot reasonably estimate the amount of cash that should be received annually from borrowers using these data.

USDA Has Not Allocated the Resources Needed to Correct Credit Reform Issues

USDA has made limited progress in addressing the deficiencies related to reasonably estimating the cost of its loan programs. The primary reason for the limited progress has been a shortage of resources, both staff and funds, to properly address the problem. USDA developed an action plan to address deficiencies in estimating the cost of its loan programs and established a task force that comprises representatives from budget, program, accounting, and IG offices to assist in resolving the agency's credit reform problem. We have provided extensive guidance and consultation to this task force, and in December 1999, we briefed the USDA Executive Steering Committee for Credit Reform Implementation[6]

[6]The Steering Committee includes the Chief Financial Officer, Rural Development Deputy Under Secretary for Operations and Management, Farm Service Agency Administrator, and Assistant Inspector General for Audit.

on the progress that the task force had made during the year, highlighting the large amount of work that remained to be done.

USDA recognizes the need to hire additional qualified staff to help make reasonable estimates of its loan program costs. During 1999, two budget staff and one budget assistant were internally reassigned to work in this area. In addition, in May 1999, the agency started the lengthy process to hire additional staff. To date, one additional person has been hired. However, none of these people work full time on addressing the problems. Instead, these staff, as well as other staff in the finance office, attempt to resolve the complex problems associated with credit reform while performing other duties.

In April and June 1999, we met with the Steering Committee and discussed how other agencies had successfully used outside contractors to help estimate the cost of their credit programs. Specifically, these agencies had used contractors to help gather adequate historical data, establish a reliable basis for cash flow estimates, and improve the agencies' cash flow models. USDA obtained limited funding late in fiscal year 1999 to contract with an independent public accounting firm to assess loan accounting systems data availability related to its direct loan housing programs.

This is just one of several steps that remain to be completed before the agency will be able to make reasonable estimates of loan program costs. Other significant tasks that have yet to be completed include developing and implementing new cash flow models for USDA's direct loan housing program and its guaranteed loan programs, comparing estimated loan performance to historical cash flow data to determine whether the estimates reasonably predicted borrower behavior, testing key cash flow data maintained in the systems to determine whether they accurately reflect loan file contents, and completing efforts to document policies and procedures for estimating the cost of its loan programs.

Despite the lack of adequate historical data and adequate resources dedicated exclusively to resolving these long-standing deficiencies, some progress has been made. For example, sensitivity analysis has been done for some agency programs to identify the key cash flow assumptions that have the greatest impact on the loan program cost estimates. These assumptions include the average interest rate borrowers pay and the number of payments borrowers make each year. Further, USDA loan program regulatory and legislative requirements have been summarized and compared to some of the cash flow models to ensure that the models address all aspects of the agency's credit programs. In addition, some of the cash flow models have been reviewed, and formula and logic errors have been identified and corrected. Preliminary efforts are also underway to assess the quality of the data that are used to predict loan program performance. However, without a significant increase in resources dedicated to resolving this problem, measurable progress will continue to be slow.

USDA Credit Reform Issues Impact Budget Estimates and Consolidated Financial Statements Opinion

USDA is the largest direct federal lender, with reported credit program receivables of about $70.7 billion as of September 30, 1999. As these loans are significant to the federal government's financial statements, USDA's inability to make reasonable cost estimates for its loan programs will continue to contribute to our inability to give an opinion on the consolidated financial statements of the U. S. government. This problem also raises questions about the quality of the budget data related to USDA's loan programs since the accounting data under credit reform generally mirror the related budget data. This "mirroring" provides the opportunity to improve the integrity of the budget estimates through the financial statement audit. However, USDA has not yet seized this opportunity.

Providing reasonable credit program cost estimates based on reliable data is critical to effective program stewardship and accountability. For most of USDA's credit programs, unreliable information can affect the availability of credit programs to potential borrowers because changes in cost estimates can affect the number and amount of loans and guarantees available. For example, if the agency initially underestimates the cost of a loan program, it will spend more than expected over time to provide the amount of loans it told the Congress could be made for the initial cost. On the other hand, if USDA initially overestimates a loan program's cost, less credit would likely be made available to borrowers than if the cost of the program had been better estimated. Therefore, until USDA is able to provide reasonable estimates, the Congress does not have valid cost data on which to base its decisions about whether to expand or scale back the agency's loan programs.

USDA Is Unable to Reconcile Fund Balance With Treasury Accounts

USDA records its budget authority in asset accounts called Fund Balance with Treasury and increases or decreases these accounts as it collects or disburses funds. The Inspector General was unable to fully substantiate the Fund Balance accounts with the U. S. Treasury, which totaled over $38 billion as of September 30, 1999, because the agency had not reconciled the balance with the amount reported by Treasury. Prior to May 1999, USDA merely adjusted its records to agree with Treasury's without determining which, if either, number was correct, and did not establish or analyze the causes of the differences between its and Treasury's records before reporting its ending balance to Treasury. Since May 1999, USDA discontinued adjusting its records to agree with Treasury's records and began disclosing any differences in its reports to Treasury. Because most assets, liabilities, revenues, and expenses stem from or result in cash transactions, errors in the receipt or disbursement data affect the accuracy of various USDA financial reports, including certain data concerning fiscal year 1999 obligations and outlays that USDA provided for inclusion in the President's Budget.

The Office of the Inspector General first identified unreconciled differences between USDA and Treasury records in its fiscal year 1992 audit. According to the IG, differences in some instances have gone uncorrected for more than 10 years. In May 1999, USDA established a goal of reconciling differences within 120 days after Treasury notified USDA of discrepancies between USDA and Treasury records. However, USDA has not been able to meet this goal to date. As of September 30, 1999, the IG reported the unreconciled amount was about $5 billion. Unreconciled amounts continue to occur because of, among other things, timing differences, missing documentation, input errors, and the inability of USDA feeder systems to properly transfer data to the accounting system and/or the accounting system's inability to record transactions in the correct general ledger accounts.

USDA formed a task force consisting primarily of members representing the Forest Service, the National Finance Center (NFC), USDA's Office of the Chief Financial Officer, and an outside consultant—PricewaterhouseCoopers LLP—to resolve outstanding differences and develop procedures that will prevent this problem from recurring in the future. In addition, we and the IG have monitored this effort for the past 6 months. The task force anticipates that the reconciliations and implementation of procedures to prevent this problem from recurring will be completed by March 31, 2000, a date we consider to be optimistic. Until this problem is corrected, the integrity of much of USDA's financial data is questionable.

Status of Forest Service Efforts to Achieve Financial Accountability

The Forest Service is a major USDA component agency. It accounts for a substantial portion of USDA's general property, plant, and equipment and almost all of USDA's stewardship land. As of September 30, 1999, the Forest Service reported $3.1 billion of general property, plant, and equipment—82 percent of USDA's total—and 192 million acres of national forest land and grasslands that the Forest Service holds in stewardship for current and future generations.

Since the first audit of the Forest Service's financial statements, which covered fiscal year 1991, USDA's IG has found serious accounting and financial reporting weaknesses, some of which continue to exist today. For example, while the Forest Service implemented its new accounting system agencywide on October 1, 1999, as scheduled, the system is supported by feeder systems that the IG has described as, among other things, deficient in appropriate control processes and costly to maintain. Furthermore, the independence afforded by the agency's autonomous field structure has hampered efforts to correct accounting and financial reporting weaknesses. These shortcomings mean that the agency and the Congress do not have accurate financial data to track the cost of programs and activities and to help make informed decisions about future funding. They also raise questions about the accuracy of program performance measures and of certain budget data drawn from the same database.

The Forest Service has completed several actions and begun others that, if successfully carried through, represent important steps toward achieving financial accountability. Nevertheless, as we testified before your Subcommittee in July 1998,[7] major barriers remain, and the Forest Service may need several years to achieve financial accountability. Therefore, in January 1999, we designated the Forest Service's financial management as a high-risk area because of the serious and long-standing accounting and financial reporting weaknesses plaguing its operations. Because of this high-risk designation, we will give sustained attention to monitoring the Forest Service's efforts to achieve financial accountability.

New Accounting System Implemented

The Forest Service implemented USDA's new accounting system on October 1, 1999, as scheduled. Previously, the IG, an outside consultant, and we have reported problems the agency encountered attempting to implement the system at the Forest Service. For example, in October 1998 we reported that (1) the agency had not fully tested the system before attempting to implement it, (2) the agency had encountered problems with the system transferring data to other systems, and (3) the overall implementation project lacked adequate oversight and management control. USDA developed a strategic plan to address reported problems, and established a project management office that had only one objective—developing and carrying out the strategic plan for implementing the new system departmentwide.

[7] *Forest Service: Financial Management Issues* (GAO/T-AIMD-98-230, July 7, 1998).

Despite some start-up problems, such as rejected transactions and system downtime, Forest Service staff are now entering fiscal year 2000 transactions into the system. However, the new accounting system depends on and receives data from feeder systems that the IG and the Logistics Management Institute—a consultant for USDA—have characterized as seriously deficient. Specifically, the IG reported that these feeder systems—which process and transfer information such as credit card, personal property, and travel transactions into the new accounting system–are poorly documented, operationally complex, deficient in appropriate control processes, and costly to maintain. The IG has also concluded that these feeder systems reduce assurance that the new system will be able to provide timely, accurate, reliable, and consistent financial information. USDA has agreed with the IG's recommendation to develop a long-range plan to consolidate, integrate, and/or reengineer the feeder systems.

Accounting and Reporting Deficiencies Remain

The Inspector General's February 2000 audit report on the Forest Service's fiscal year 1999 financial statements—a disclaimer of opinion—shows that the agency remains unable to reliably track and report on major assets worth billions of dollars. For example, the IG found several reporting errors in the Forest Service's supporting accounting records for its $1.1 billion of individual real property assets, such as buildings, recreation sites, dams, and utility systems. In addition, the IG reported that the Forest Service's portion of the USDA Fund Balance with Treasury account could not be verified because the reconciliation of this account had not been completed. This account, which is similar in nature to a checking account with the U. S. Treasury, contained $2.6 billion as of September 30, 1999.[8]

In addition, the Forest Service has over $100 million in unsupported balances remaining from its old accounting system. These unsupported balances resulted largely from the Forest Service's use for some 20 years of an accounting system that did not meet basic federal requirements. The Forest Service faces a major effort in trying to (1) document and validate these balances so they can be converted to the new system or (2) reach agreement with the IG on a policy for resolving the remaining amounts.

[8] As previously stated, a USDA-wide task force was established to correct the weaknesses associated with the Fund Balance with Treasury account.

Current Field Structure Hampers Accountability

In our February 1998 report,[9] we stated that the Forest Service's autonomous organization may hinder top management's ability to gain the full participation of all regional fiscal directors in efforts to achieve financial accountability. An independent contractor's report issued in March 1998, which addressed financial management and organizational analysis at the Forest Service, also raised the issue of the agency's autonomous structure.[10] Further, the contractor reported that whether the subject is budget execution, financial plan development, or accounting for reimbursable agreements, each unit operates independently.

The Forest Service restructured its national office management team in April 1998 to create functional lines of accountability for fiscal management by establishing a Chief Financial Officer position that reports directly to the Chief Operating Officer of the Forest Service. A Forest Service official told us in January 2000 that a decision about hiring chief financial officers at the regional level will be made following completion of a study of the Forest Service's financial management field structure during fiscal year 2000. The establishment of the Chief Financial Officer in the national office addresses some of the concerns we have previously raised regarding management structure. However, the key issue regarding the Forest Service's decentralized and autonomous field structure as it relates to financial management remains unresolved.

High-Risk Designation

Since 1990, we have periodically reported on government operations that we have identified as high risk because of their greater vulnerabilities to waste, fraud, abuse, and mismanagement. Our high-risk status report is now provided at the start of each new Congress. We designated Forest Service's accounting and financial reporting in our latest, *High-Risk Series: An Update* (January 1999, GAO/HR-99-1), because of the agency's severe weaknesses in this area.

In order to be removed from the list, the Forest Service will need to demonstrate sustained financial accountability, which goes beyond receiving an unqualified audit opinion. The Forest Service will also need to address material internal control weaknesses that limit its ability to maintain accountability over its assets on an ongoing basis. For example, it needs to implement a system of controls to properly record, track, and

[9] *Forest Service: Status of Progress Toward Financial Accountability* (GAO/AIMD-98-84, Feb. 27, 1998).

[10] *Modernizing Financial Management at the Forest Service–Financial Management & Organizational Analysis*, Coopers & Lybrand Consulting (March 18, 1998).

depreciate property and equipment from acquisition to disposition, which is essential to properly safeguarding these assets.

Corrective Measures Are Underway

In October 1999, we reported[11] that the Forest Service had completed several corrective actions and begun others that, if successfully carried through, represent important steps toward achieving financial accountability. To its credit, the Forest Service has achieved some major accomplishments so far this fiscal year in addition to implementing the new accounting system. Specifically, the Forest Service has accomplished the following:

- made significant progress in completing its physical inventory of real and personal property, as well as developing a methodology for valuing its road assets;
- begun implementation of a new methodology for tracking and reporting the cost of its operations;
- continued staffing its newly organized Office of Finance;
- received a final report, *Financial Statement Risk Assessment*, from its consultant that assessed the relative audit risk of financial statement line items, thereby enabling the Forest Service to prioritize its efforts and develop a realistic time-line to achieve a clean opinion;
- developed a plan to study the Forest Service's highly decentralized and autonomous field office financial management structure; and
- finalized a long-range plan with goals and objectives, timeframes, and measures for attaining financial accountability.

As these accomplishments demonstrate, the Forest Service has made progress in addressing its financial management deficiencies and is on the right track towards financial accountability. However, much work remains, and sustained top management commitment is necessary to ensure that progress continues.

[11] *Forest Service: A Framework for Improving Accountability* (GAO/AIMD-00-2, October 1999).

Material Internal Control Weaknesses Hamper Accountability

A strong internal control system provides the framework for the accomplishment of management objectives, accurate financial reporting, and compliance with laws and regulations. Effective internal controls serve as checks and balances against undesired actions and, as such, provide reasonable assurance that agencies operate in a safe and sound manner. The lack of good internal controls puts an agency at risk of mismanagement, waste, fraud, and abuse. Further, without strong internal controls, an agency is unable to generate consistent, reliable financial information needed to maintain accountability over its assets on an ongoing basis.

At USDA, several persistent internal control weaknesses contributed to the IG's inability to form an opinion on the agency's fiscal year 1999 consolidated financial statements. These weaknesses, as well as others identified by the IG, are discussed below.

Food Stamp Recipient Claims

The IG has reported material internal control weaknesses related to Food and Nutrition Service (FNS) food stamp recipient claims since fiscal year 1991. FNS relies on state agencies to administer the program and collect and report on any overissuance of Food Stamp benefits. FNS has been working with state agencies to put systems and procedures in place to collect overissued Food Stamp benefits, which were estimated to total $193 million[12] as of September 30, 1999. However, as of July 1999, FNS noted that only 21 of the 53 state agencies have claim systems that can report accurate, complete, and supportable information on overissued Food Stamp benefits and related collections. Thirty state agencies have prepared corrective action plans to address reported deficiencies in their systems and the remaining two have not prepared corrective actions plans. FNS must continue to work with state agencies on implementing systems and controls to properly identify and collect overissuances because program funds are lost when claims are not established promptly and pursued vigorously.

Financial Management Systems

Since fiscal year 1997, the IG has reported that USDA's financial systems do not always process and report departmentwide financial information accurately. The IG has reported that many of these systems are not fully integrated with other USDA systems and do not fully comply with federal

[12] This amount represents USDA's estimate of collectible overissued amounts. However, USDA statistically projected that total overissuance of food stamps could have been as much as $1.3 billion for fiscal year 1998.

financial management systems requirements. Among the more serious problems cited by the Inspector General were that USDA

- had a net difference of about $130 million between its accounting records and the supporting personal property system;
- had a payroll system that contained data dating as far back as 1979 that had not been properly analyzed; and
- lacked controls to ensure that transactions recorded in its old accounting system were accurate and properly authorized.

It is critical that USDA correct these problems by implementing new or revamped systems that are properly designed and implemented to integrate budgetary and cost information with external reporting to provide USDA with the capability to accurately track assets and identify all costs associated with an activity.

Accounting for Personal Property

The IG reported that material internal control problems exist in the accountability and valuation of personal property at agency field offices, headquarters, and the National Finance Center. For example, the IG noted that about 60 percent of approximately 10,000 USDA accountable property officers as of December 7, 1999, were either delinquent in performing physical inventories or had never recorded that an inventory had been taken. In addition, IG staff noted that documentation supporting the purchase price of property was lacking, and numerous errors in the property values were recorded in the system. For example, the staff found a motor vehicle recorded in the system at over $97 million and a microscope recorded in the system at $11 million. Until all counts are taken and recorded in the accounting records, USDA does not fully know what assets it has, where they are, and what they are worth. Further, the Congress cannot be assured that USDA requests for additional funds to purchase property and equipment are fully warranted.

Information Technology Security and Controls

The IG reported that tests of USDA's computer network disclosed significant security vulnerabilities that require immediate action.[13] The IG stated that USDA is vulnerable to abuse and losses because few of its

[13] We have also reported on USDA's information security weaknesses at the National Finance Center (*USDA Information Security: Weaknesses at National Finance Center Increase Risk of Fraud, Misuse, and Improper Disclosure* (GAO/AIMD-99-227, July 30, 1999).

component agencies comply with the departmental regulation that requires that sensitive and Privacy Act data not be transmitted in clear text over the Internet. In addition, USDA did not have a proactive network monitoring and intrusion detection program. Such a program would require component agencies to promptly identify and investigate unusual or suspicious network activity, such as repeated failed attempts to log onto the network; attempts to identify systems and services on the network; connections to the network from unauthorized locations; and efforts to disrupt operations by overloading the network. Without these controls, USDA has little assurance that unauthorized access to systems on its network would be detected in time to prevent or minimize damage.

USDA Does Not Fully Comply With All Key Laws and Regulations

Generally accepted government auditing standards require auditors to report on whether or not agencies complied with laws and regulations where instances of noncompliance could have a material impact on the agency's financial reporting. Instances of noncompliance include situations in which an agency fails to follow a requirement of a law or regulation or performs an act that is prohibited by a law or regulation. The management of USDA is responsible for complying with laws and regulations that are applicable to the agency. The IG reported some instances in which USDA was noncompliant, including the following:

- The IG noted that some component agencies' financial management systems do not substantially comply with the three requirements of FFMIA. The act requires agencies to implement and maintain financial management systems that comply substantially with federal financial management systems requirements, applicable federal accounting standards, and the *Standard General Ledger* at the transaction level. USDA has prepared a remediation plan that includes corrective actions that are scheduled to be completed no later than September 2003.
- The IG noted that USDA's lending agencies are not in full compliance with some of the provisions of the Debt Collection Improvement Act. The purpose of the act is to maximize collections of federal non-tax debt by directing actions towards debtors with the ability to pay and to minimize the costs of debt collection by consolidating related functions and activities. The IG found that the National Finance Center did not refer debt that was delinquent over 180 days to Treasury for cross-servicing. The Center did not forward the debt because it was waiting for notification from Treasury as to whether it would be designated as a debt collection center. In January 2000, the Center was notified that it would not be designated a debt collection center. Therefore, it plans to begin referring delinquent debt to Treasury later this year.

- The IG also concluded that USDA has not fully addressed two problems related to compliance with the CFO Act. Specifically, the agency has not implemented a fully integrated financial information system. The current system relies on data from various program and administrative systems throughout the agency in order to prepare USDA's consolidated financial statements. In addition, USDA has not (1) conducted required biennial reviews of the fees, royalties, and other charges imposed by USDA agencies for services and (2) made recommendations on revising those charges to reflect costs incurred by the agencies in providing those services as required by the CFO Act. The IG noted that one agency did not update its user fees for its inspection services for fiscal year 1998 and part of fiscal year 1999. As a result, the agency did not bill for millions of dollars that it was entitled to receive because the fees were not adjusted for salary increases and inflation factors.

Rural Utilities Service Electric Loan Portfolio Issues

RUS provides direct loans or loan guarantees primarily to rural electric cooperatives that market power on a wholesale and retail basis. As of September 30, 1999, RUS' entire portfolio of loans–including direct and guaranteed electricity, telecommunications, and water and waste disposal loans–totaled about $35 billion of the $70.7 billion of USDA's net credit program receivables. Of the $35 billion in RUS loans, $25 billion (or 71 percent) consisted of electric loans.

Most RUS borrowers are either generation and transmission (G&T) cooperatives or distribution cooperatives. A G&T cooperative is a nonprofit rural electric system whose chief function is to produce and sell electric power on a wholesale basis to its owners, who consist of distribution cooperatives and other G&T cooperatives. A distribution cooperative sells the electricity it buys from a G&T cooperative to its owners, the retail consumers.

Most RUS direct loans and loan guarantees were made during the late 1970s and early 1980s. For example, from fiscal years 1979 through 1983, RUS approved direct loans and loan guarantees of about $29 billion, whereas during fiscal years 1992 through 1999, it approved a total of about $5 billion in direct loans and loan guarantees. During the late 1970s and early 1980s, RUS provided financing for several G&Ts that had invested in the construction of large nuclear-generating and coal-fired generating power plants. Several of these plants were completed late and over budget. In addition, an expected increase in demand for electric power did not materialize. As a result, several of these G&Ts became financially troubled and could not meet their debt-servicing requirements. In turn, the federal government incurred several billion dollars in loan losses.

As we previously testified before this Subcommittee,[14] RUS has had, and continues to have, significant financial problems with the electric loan portfolio. For example, from fiscal year 1992 through July 31, 1997, RUS wrote off about $1.5 billion of loans to four rural electric cooperatives. The most significant write-offs relate to two G&T loans. In fiscal year 1996, one G&T made a lump sum payment of $237 million in exchange for RUS writing off and forgiving the remaining $982 million of its RUS loan balance. In fiscal year 1997, another G&T borrower made a lump sum payment of approximately $238.5 million in exchange for write-off and forgiveness of its remaining $502 million loan balance. Since 1997, the agency has written off an additional $330 million of loans to two rural electric cooperatives and is in the process of writing off an additional $3 billion of the total $4.1 billion in loans owed by Cajun Electric, a RUS borrower that has been in bankruptcy since December 1994. Cajun Electric filed for bankruptcy protection after the Louisiana Public Service Commission disapproved a requested rate increase and instead lowered rates to a level that reduced the amount of revenues available to Cajun to make annual debt service payments. In addition to these past and anticipated write-offs, we have reported[15] that it is probable that the agency will continue to incur losses in the future.

In our February 2000 report on RUS' loan origination policies and procedures for making G&T loans to electric cooperatives,[16] we noted that RUS' loan origination policies are reasonably designed to mitigate future loan losses to the government and are generally consistent with banking industry standards. However, RUS lacks implementing procedures in certain key areas to carry out its policies for determining whether to make G&T loans. Specifically, RUS does not have implementing procedures to (1) assess some of the primary documents which must be prepared by the borrower to support the loan application and (2) document its loan assessment and recommendation that a loan be approved. Because RUS lacks implementing procedures to carry out its G&T loan origination policies in certain key areas, misinterpretation and/or inconsistent implementation of the loan origination policies could occur. In order to ensure consistent implementation of G&T loan origination policies, we recommended[17] that the Secretary of Agriculture direct the Acting

[14] *Rural Utilities Service: Risk Assessment for the Electric Loan Portfolio*, (GAO/T-AIMD-98-123, March 30, 1998).

[15] *Rural Utilities Service: Status of Electric Loan Portfolio* (GAO/AIMD-99-264R, August 17, 1999).

[16] *Rural Utilities Service: Loan Origination Policies and Procedures for Generation and Transmission Loans*, (GAO/AIMD-00-89R, February 10, 2000).

[17] See footnote 16.

Administrator of RUS to develop and document written procedures for the two areas mentioned above. Agency officials have agreed with our recommendation.

In conclusion, USDA is a large, complex agency with many difficult issues to address before it can be accountable to you, the Congress, and taxpayers for the money provided to carry out its varied missions. Many of the problems are deep rooted and will take time, sustained top management commitment, and substantial resources to correct. Therefore, continued congressional oversight, such as this hearing, are essential to help ensure that USDA focuses adequate attention on resolving its financial management deficiencies.

Mr. Chairman, this concludes my statement. I would be happy to answer any questions you or other Members of the Subcommittee may have.

Contact and Acknowledgements

For information about this statement, please contact Linda M. Calbom at (202) 512-9508. Individuals making key contributions to this statement included Dan Blair, Carla Lewis, Kelley Quinn, McCoy Williams, and Maria Zacharias.

(913895)

Ordering Information

Orders by Internet

For information on how to access GAO reports on the Internet, send an e-mail message with "info" in the body to:

Info@www.gao.gov

or visit GAO's World Wide Web home page at:

http://www.gao.gov

To Report Fraud, Waste, and Abuse in Federal Programs

Contact one:

Web site: http://www.gao.gov/fraudnet/fraudnet.htm

E-mail: fraudnet@gao.gov

1-800-424-5454 (automated answering system)

Mr. HORN. Sally Thompson is the Chief Financial Officer of the Department of Agriculture. And we're delighted to have your statement.

Ms. THOMPSON. Thank you. Good afternoon, Mr. Chairman, and to you, Mr. Congressman Walden. I would like to take the next few minutes to outline the highlights from the testimony that I turned in to you. I would first like to say that Secretary Glickman and Deputy Secretary Rominger put a very high priority on the financial management in USDA, as well as the senior management team that's here with me today representing Farm Service Agency, Rural Development, and the Forest Service.

I have been the CFO for about 2 years and previous to that time, we did not have a CFO except for about 18 months there. However, and I came in as you know—the Department has been highly decentralized over the years. And sometimes I feel that the Federal Government is a lot like the Titanic ship in that it wasn't built to make sharp turns. However, unlike the Titanic, at USDA we are making significant progress, even though we have a ways to go.

I would like to focus on the five major areas that I see as preventing USDA from getting a clean opinion, tell you a little bit where we've been, where we are, and where we're going.

The first is the financial statement. As I describe, it is a picture frame of our reliability, timely and accurate information. But probably more importantly is we need good financial information for our program managers to be able to make decisions. No. 1 in that area is we must resolve our credit and debt management issues. As was mentioned here today, we have formed an executive Department-wide team that is dedicated to working both with GAO and the Inspector General that have given us a lot of dedicated resources. In that time we have a new model in rural development that does a subsidy estimating model for rural utilities and for the Community Advancement Program and GAO and the Inspector General have worked through to make sure that it is compliant.

Second, as was mentioned, we must fully implement our new financial management accounting system. I am pleased to be able to say that right now as of last October, we had 40 percent of the Department up, including the Forest Service; and by this October, we will have over 80 percent of the Department up. But as was mentioned today, that is the accounting system that is the middle of 1970's technology feeding into all these feeder systems that feed in our accounting system.

The Secretary recognizes this. He formed an executive team, sent out a memo to all of the agencies saying I have asked this executive team, chaired by the CFO, to come up with a plan to have corporate systems in place over the next 18 to 24 months. This would mean systems in the area of procurement, travel, property, and also budget formulation. We are moving along very quickly. And I am sure that we plan to have a full time schedule, budget and plan in place by the end of April to achieve that.

As was mentioned also, we must address the fund balance at Treasury. This has been a high priority of ours this year. We have dedicated over 80 staff who have been working on this project between outside accounting firms as well as internal staff at the cost of about $3 million. But the good news is by March 31st our balance with Treasury will be reconciled and it has never been reconciled before. But more importantly, there will be a process in place that will continue to reconcile on a monthly basis so that we will never again be in this position.

We also must strengthen the accounting for property, plants, and equipment. And we have, as was mentioned, close to $3 billion, a large part of that in the Forest Service. They have done a significant amount of work in inventorying that property and equipment and their real challenge was mentioned today was to locate the documentation to support the cost, which again, has never been done before.

In each of these areas we are making significant progress but, Mr. Chairman, we have a major issue here and that major issue is funding. Over the last few years, take rural development for instance, their program dollars, which they manage, have gone up over 51 percent; but their staff dollars to manage that program have been decreased 28 percent. A big gap. And every dollar that they spent on systems is a dollar they have to take out of staff costs to be able to deliver programs. The same is true in farm service agencies as well as the risk management area.

Now, we feel that of course the spending that we have received over the last few years from programs are very critical to the Department's mission and to those emergency funds to get out. But somewhere along the line we need to come up with the right funding mix for also to be able to achieve the systems technology that we need.

One of the things that I'm asking for is the rural development to be able to use those liquidating balances that were set aside with the Credit Reform Act that were there to be able to absorb losses in the prior years. Now we are far enough down the road to realize we do not need as much of a set aside. If we could use those for our loan modeling, that GAO has identified that we need, I think that we could significantly improve our process.

Another success story that we have is in our collectible debt. In 1999, we collected over $136 million in delinquency debt. That is a 90 percent increase over the 1997 figure. And considering between 1982 and 1996 we had only collected a total of $55 million in delinquent debt, overall our debt percentage of outstanding loans has gone in the last 3 years from 8 percent to 6 percent. Once again progress, but certainly not there. Of the $7 billion of delinquent debt outstanding, $6 billion of this is noncollectible. It's in either foreign loans or bankruptcy. However, of the $1.3 billion that's remaining, a billion of that is food stamps that is delivered by the States, which means that information is in 53 different systems that can't talk to Treasury and they average about $88 per claim.

So Mr. Chairman, these are the major issues. We have made progress. We are working very hard to get there. But I would be glad to answer any questions that you have.

[The prepared statement of Ms. Thompson follows:]

**STATEMENT OF
SALLY THOMPSON
CHIEF FINANCIAL OFFICER
U.S. DEPARTMENT OF AGRICULTURE
BEFORE THE
SUBCOMMITTEE ON GOVERNMENT MANAGEMENT,
INFORMATION AND TECHNOLOGY
OF THE
HOUSE COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT
RESULTS OF THE FY 1999 FINANCIAL AUDIT OF THE
DEPARTMENT OF AGRICULTURE**

**March 21, 2000
2 p.m.**

Introduction

Chairman Horn, Congressman Turner, and Members of the Subcommittee, thank you for the opportunity to share with you the progress that we have made in USDA's Financial Management. As our fiscal year (FY) 1999 consolidated financial statements indicate, we are working with the General Accounting Office (GAO) and our Office of the Inspector General (OIG) to improve the way in which we do business at USDA.

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

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

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

- **Debt Collection Improvement Act of 1996.** USDA collected $136.2 million in delinquent debt through Treasury's Administrative Offset Program and other debt-collection tools during FY 1999. This figure represents a 45-percent increase over the $93.9 million collected in FY 1998 and a 90-percent increase over the $71.5 million collected in FY 1997. At the same time, USDA lowered the amount of delinquent debt in its overall loan portfolio from $7.5 billion in delinquencies in FY 1997 to $6.4 billion in FY 1999, a drop of nearly 15 percent.

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

- **Customer Service Expansion.** OCFO's NFC added three new payroll clients during FY 1999: The Peace Corps (900 employees), The Federal Elections Commission (350 employees), and the county-based employees from the Farm Service Agency within USDA (2,000 employees). NFC has added 21,400 individuals to the list of employees receiving payroll services in the last two years. Adding customers to the NFC payroll service helps to reduce the cost per transaction for all users of the service.

Mr. Chairman, we have worked with the agencies to meet these objectives. These agencies have experienced significant cuts in their administrative staff that have made it considerably difficult for us to make the progress necessary to meet the expectations that outside groups have place on us. For example, the Rural Development mission area, USDA's major credit agency, has experienced a 28-percent decrease in staff since 1993. At the same time, however, this agency has had to administer a 51-percent increase in program dollars.

Mr. Chairman, let me assure that the increases in program dollars in this mission area, as well as in FSA, for disaster relief and economic development were critical and necessary to USDA's core mission as the steward of rural America. I use this funding discrepancy between staffing and programs to illustrate the difficulties an agency like RD has when juggling the responsibilities of delivering time-sensitive program funds and achieving the necessary milestones in the credit reform area.

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

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

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

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

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

- RD developed a new model for budget estimation/reestimation for direct loan programs associated with 14 rural utilities and rural community advancement programs. GAO provided technical guidance in this model development.
- FSA continued to make changes to its direct and guaranteed farm loan models, and OIG reviewed and provided comments on needed improvements to the models.
- Working with GAO, USDA conducted sensitivity analysis and documented on one RD model for all major loan programs, and on all material programs for the FSA direct and guaranteed models.
- USDA has documented for RD and FSA all legislative/regulatory requirements. GAO and OIG provided draft documentation formats for use in documenting the models and key cash flow assumptions.
- RD established a new organization within their budget division to concentrate on credit reform issues. RD is recruiting additional personnel with credit-reform expertise, and

these positions will be filled in FY 2000. FSA has recruited for credit reform personnel in both its budget and accounting organizations and is in the process of issuing a statement of work with an independent contractor to work on CCC's credit reform issues.

- OIG and GAO began a preliminary review of data to support the credit reform modeling process. We anticipated that private contractors will begin work on this objective later this month or in April.

- The Credit Reform Working Group completed preliminary reviews of other government agency guaranteed models for use in USDA. USDA also completed a review of the data elements available to support the in-house development of a guaranteed model. The guaranteed model is targeted for use with both RD and FSA agency programs. This working group completed this month a preliminary design sketch of the proposed model and will develop a time line for completing the model this fiscal year.

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

- Build a new RD guaranteed model (in-house) which may be used for other USDA agency programs.
- Improve FSA models based on OIG recommendations.
- Complete documentation of modeling processes.
- Finish recruitment and staffing actions.
- Find a solution (and resources) for developing a new RD housing model.
- Review, at a detail level, the CCC's direct and guaranteed loan models. Management will perform an independent validation and verification on CCC's modeling and credit reform accounting processes.

Financial Management Systems

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

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

Secretary's request for a waiver to move an entire project team from another Federal agency to USDA.

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

Administrative and Financial Systems

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

In addition, the CFO has undertaken an independent assessment of USDA's financial management systems that will lead to detailed recommendations for setting priorities for consolidation, integration, and re-engineering of "feeder" systems scheduled for completion in July 2000.

Logistics Management Institute completed an independent verification and validation in August 1999 titled "Independent Assessment of USDA's Financial Management Architecture FFIS Implementation." The assessment included this finding: "FFIS provides an adequate base for meeting the financial management requirements for USDA to implement an integrated, compliant system for processing, managing, and reporting financial data."

Fund Balances with the U.S. Treasury

We have made significant progress in reconciling our fund balances with Treasury although significant work remains. In May 1999, USDA implemented a more rigorous project approach to resolving the out-of-balance conditions. Due to the volume of unmatched schedules, we divided the reconciliation project into segments that were grouped either by commonality of transaction types or specifically identified time periods. The unmatched schedules as of April 1999 were considered the backlog in terms of the historical problem. With the assistance of contract support, we have examined 95-percent of the dollar variance and expect to get those balances cleared by the end of March 2000.

As we reform our business practices, we are identifying and correcting the systemic problems that cause out-of-balances with Treasury. We have consulted with other Federal agencies and have found this problem is not unique to USDA. In our discussions we are searching for best practices and intend to institutionalize a new Department-wide methodology for dealing with cash. In addition, we will continue to work closely with Treasury as they and we re-engineer the cash reconciliation and reporting process. We must maintain a balanced checkbook with Treasury without devoting an inordinately large number of resources to the task.

This has been and continues to be a major undertaking. I expect to be able to provide the necessary documentation to our auditors to enable us have good beginning cash balances on our financial statements and resolve the material internal control weakness designation for cash reconciliation.

General Property, Plant and Equipment

To improve accountability over real and personal property, the Forest Service identified the data needed for financial statement reporting, revised the methodology needed to gather consistent data at the field level, and enhanced the real property (Infrastructure) subsidiary system to maintain an effective real property inventory system. Once these actions were completed, the Forest Service issued separate inventory instructions for real and personal property to ensure better documentation of existing and new assets and more consistent accounting procedures. The Forest Service also took the following steps to increase accountability in real and personal property management:

- Included best business practices and lessons learned from prior years;
- Emphasized the documentation of accounting data to support the verification of capitalized costs; and
- Worked closely with the Office of the Inspector General's auditors on the inventory process.

The Forest Service is taking the necessary actions to improve the inventory process by requiring monthly progress reports, certification letters to document completed actions, and is holding certifying officers accountable for completion.

The Forest Service has set June 30, 2000 as the completion date for the inventory of real property and September 30, 2000 as the completion date for the inventory of pooled assets.

For personal property, the Forest Service has tightened the time frames for physical verification and accounting verification by setting June 30, 2000 as the completion date for all inventory actions.

Working with OIG, the Forest Service will refine by April 2000 the cost methodology for roads. Once the Forest Service and the OIG finally agree on this methodology, the OIG will seek additional concurrences from the GAO. The Forest Service, based on conditional concurrences already received from the OIG, has already begun efforts to complete the cost methodology to generate reliable cost values for pre-fiscal year 1994 road assets. The Agency will update its real property inventory database in INFRA with the values computed from the methodology. Additionally, the real property chapter in the agency directives will be updated to reflect these changes. The Forest Service will footnote its financial statement to reflect this one time cost adjustment.

Forest Service's Accounts Receivables

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

Internal Control Structure Weaknesses

USDA will ensure that all weaknesses and non-conformance are adequately addressed and will include performance information relating to material weaknesses and non-conformance in the Performance and Accountability Reports.

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

One example of our efforts in this area concerns the reported FY 1997 anti-deficiency in the Food Safety and Inspection Service (FSIS). FSIS's conversion to FFIS, the administrative accounting system, will improve the agency's fund-control ability and provide more accurate tracking and reporting of expenditures and other financial information. Also, FSIS is in the final stages of contracting with a private-sector accounting firm to provide assistance in the design and implementation of an improved financial control system for use by FSIS managers.

Security

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

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

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

Debt Collection

A major credit agency, USDA constitutes about 40 percent of all non-tax debt owed to the Federal Government. The $103.4 billion portfolio is larger than any other Federal credit agency and includes loans for rural housing units, rural utilities, farm operating and disaster assistance, international export and development, and rural business enterprises.

Since the enactment of the Debt Collection Improvement Act of 1996, USDA has concentrated on reducing the percentage of collectable delinquencies in relation to the total receivables. As the number of total receivables falls, the percentage of collectable delinquencies in relation to these total receivables should decline as well.

Two issues to consider are that USDA can only control collectable delinquent debt, and that a decrease in collectable debt signifies that USDA is improving its management of the debt portfolio and delinquencies. Collectable delinquencies are debts that have a possibility of being collected. In FY 1999, delinquent receivables totaled $6.4 billion. Of this amount, only $1.2 billion is considered collectable, while $5.2 billion is considered uncollectible. Collectable delinquencies include past due loans to USDA, fines levied against arsonists in the national forests, and debts from USDA employees. 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 limitation for legal collection.

In FY 1999, USDA had an average delinquency rate for all debts of about six percent, compared to the Government-wide average of 22 percent. This figure means that of all debt owed to USDA in a one-year period only six percent is delinquent.

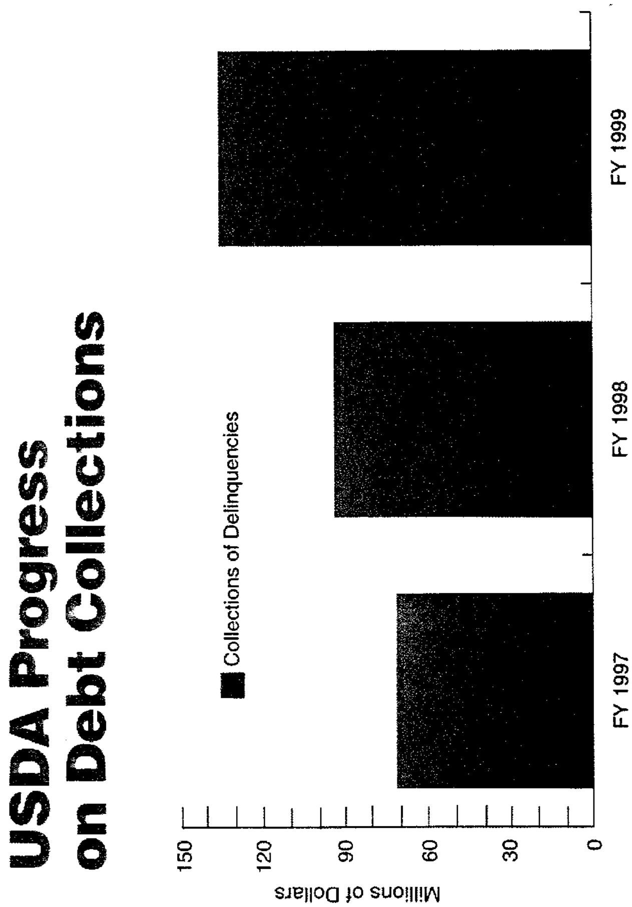
Although total receivables have declined approximately four percent since 1996, the total delinquent debt has decreased by 27 percent as USDA applied various tools of the Debt Collection Improvement Act of 1996 (DCIA). Collectable delinquent debt dropped by 63 percent over the same period, which indicates that fewer borrowers are delinquent in their payments. Write offs of delinquent debt decreased by 74 percent, which indicates that less debt is reaching the point that it is uncollectible and as a last resort must be written off.

Collections of delinquent USDA debt have almost tripled (from $50.2 million to $136 million) since 1996 as a result of DCIA and a greater reliance on referring debts for Treasury offset, cross servicing, Internal Revenue Service (IRS) 1099 reporting, and internal/external salary offset programs. In FY 1996, USDA collected $50.2 million in delinquent debt. By FY 1999, USDA employed new collection instruments to retrieve $136 million, a 45-percent increase over the $93.9 million collected in 1998. USDA will continue to increase the usage of Treasury's Administrative Off-set Program, cross-servicing, internal off-set of USDA payments and the use of private collection contractors.

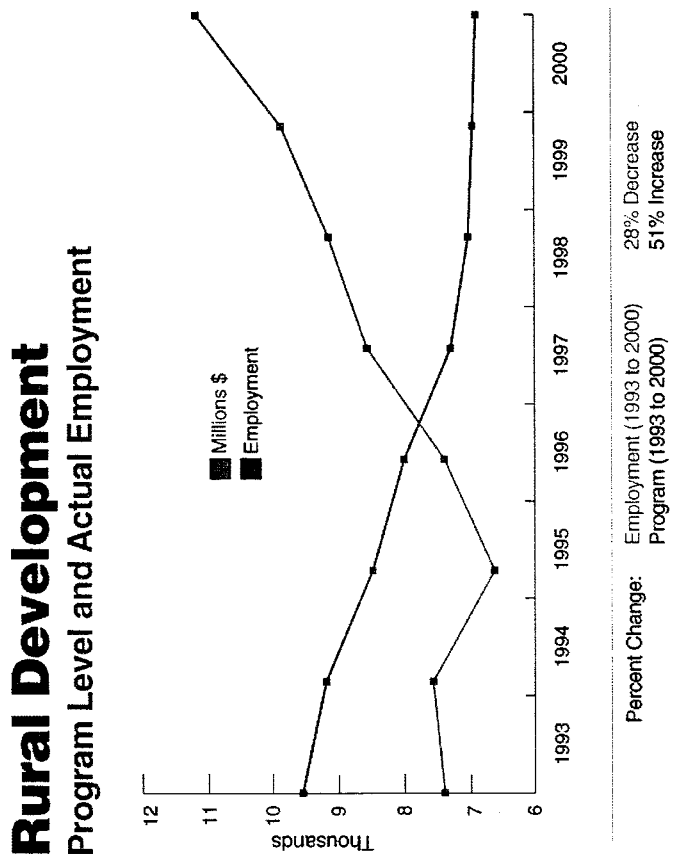
These issues from the audit combine for an extensive list of management challenges. I am pleased to share both our accomplishments to date and our plans to remedy outstanding issues that are preventing USDA from achieving an unqualified audit opinion.

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

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



USDA Progress
on Debt Collections
Collections of Delinquencies
Millions of Dollars
150
120
90
60
30
0
FY 1997
FY 1998
FY 1999


Rural Development
Program Level and Actual Employment
Thousands
12
11
10
9
8
7
6
1993
1994
1995
1996
1997
1998
1999
2000
Millions $
Employment
Percent Change:
Employment (1993 to 2000) 28% Decrease
Program (1993 to 2000) 51% Increase

Actions USDA is Taking to Get a Clean Opinion

- Resolve Credit and Debt Management Issues
- Fully Implement Compliant Financial Management Systems
- Reconcile Fund Balances with the U.S. Treasury
- Strengthen the Accounting for Property, Plant and Equipment Inventory Process
- Resolve Outstanding Audit Issues

Mr. HORN. Thank you very much. We will now go to questions. It will be 10 minutes for each Member alternating between the majority and the minority. And I now yield for the first 10 minutes to my colleague from Oregon, a diligent member of this committee, Mr. Greg Walden. The gentleman from Oregon; 10 minutes for questioning.

Mr. WALDEN. Thank you, Mr. Chairman. Ms. Thompson, I want to go to you because the numbers you put up, please take no disrespect in this because I think you are doing a good job in trying to get a handle often this agency's problems. But how am I supposed to trust the data you just gave us after listening to the GAO and the Inspector General's testimony about the lack of accountability and ability to audit the books of these various agencies and, you know, $97 million in vehicles, $11 million in microscopes. How am I supposed to sit here and know the data you just referred to is accurate and trustworthy?

Ms. THOMPSON. That's a very good question, Mr. Congressman. Let's just say I'm sure that it's relative and it's in perspective. Whether it's totally accurate, I cannot attest to that either. I'm a CPA and was in audit for a long time, so no, it's not auditable. But I do believe it can show you a trend.

Mr. WALDEN. I don't disagree with that. Again, I say I think you've done good work in what we've heard so far.

Mr. Viadero, we first met in the AG subcommittee in March 1999 when you gave a similar overview of the Forest Service's budget or Forest Service's accounts and all. And I remember you said then that your opinion, this is quoting from your testimony, "was a disclaimer I could not do enough work to draw a conclusion. This has become the pattern since the annual audit of financial statements became law in 1990." I take it from your testimony there hasn't been much improvement since then in the Forest Service budget in the last year?

Mr. VIADERO. Forest Service has made improvements. However, the Forest Service gets a disclaimer of opinion, as I noted. They had an overstatement of inventory of $135 million, an understatement of $215 million. Now if we get the information or we're supplied the documentation to look at these accounts, we still may not come up with a better opinion then a disclaimer. So I don't want to mislead anybody by saying if they come up with additional documentation it's going to be an improved opinion. It will be the first step to get an improved opinion, but until we go in and look at it. We cannot determine what the opinion will be.

Mr. WALDEN. And what has changed since March 1999 to well, March 2000 to improve your ability to go in and look for that documentation?

Mr. VIADERO. Well, the overall—this is going to sound different. The overall ability of the management concerned. Forest Service now has a Chief Financial Officer who operates under the umbrella of the Department's Chief Financial Officer. Speaking from the Inspector General's point, this is the first time we have all these people on the same sheet of music, so to speak. The problem began before these people arrived at USDA. Mr. Young and myself sat at the table with the Deputy Secretary and literally beat on the table, we wanted both systems, both the old system and the new system to run parallel for at least one quarter or a half a year so that the testing would be concurrent. And we were given all this rigamarole from people that used to be there that the reports, we won't be able to generate the same reports.

Now, as Ms. Thompson—I too am a CPA and 32 years an investigator. I always thought debits have to equal the credits regardless of what the reports say. The old system was very unreliable. Yet we took the old systems, and they flipped the switch like everything is going to work. Now, here is 32 years of cynicism. I'm looking in the corral at what's on the ground; I'm saying there must be a pony in here some place. It just didn't add up right.

Now, what these two people have done is gone in and literally reconstructed much of the old data. And that's a hand-entry job. Forest Service also has a reimbursable with my agency, for people that will never work, say again, never work on the Forest Service financial statement and GAO has concurred to this as has OMB that we have people in there working so it doesn't hinder our independence and definitely hasn't with a disclaimer to work with them to develop the methodology and the ability to reconstruct much of this data.

Mr. WALDEN. I was especially troubled today on the $70 billion in loans that seem to be problematic. If that were a major U.S. financial institution, would it be open tomorrow with the books in the state that these books are in?

Ms. THOMPSON. We can account for, Mr. Congressman, every payment that was made individually. Where our main weakness is is in estimating those subsidy rates out for 20 years. That is something you don't do in the private sector. GAO went out and surveyed the private sector for us so we could see if there was a loan system out there from Citibank, Chase Manhattan, one of those, and found it just could not work in the Federal Government.

So our real issue there is sometimes like in farm service, they have 44 variables of estimating that subsidy. I have been trying to get things streamlined. I think there is probably about 6 to 10 at the most of very critical variables, unemployment, GPA, interest rates, those kind of things to estimate out 20 years. Because they're still estimates. But that's where our real weakness is. We have got one of the models up and running for rural development. We have another one for guaranteed loans. And farm services is working. And where our real need now is in that single family residential loan area.

Mr. WALDEN. So this is not an issue that your books don't balance on the payments in and the money out, so you can track all those loans and know what is current and default rates and all of that.

Ms. THOMPSON. Yes.

Mr. WALDEN. So this would pass a standard bank audit.

Ms. THOMPSON. I think so.

Mr. WALDEN. Mr. Viadero, if you were a bank auditor, would you give them a green light to keep operating this way?

Mr. VIADERO. Not at this time. Sir.

Mr. WALDEN. Ms. Calbom.

Ms. CALBOM. As Ms. Thompson said, the issue is not so much that they can't keep track of the loans they have per se, but the issue is what's the cost of the loans. And in the private sector, we have loan loss reserves where we try to estimate the cost of the loans. We have a similar thing in the Federal Government; but it's a bit more complex because you have to estimate at the time you make the loan how much cash is going to come in, how much is going to go out, and you have to make projections of things like when is a borrower going to pay late, when is a borrower maybe going to pay early—because that affects the cash-flow too—when are they not going to pay at all. It can be quite complicated.

The only good way to make those kind of projections is to look at past borrower behavior. Unfortunately, the records have not been maintained in such a way that they can be easily accumulated so you have a basis to make those projections. So that is the big problem with the loans. But it's key in the Federal Government because the way we account for the loans and the subsidies on the financial statements is exactly the way they're budgeted for. So if you can't do it right for financial statements, it definitely calls into question what's happening on the budget side too.

Mr. WALDEN. Which leads to my next question, which is we hear that you may need more money to hire more people or do whatever you need to do. How do we know this float that's going—there must be a float of some sort if you don't know how much money is actually on the financial statement versus what we're budgeting for.

Ms. CALBOM. What happens is an estimate is made of what the cost of these loans is going to be. Then later if they find out that they what the cost is going to be, then they have to actually go back and use permanent and indefinite authority in order to get more money to cover these loans. So what happens is Congress approves what they think is a certain level of loans at a certain cost, then it ends up to be different. Then the agency has to go back for more money. It can go the other way too. If you were to overestimate the cost of the loans initially, you make a certain level of loans based on that estimate, well you're kind of leaving money on the table. You could have been making more loans, but because you didn't have a good handle on it, you're kind of stuck where you are.

Mr. WALDEN. Let me go back then, Ms. Thompson, to your other chart there that showed program moneys versus employment. Are we talking about the loan programs?

Ms. THOMPSON. Yes, we are.

Mr. WALDEN. If you have a permanent authority to go after more money to pay for the cost of administering those loans, why is there a shortfall? Unless your cost estimates are off.

Ms. THOMPSON. What we're showing there is the loan money that goes directly out. And we do not have the authority to use that money for administrative money, which would be where your staff costs are and where your loan system development costs are.

Mr. WALDEN. I'm confused then.

Ms. CALBOM. That's right. The cost of the loan programs don't include administrative costs. It includes costs of defaults.

Mr. WALDEN. So like a loan loss reserve system.

Ms. CALBOM. Exactly.

Mr. WALDEN. Not for the cost of it. Why wouldn't you budget in the cost of each loan your estimated cost of administering the loan as part of the whole package?

Ms. CALBOM. Actually, under the law the costs of administration are not to be included. So that's the——

Mr. WALDEN. So that's a separate allocation you request then. And what's happening with your request for that administrative, for the budget authority or appropriation of what the administration has put forward versus what Congress?

Mr. HORN. Would you define yourself and the position you have.

Mr. NEWBY. I am James Newby, Senior Policy Advisor for Rural Development. One of the problems we have had for the past——

Mr. HORN. Excuse me. Do you report directly to the Secretary or who do you report to?

Mr. NEWBY. Directly to the Under Secretary for Rural Development.

Mr. WALDEN. Could you move that mic just a little closer to you. I have a cold and bad ear.

Mr. NEWBY. I have a bad voice.

Mr. HORN. We all do this time of year.

Mr. NEWBY. Our request for administrative expenses for the past 5 years has been relatively constant, but on top of that—the appropriation level has been relatively constant. In addition we've had to absorb about $80 million for pay cost increases because this money is not appropriated. So in actuality there's about an $80 million shortfall.

Mr. WALDEN. Could you put that in perspective for me in terms of your overall request.

Mr. NEWBY. Our overall request for 2001 is $581 million; $417 million of that is just for salaries of our people, about 7,000 people. $52 million is for IT expenses, information technology, and that is a maintenance level only. There is no new development cost associated with that. And about $80 million for general support for travel, training, rent, utilities.

Mr. WALDEN. So you have 7,000 people.

Mr. NEWBY. Roughly 7,000, yes.

Mr. WALDEN. And so we're funding 7,000 FTE. Would that be correct?

Mr. NEWBY. Yes.

Mr. WALDEN. Those are all filled? Are those all filled positions?

Mr. NEWBY. No, we have about 100 vacancies at the moment.

Mr. WALDEN. Is that pretty much an average to have?

Mr. NEWBY. Well, at the moment it's almost forced. We imposed a hiring freeze last October basically so we could make it through the year. In order to keep everyone on board, we reduced general support costs by almost 22 percent.

Mr. WALDEN. I overshot my time, Mr. Chairman; but I'll come back for a second round when we get there. Thank you very much.

Mr. HORN. I thank the gentleman. And I now yield 10 minutes to the gentleman from New York, Major Owens; 10 minutes to the gentleman from New York.

Mr. OWENS. Thank you, Mr. Chairman. The problem that I always ask about I would like to get back to it, when can we expect results with regard to USDA corrective action plan to overcome noncompliance with credit reform requirements that were first discussed in this committee in 1994? Have we done any—made any strides toward repairing, again these deficiencies wiped out—it goes much further back than 1994. I remember being astounded by the fact that under Ronald Reagan they put people on these credit committees that had been given great loans, some of them were multimillionaires and not paid back the loans. And that whole problem has really stuck with me for some time because I'm a veteran of administering social programs and community action programs and programs involving poor people. And they always ride herd on us for every dime. And to find out that millions of dollars were not being paid by people who sat on committees that made decisions about getting the loans really shocked me. In that area have we had any improvements? Let's take the Farmers Home Loan program. I think that the name of it was changed.

Mr. KELLY. My name is Keith Kelly, Administrator of the Farm Service Agency, which now does incorporate the Farmers Home Administration with the ASCS. We have made progress over time as the law was passed by Congress to sit there when these loans were uncollateralized——

Mr. OWENS. They were $14 billion when we first started discussing this.

Mr. KELLY. That's correct. When I came here about 3 years ago, we were still working down these millions and $500,000 loans that were never collateralized, nor were they required to be collateralized. I think we're now about—I will use the million-dollar category—we're somewhere in the neighborhood of about 300 loans out there that about 75 percent of them are going through some bankruptcy or court or litigation process.

Mr. OWENS. Is the problem computers, financial system? What was the problem? Why did that get out of hand?

Mr. KELLY. Those loans, why they got out of hand is the question you're asking, why the loans got out of hand?

Mr. OWENS. That's the question.

Mr. KELLY. By law they did not have to be collateralized. If I borrow money, I have to put up something for collateral to the bank. And if I don't pay my loans, they can come and repossess my car or my house. Those loans are uncollateralized loans. And with that—there was an emergency, they were economic emergency loans. In that economic crisis that happened in the mid-1980's, those loans were made available hoping they would be paid back. Well, there was——

Mr. OWENS. Hoping they would be paid back. They made money available hoping. There were million-dollar loans made.

Mr. KELLY. Yes.

Mr. OWENS. Where are we now? What's it down to now?

Mr. KELLY. In the total, I do not have that information.

Mr. OWENS. The system won't tell you that?

Mr. KELLY. We have the information. I just do not have it here at this hearing for you. I'll provide it for you.

Mr. OWENS. Your system can give us that information.

Mr. KELLY. Yes, our system can give us that information.

Mr. HORN. Without objection, that answer will be put at this point in the record.

Mr. OWENS. You cite—a number of deficiencies have been cited this morning. Can you give us some areas that there have been some improvements in at this point?

Ms. THOMPSON. Mr. Congressman, one of the areas of improvement is bringing in the new accounting system. We now have over 40 percent of the Department up on the new accounting system. By this October 1, we will have over 80 percent. We will have all of our large agencies up on the new accounting system. That is going to make a significant difference of being able to give accurate, timely, and reliable data. We still have a ways to go. We still have got a lot of old systems that are feeding into that accounting system. But the Secretary is very actively addressing that. We have an executive committee that's being chaired by myself that includes the senior management at USDA to put in place a plan to replace the procurement system, the property system, the travel system, and also budgeted formulation system as well as some human resource systems and a new payroll system. This will allow us to have within the next—hopefully to get to a qualified opinion by this October and to a clean opinion by the following——

Mr. OWENS. Could you just clarify for me, the chart here implies that the number of employees should increase in proportion to the amount of money you're loaning, and it's gone down instead of going parallel up.

Ms. THOMPSON. That's exactly right. It's not just employees, but it is also what we said we needed money for systems. We need——

Mr. OWENS. So it's not just employees. It's the cost of systems as well as employees.

Ms. THOMPSON. In that bottom line. In the top line——

Mr. OWENS. Fewer employees, but you might have to put more money into your computers.

Ms. THOMPSON. That's right. The money for salaries and expenses which would include systems have gone down 28 percent and our program dollars that needed to be delivered have gone up about 51 percent. There is that gap. This is Rural Development. Farm Service Agency could show you the same chart there. That's what I'm talking about is that gap, you know, not that it should be right on top of each other; but we're certainly needing more dollars for both salaries and systems.

Mr. OWENS. Is it true that the Department of Agriculture has—the number of employees in the Department of Agriculture is second only to the number of employees in the Department of Defense?

Ms. THOMPSON. I believe we're somewhere around the fourth or fifth largest Federal agency.

Mr. OWENS. It's not true then.

Ms. THOMPSON. I don't believe we're second, no. I believe the State Department is and——

Mr. OWENS. Anybody have a figure as the number of employees you have in the Department of Agriculture?

Ms. THOMPSON. We have right around about 100,000. Maybe around 92,000 93,000.

Mr. OWENS. Before these systems have gone—as these systems go into effect, does that go down proportionately? The number of family farms versus agri-businesses need less people to service them?

Ms. THOMPSON. That's absolutely true too. But I will say since Secretary Glickman came in in 1994, I believe that we were about

138,000 employees. And now we're down, I think, around 92,000 93,000.

Mr. OWENS. So going back to my first question, according to the Inspector General, some of USDA's lending agencies were not in full compliance with some of the provisions of the debt Collection Improvement Act. Specifically, which programs were not in compliance and what is being done to correct these deficiencies? Does that overlap with what you said in the first place about the Farmers Home Loan program?

Ms. THOMPSON. I believe that some of those are referring to the amount of debt that's turned over to Treasury to be collected. We have made significant improvement in the dollars that we have turned over, and we will have an even larger improvement this year. There were some dollars that we were waiting to turn over because they were looking at the National Finance Center as to whether it should have been a debt collection center. Because Treasury needed some help in their Birmingham area, they were able to get that up to speed. And they just let us know in January that the National Finance Center would not be a debt collection center. So we're in the process of getting those loans being ready to be turned over to Treasury for collection.

Mr. OWENS. Can somebody clarify for me what the procedure is? How long do you wrestle with the problem of repayment of loans, and when do you turn it over to the Treasury debt collection?

Ms. THOMPSON. The average is around 180 days. However, that varies from the type of loans. We obviously don't——

Mr. OWENS. Even collateralized loans that we were talking about, they get longer time to incubate before they go to the Treasury?

Ms. THOMPSON. Yeah, because those are very old loans. I am talking about the newer loans. If they're home loans——

Mr. OWENS. The older the loan is the less attention is paid to it? Is that what you're saying?

Ms. THOMPSON. No, that's not true. I think what Mr. Kelly is saying they have applied a lot of effort to collecting some of those old loans. But when they're not collateralized and you have no assets to go after, it takes much longer in court. If that person has any other assets that the court can—it has to go through the court system at that point.

Mr. OWENS. Is there any regulation or rule of privacy that prohibits you from making available to this committee the list of the people who have had loans more than 180 days overdue?

Ms. THOMPSON. I don't think there is. We can get back to with you that answer. I think it's going to vary on the type of loan. Now——

Mr. OWENS. Some loans are covered by privacy.

Ms. THOMPSON. Whether they're a home loan, as you know there's much different regulations in place.

Mr. OWENS. You don't keep a public record of loans that are made?

Ms. THOMPSON. Oh, of course we do.

Mr. OWENS. So it is a public record. The answer to my question is that there is no reason to—there's no prohibition on making public the information.

Ms. THOMPSON. That's true, but what I'm saying is it's not all loans are delinquent in that 180 day. They may be delinquent, but they're not collectible. If they're bankruptcy, if they're foreign loans, if they're in the court system——

Mr. OWENS. Why shouldn't we have information on those that are not collectible?

Ms. THOMPSON. Oh, you can have the information.

Mr. OWENS. We still want to know where they are.

Ms. THOMPSON. I'm not saying you can't have that.

Mr. OWENS. How soon can we get that information?

Ms. THOMPSON. We'll certainly work on that and probably I would think in the next 30 days.

Mr. OWENS. Mr. Chairman, I ask unanimous consent that we ask for the——

Mr. HORN. The unanimous consent order is to all of this data we would like put in on the background of it. Well, let's put it at a certain—the whole reason I authored the Debt Collection Act of 1996 was because of agriculture loans that you gave a couple of million bucks to a guy that defaulted in northern California. He then went to live in pretty posh Santa Barbara in California and lo and behold they gave him a loan again. And so, yes, we would like to see who the deadbeats are that aren't paying back their loans.

Mr. OWENS. Let the record show this is a bipartisan request.

Mr. HORN. I am for family farmers, having been one; but I am not for defaulters. We ought to set it, Major, at some part, you know, over a million to start with or over $500,000.

Ms. THOMPSON. That's what I was going to say.

Mr. OWENS. I am just interested in those over a million that is all.

Ms. THOMPSON. OK. That we can do.

Mr. OWENS. Thank you, Mr. Chairman.

Mr. HORN. Thank you. Those are good questions. Let me just yield—well, we'll give you 10 on your own. So go ahead.

Mr. WALDEN. Go ahead.

Mr. HORN. Let me ask you this, Ms. Thompson. If you put it in a nutshell, what is it that the Department has to do besides the people investment in capital? I'll get to that in minute. What—how would you put it so we don't see this same material pop up every 6th year of the 6 years? What would you do to get the job done? I realize you aren't the CIO; you're the CFO. But tell us what needs to be done, in a nutshell.

Ms. THOMPSON. OK. I may not be the CIO, but I am responsible for financial systems. So I guess that puts—and when you start to think about that, almost everything we do at the Department has a financial system impact on it. And I guess that that's what I really need to do, I need to finish getting the accounting system up. We're working very diligently on that. And we will have everybody up a year from this October, but 80 percent up this October. I also need to get those feeder systems, as we've talked about, which are all of those auxiliary systems that feed into that accounting system that are also built in the 1970's, get good information, you know, get those systems up and running.

We will have gone a long ways. And that includes the loan systems as well. Because they obviously feed in—if you think about everything that feeds into our financial statement, those are the systems that I need to get out of the 1970's technology, up to date, and feeding into our accounting system that produces our financial statements. We need to get some training done in the Department because obviously you put new systems in, you have got a lot of business processes that need to be reengineered that makes the Department also more effective and more efficient. What I am finding is so often not only in our National Finance Center but also throughout the Department is that we need good training and financial management. We need some stronger staff in financial management.

Mr. HORN. Now, is that your responsibility, or is that personnel's responsibility, or how do you get that supervision and training and retraining and retraining?

Ms. THOMPSON. It needs to come—one of the things that we do as a CFO office is direct that. We are responsible for the leadership of financial management in the Department. And I'm finding that, you know, we've got all the cooperation that we need within the Department in the agencies, but the problem is resources. It always comes down to, do we put the staff in the program area versus putting it in the financial management area.

Mr. HORN. Ms. Thompson, to what extent did the Department reprogram funds at the end of the fiscal year? How much were reprogrammed and moved elsewhere in the Department?

Ms. THOMPSON. Wish I could say we had—we were able to do that. But when I went out to find out how much unobligated funds we had out there, we could not tell that because we didn't have good enough systems.

Mr. HORN. So you can't go back—you kicked all of that back to the Treasury then.

Ms. THOMPSON. That's right. One of the pieces of legislation that I tried to put through last career that's coming back again this year is to be—to allow us to use those unobligated funds amount to about $50 million a year. And out of a 5-year period of time that's $250 million. Now, they could only be used if they don't score against us because obviously if you gave us $50 million to use but took $50 million out of our budget, we haven't gained anything. Now which means you would have to convince the CBO not to score it.

Last year they for a while they said they would, and then when they came right down to it, the appropriators approved a pilot program that would have allowed us to use 1 year's funds to see, you know, how it worked. And then CBO came back and said they would score it. Certainly, OMB is supporting that legislation again. We will try it. If you have any influence with CBO that would go toward a long ways toward solving that problem for us.

Mr. HORN. When you were asked about the number of employees, you noted that since Mr. Glickman came, it went from about 138,000 down to 93,000.

Ms. THOMPSON. Yes, sir.

Mr. HORN. So you should have gained some money by having 45,000 less employees.

Ms. THOMPSON. Well I think——

Mr. HORN. Do you not have your personnel records and your financial records all tied to those salaries? That's how you aggregate a budget.

Ms. THOMPSON. That's true sir. But if you look at this chart where it shows that we have dropped 28 percent in our S and E budget, that takes care of most of the drop in the Department.

Mr. HORN. The corporations that did the same thing during the recession at the beginning of this administration, they found that they were more efficient, their systems, and they were better off. And it just seems to me somebody has got to make a tight judgment and somebody did over there. They can't take credit and then damn it, because the fact is that's exactly what they did. They had, I think, 108,000 in Internal Revenue Service, got down to 100,000. That was the Gore initiative.

So what happened to the money is what I'm asking and why wasn't that put to either lower-paid people that come in. That's usually why they do the $25,000 bit and get the higher-paid people out to retirement, and just seems to me that that was a pretty good chunk of money that could have brought the people that you need to get this job done. Now, when I look currently, there's an out-of-balance amount of $5 billion that the Inspector General notes they can't reconcile the checking account. Now, with some of those people, it wouldn't take 38,000 or it wouldn't take 45,000 people; it would take just a few hundred here and a few hundred there, I think, you would agree with proper training.

Ms. THOMPSON. I would agree with that, sir. I think, though, you look at the Department of Agriculture and if you take out the emergency funds that have been given to us over the years, you would find that our budget is straight lined, in fact even down a little bit. And as Mr. Newby mentioned, from rural development we have absorbed the pay cost and the inflation of just supplies and that sort of thing. And in Rural Development alone that costs $80 million over the last 5 years, as he mentioned. So a lot of the savings as you are looking at it on the salaries that were either those dollars were cut or they've been absorbed by inflation and pay costs.

I certainly haven't been able to find them, and I have been digging everywhere I can look for dollars. Our systems, if you get good systems in place, they will pay back over a 5-year period of time. But the problem is you need an up-front investment. One of the things I'm even looking at is the possibility of borrowing some funds from Treasury, knowing that I can pay that back as like a loan with the efficiencies that I can gain by getting rid of some of those old systems and being able to streamline the staff that would be running those systems.

Mr. HORN. In the Debt Collection Act of 1996, we provide that you get money back when you collect the debts. And you might want to explore that part of the law. The whole thing was to give an incentive to upgrade computing with both the capital and human investment as well as the capital in hardware and software. So I would take a look at it because you have a real loan collection problem. There are others that have bigger ones, but you've got one. And it's manageable.

And I think, as you say, if you can get it down to manageable pieces here, why, it will work. But it won't work and that's why I want to just off the top of your head from what do we have to get to. What is priority one? What is priority two? So forth. So can you tell me that?

Ms. THOMPSON. Yes, I certainly can. Priority one is the financial systems, which include both the accounting and all of those feeder systems. Priority two is getting the credit reform. Again, that's another system, but it's also getting all of the data verified and collected. A lot of that data is in the counties out there in those files that we need that is a priority two. Priority three is getting the property system in place for the Forest Service, getting the inventory done and getting the documentation needed to substantiate that.

Mr. HORN. What does that take in the Forest Service? Is it just agreeing on what is a piece of property or what is a tree or what is it? I mean, how are you going to deal with that?

Ms. THOMPSON. Sir, that has to do when I talk about documentation is what was the cost. And probably the roads are a classic example there. And I would like to if you—if it's all right, I would like to have the Chief Financial Officer from the Forest Service tell you exactly what she's doing to be able to, for instance, inventory the roads.

Mr. HORN. This is Ms. Goerl.

Ms. GOERL. Yes. I'm Vincette Goerl, and I'm the Deputy Chief for the Office of Finance and Chief Financial Officer; and I report to Mike Dombeck. In our process of getting good valuation for not only an inventory but a good valuation of the real and personal property, one of the largest challenges that Mr. Viadero spoke to was the value of pooled assets on the roads. What we're talking about there is the collection of costs associated with the building of the roadbed over time. We're talking about a road system of nearly 400,000 miles, a significant amount of those built over the last 50 to 60 years.

So when you go back to establish a baseline cost or valuation of that property, finding those records would be and are next to impossible. So what we have been working with at the Inspector General this past year on a methodology for going back and establishing one-time baseline cost for these pooled prior to 1995. We have collected the cost documentation since that time and have the costs for those road improvements.

Within the next few weeks we will have finalized all of our discussions with both GAO and the Inspector General on how we establish that one-time base cost; and we would apply it this year through an acceptable methodology. Then we would have a baseline from which to work in the future for those costs. That's a major issue. Because that's a significant amount of valuation of our assets.

What was also mentioned is we completed our first and most thorough inventory of real and personal property this past year. That was a huge undertaking when you're looking at 150,000 trails, 400,000 miles of roads, 45 thousand facilities and such. We also implemented a new systems module in Infrastructure, our real property system where we could collect property information along with valuations which we had to establish for all of that real property, to come up with the valuation or plant, property and equipment for our financial statement. It lacked, however, the pooled assets because we had yet to agree on the methodology to establish values for those assets.

Mr. HORN. So that road condition that factor tell how well the role—that the road had survived? So it's a matter of say maintenance and preventative maintenance.

Ms. GOERL. There's two aspects to the inventory that we took. One was on where the roads are, how many roads are there, how many facilities are there. And then what is the cost or value of that property so that we can run it through a depreciation model. The second aspect is deferred maintenance on a survey of the condition level of that property. Those are two different sets of issues. Our deferred maintenance for the roads alone is around $9 billion. And having to do the work to do the survey of all those roads accurately has taken us some time. That does not include the rest of the maintenance on our facilities and other things like that. It's probably closer to $10 to $12 billion. We have to come up with separate methodologies on each type of property and the approaches toward completing the total survey of all of our real property. That is also being collected in this new system.

This is a huge undertaking and we were very proud of the effort we completed last year. This is the first time we have ever included all that data in the system to determine its value. We had problems with ensuring that everyone did this in the same manner, that the documentation was there, and that the valuations were inputted correctly. An initial audit by the Inspector General did demonstrate there were problems. We're working right now on going back and correcting that information and we just initiated in the last couple of weeks this year's full inventory again. We will be asking for that inventory to be completed by the end of June. We are working with the Inspector General so that we can go through a full audit year on real and personal property.

Mr. HORN. What you say makes a lot of sense to me now. It sounded like you're also getting management decision points where people can decide do they need that, don't they, and this kind of thing, what's the level of maintenance, what's our long-term budget for preventative maintenance.

Ms. GOERL. Extremely valuable information. The fact that this information is auditable provides much more credit with our appropriations committees and internally in the Forest Service as we decide which maintenance approach we will take for both roads or other real property but also what it will take over time dollarwise to bring the maintenance level up for this property.

Mr. HORN. I guess I would ask you in—well, I think my time is over. I'm going to get my other colleagues back in this. And then I'll talk to you about measurement. Because I think that's the key to a lot of what every agency is doing. And it's—it shouldn't just be an accounting data obviously. Are think we kid ourselves, we need to make sure nobody stole it. But we also need to make management decisions. And sounds like you're on the right track. The gentleman from Oregon, 10 minutes.

Mr. WALDEN. Thank you, Mr. Chairman. Let me read from again the testimony from last March 11 by Mr. Viadero who said, "First of all"—this is reference to the Forest Service, oh, she left the table. Oh, don't go away.

> First of all, real property, accounting for real property is by far the most significant accountability problem the Forest Service has. Unfortunately, though, the Forest Service may be able to see the forest for the trees it's uncertain as to what is in the forest, where it is or how much it is worth. In fiscal 1997, we could not verify the 8.2 billion in real property reported by the Forest Service because the agency had not inventoried enough of its assets nor put a value on them.

It goes on to talk about the work that was being done. That was last year. What is the current value of the assets of the Forest Service?

Ms. GOERL. Well on the balance sheet it's around—I'm going to guess here because I don't have it in front of me it's around $3 billion with depreciation, I believe for the total real property.

Mr. WALDEN. So you're taking the value of the roads and are depreciated cost over how many years, 20, 30?

Ms. GOERL. I think what we're looking at is a 50-year depreciation of the road pools when we get through with our methodologies. I can't remember them all right now, I can provide them for the record if you wish; but there are specific depreciation schedules for each of the different types of property that have been established. The key objective is to have the correct valuation of the property in the beginning before you apply the depreciation not only have a problem in getting accurate information in the system but the accurate costs validated and then running the depreciation schedules.

[The information referred to follows:]

Additional information requested in support of Vincette Goerl's testimony at the Congressional hearing "Results of the Department of Agriculture's Fiscal Year 1999 Financial Statements Audit" on March 21, 2000

Page 52:

Depreciation rates are as follows for each group of assets:

Land	-
Improvements to Land	10 years
Buildings	30 years
Other Structures, Facilities, And Leasehold Improvements	10 – 50 years
ADP Software	8 years
Equipment	5 – 15 years
Other	-

All depreciation is calculated using the straight line method.

Prepared by: Christopher S. Osborne
Date: April 25, 2000

Mr. WALDEN. I am very sympathetic to the challenge you face, and I am glad these improvements are taking place. They're obviously long overdue. I guess the question is as this administration and through the Forest Service pushes through at a very rapid rate the new roadless regulations for the Forest Service which will cover 40 million acres and the chief has made it clear he wants that done by the end of the year, what effect will that have on the balance sheet? Has anybody ever talked to you about what difference is that going to make if these areas are suddenly going to be become roadless and——

Ms. GOERL. Well I think there's two different issues here. First, I think there's what is the financial and the inventory information that we have about our assets. The second thing is obviously if any of that information will be used in determining some of the policy decisions and where that feeds into the regulatory process. Of course you want valid information from which to make your management decisions on the policy, but I think the two are very distinct. Obviously one feeds management information into the other for determination of what you will do given whatever regulation you are considerating. Obviously we're using this type of information from the infrastructure system to support the analysis on the roadless initiative and others, but we're using other policy and rearrangement information as well.

Mr. WALDEN. You don't have a dollar figure that's what I was after.

Ms. GOERL. A dollar figure for the investment in the roadless initiative?

Mr. WALDEN. Yeah, if those regulations are passed.

Ms. GOERL. I do not have any information. I can provide that for the record on the impact I know we're spending about $8 million on the analysis and the development.

Mr. WALDEN. $8 million.

Ms. GOERL. The estimated costs equal $8.6 million in fiscal year 2000 an additional $1.2 million in fiscal year 2001.

Mr. WALDEN. OK. Let me see here. I want to go back to those issues of the loans that the chairman and Major Owens spoke of too. Because I understand the committee is going to get the one over a million. I wonder if we could get just a statistical analysis by number of loans and values in some categories below a million so we can get a look at is a million a small segment of those loans and really the problem is below that but we don't want your 20-feet-high stack of information.

Ms. THOMPSON. Absolutely. If in the back of the financial statements of which I'm sure that you have, they break down the loans in quite a bit of categories. This would be on page, starting on page 44 of the financial statement.

Mr. WALDEN. Oh, very good.

Ms. THOMPSON. It would give you the balances of direct loans both prior to 1992 to after 1992, the default on the guaranteed loans, again broken those down, the guaranteed loans outstanding and then some of the subsidy information that GAO was talking about is also there. But it gives you a gross loan balance broken down between housing and utilities and——

Mr. WALDEN. But it wouldn't have it by size of loan.

Ms. THOMPSON. We'll work on that one, yes. We'll have to get you that type of information. But we can do that.

Mr. WALDEN. OK. You've got bigger challenges I know and I don't want to throw—if it's a big burden don't worry about it.

Ms. THOMPSON. Need to take a look at those.

Mr. WALDEN. That would be helpful. I guess back on the Forest Service issue, while I realize it's important to figure out these pooled assets—see you thought you could get away, no way. The pool asset issues is of course important to the balance sheet but I remember again Mr. Viadero your comments about the receivables and payables last year was and quoting again from the record in the ag committee, "Since 1993 the Forest Service has historically computed its account payable balance statistically by identifying the extent of errors likely to have occurred and projecting them over the universe of transactions then adjusting the total." Has that been fixed?

Ms. GOERL. It's definitely fixed when we moved to the new financial system because we had subsidiary accounts receivable and accounts payable systems which we did not have in CAS. That, of course, went into effect October 1. But, of course the audited financial statements are on fiscal year 1999.

Mr. WALDEN. This year.

Ms. GOERL. We expect that this year we will be able to take away one of our major areas of material weakness because we're using a certified standard general ledger in the financial system.

Mr. WALDEN. So you're comfortable we don't have this statistical projection to get to balance.

Mr. VIADERO. I know I'm the IG for Agriculture. I want to use my colleague in State Department's comments, we're cautiously optimistic.

Mr. WALDEN. So are we. Oh, I have a question too back on this issue of, you know it's a constant struggle either in the private sector or public sector trying to figure out how many people or how much money do you need to run a program. I guess the question I have is do you look at private sector models in terms of how many loans a loan officer can manage and the volume of those loans and compare that against what is going on with your, say, on this example the rural development program? And if so how does the Federal Government stack up?

Ms. THOMPSON. We have done that, and I will let Mr. Newby address that. I guess I would just like to say having come out of the private sector, in fact I was a bank president at one time, there is a big difference between the loan portfolio in it and the Federal Government. We don't say we're the lender of last resort anymore. We say we're the lender of opportunity. I think that makes a big difference. But what I'm saying is not only is the clientele a much different clientele that they're dealing with than you do in the private sector, and certainly Mr. Newby can describe a little bit of that for you. You know our people need to be able to speak five languages. They're dealing a lot with senior citizens, disabled people, low-income people, uneducated people, the whole thing; we're dealing—but so that makes our statistics means that it takes us longer to manage that. And with that I'll turn it over to Mr. Newby.

Mr. WALDEN. Before you do that since you were a bank president I spent 5 years on a bank board, what is the rate of non-performing loans by percent?

Ms. THOMPSON. Ours is, as you know, between 6 and 7 percent which is pretty good, you know. It depends upon—and if you're talking about residential loans, you know you're down around 3 percent there. If you're talking about commercial loans and you get into oil loans—I was in Denver during that period of time where it went to 20 to 30 percent. You know, so again, that's what I was trying to tell Congressman Owens is it's the type of portfolio you're looking at. And then you got geographical differences too. And when the housing market just bottom fell out of it up here in the Northeast but in the Southwest it was very strong. You know that sort of thing.

Mr. WALDEN. Good point.

Mr. NEWBY. We haven't collected data in the last few years that would compare the number of loans per individual loan officer with the private sector. I can provide that for the record that will show you some that were 4 or 5 years ago. The reason we haven't is that we changed about 30 percent of our workload by centralizing all the single family housing loans. We had a very decentralized servicing system. We centralized all of that in St. Louis and now providing tax and escrow services for the borrowers for the first time after 20—almost 20 years after Congress told us to. That changed about 30 percent of our workload. So we need to do a new analysis. But I can show some data from 3 or 4 years ago.

Mr. WALDEN. Would that be useful to us though?

Mr. NEWBY. It would. The number of loans each loan officer handles for us is significantly higher than you would find in the private sector.

Mr. WALDEN. And more difficult according——

Mr. NEWBY. More difficult.

Ms. THOMPSON. Very much more difficult. If you go out to that loan servicing center at St. Louis, we brought in a manager from Citibank that's running it, doing an incredible job. And all through that area you'll see charts up on, you know, how many calls linked up through the day what the number of minutes were, how that compares to the private sector. So they really are running that servicing center much as would you in a commercial market.

Mr. WALDEN. Very good. Thank you, Mr. Chairman.

Mr. HORN. I thank the gentleman. And I have a few questions here before the Inspector General leaves. Let me note that he reported 32 State agencies do not have claims systems in place that can accurately report and collect on over-issued food stamps. How much do you estimate was the total over-issuance of food stamps in fiscal year 1999? Do you have those figures, Ms. Thompson?

Ms. THOMPSON. I have a cumulative figure of about $1 billion. But I don't have it broken down for 1999.

Mr. HORN. 1998 was $1.3 billion.

Ms. THOMPSON. Yes. Right. I just got a 1998—yes that's $1.3 billion. They will have the 1999 figure in May.

Mr. HORN. We'll leave a space in this record for that letter.

Ms. THOMPSON. Mr. Chairman I'm sure you already realize and know but maybe not everybody realizes that the States determine the eligibility on that. They also control the collectibility on those as well. And that's part of the problem as I mentioned in my testimony in being able to turn that over to Treasury. And I have had very long sessions with Treasury. Of that $1.3 billion, it's made up of a million accounts and they average about $88. There is also some regulations on the—that you can't go against, I believe, somebody that is currently receiving food stamps to collect. So the States have, you know, they may have gotten some over-funding at one time; but, you know, they're still eligible for food stamps. The problem is also the States can't turn that over for collection because their systems can't talk to Treasury.

Mr. HORN. Are the States not turning it over because Congress passed a law that it's none of our business or what?

Ms. THOMPSON. No.

Mr. HORN. I mean some authorization—let's face it they're not concerned about money. They're just concerned about keeping people happy. So I'm just wondering is that a law that we can't collect it and the States should collect it?

Ms. THOMPSON. Yes. The States are—now they can turn that money over to Treasury, but Treasury can't accept it. They can't accept paper, and they can only accept electronic transfer. And there's 53 different systems at a minimum out there to be able to turn that over.

Mr. WALDEN. Mr. Chairman, if I might, I believe Congressman Goodlatte is working on legislation to make for a unified system where all the States would be able to talk to Treasury as I recall. Doesn't he have legislation? It seems to me we had a hearing on that in the subcommittee.

Ms. THOMPSON. Yes he does. You know, the States were so involved also in Y2K as you know and becoming compliant. So even those that had system changes on the drawing board got put to the back.

Mr. WALDEN. So there may be some hope there.

Mr. HORN. Does the Inspector General have some thoughts on this.

Mr. VIADERO. Yes. First of all Mr. Chairman it's incumbent on the States to get this money back. However the States can send the tapes to Treasury and let Treasury do the collection for them. So actually USDA is out of it. The States know what they have to get the money, but nobody is really pressuring the States to collect money. It just stays out there. As Mr. Walden said, it's sort of a float; and it's a float of $1 billion approximately. But the States can send the tapes back to Treasury under the legislation, and Treasury can collect it, not USDA.

Ms. THOMPSON. That's true. But the problem with Treasury is that they can't accept those tapes because they're not formatted in the same way that their systems can accept it. At least that's what Treasury tells me. You know you got 53 different systems out there from 53 different States and territories.

Mr. VIADERO. I don't want to be a cynic again, Mr. Chairman, but if the States can work with Treasury when it comes to receiving money then certainly the States can work with Treasury when comes to getting the money back.

Mr. HORN. In other words, you're saying it's a one way system the way the States see it give us the money, and put it on the stump and run.

Mr. VIADERO. That's another way of putting it, yes, sir.

Ms. THOMPSON. Mr. Chairman, if I could, I do have somebody here from Food and Nutrition, and they just handed me the note that says that in fiscal year 1999 the States collected about $213 million from recipients that had been overpaid. As an incentive, States receive a portion of the collected claims. So there is some incentive there. I'm not saying that the Inspector General isn't right, that whether that incentive is enough. I know I have talked to Roger about what hammer do we have; and he has said, well we could stop issuing the State food stamps. But you know that that doesn't sound very realistic.

Mr. VIADERO. What I said was hold back the administrative costs until they get the money back. We never want to hold back benefits from the recipient. These people need it. But the States—if a State has a debt and we held back the administrative cost until the States did their job I think we would be in better shape.

Mr. HORN. Well, we found that out in Y2K. They're partners and we're partners with them. And unless you keep on it, everybody is going to say, hey, we can just keep that money.

Mr. VIADERO. Mr. Chairman, something else, if I can, since this is also the IT committee, or is the IT committee of particular interest to us—and I don't want to sound like I don't want to be left off the cry poor band wagon, but my staff has gone down in the last 3 years, 24 percent because we're viewed as a staff organization.

We get nothing funded. Either we get flat lined in the House and the Senate gives us a modest increase which doesn't cover the raise or it's vice versa. Right now I have about 72 people on average doing CFO and CIO work. And to that end, it will take almost $1 million for us to get a computer lab to perform IT security reviews.

GAO issued a report on the computer hacking and just by coincidence it happened when there was an international hackers convention going on. Timing is everything. And Ms. Thompson we had what 12,000 hacks a second into the National Finance Center. Now that, to me, is exceptionally disturbing. Given the amount of dollars that go through the National Finance Center and the other payment centers and collection centers that we have, 12,000 hacks a second. It's phenomenal.

I have a small group of folks that sit in an unknown place, and they do unknown work—no. What they do they're my hackers, they try to hack into systems. And you know we've gotten through in some of the systems, particularly some of the loan systems we just left a message there, hey we were here. Actually we were going to get a loan in the name of Dan Glickman and put it in and give him a statement that his loan has been paid. But we opted not to do that in fairness to the Secretary. But we could use a hand on the IT side in helping us with our committee's as far as getting a test lab through so we can further prevent the hackers from coming in.

Mr. HORN. Now, do the CIO's have a committee on this? I believe they do, don't they?

Mr. VIADERO. There's a CIO committee, yes.

Mr. HORN. Are they talking to Inspector Generals and CFO's also.

Mr. VIADERO. Probably not.

Mr. HORN. Because the question was, we would welcome your thoughts. We're trying to put a standards on computers security so that we will be able to grade them, same as we did on Y2K.

Mr. VIADERO. Our response is in for SR 1993.

Mr. HORN. We could welcome those of you on the firing line to say what are the basic minutes an agency has to have if you are going to be serious about computer security so if they haven't come in, just mark it personal. I would like to see it before I give it to the staff.

Mr. VIADERO. Yes, sir.

Mr. HORN. So I appreciate that. I hope the CFO's have a crew working on that. That to me is very essential. A lot of it is going to be government funded of other governments in a number of things around here, rather than individuals but we need to protect ourselves from both. The individual, the happy smart type in high school and community college and universities, except I think a few are sitting in Federal prison now and a few more will be, but we do want some basic things that make some sense that would be respected by the community that's got to administer it.

Mr. VIADERO. We will have it up to you Mr. Chairman and addressed to you personal.

Mr. HORN. And then one on let's see here, well the unreconciled balance with Treasury, and then you can depart.

Mr. VIADERO. Thank you, sir.

Mr. HORN. Just seems to me that that ought not be that difficult. Now you're saying the source documents, and they're so old and the equipment and the processing, you mean they don't talk to Treasury. So what you would need then I take it, Ms. Thompson, is a whole new computer set that interfaces with Treasury. Is that it? Is that what we're trying to guide for? We're asking the GAO to go out and look at all of these things, hardware, software. And so we can be serious about it in both the executive branch and up here in the legislative branch and know what we're talking about. So we're hopeful that they will carry that.

Mr. VIADERO. I think Mr. Young can shed some light on this for us.

Mr. YOUNG. I think that the National Finance Center needs to keep on top of it. What the problem was, they used to plug the number, in other words to make them match. And they didn't work the reconciliations on a timely basis. So as a result, they buildup over time. As they buildup, each month, each day it gets older it makes it more difficult to go back and track why there is a difference. So what they need to do is to have a system that identifies any time there is a difference; and once that difference is identified, to trace it back and find the answer for it so it doesn't buildup over time and make it an impossible situation.

Mr. HORN. Well I can believe that. Let me ask you this: I think the Inspector General brought to the attention of the CFO the need to update user fees to accurately reflect the cost of providing services and other things of value. Now, this year we learned that despite your direction to do so, one agency did not update its user fees and therefore lost millions of dollars it was entitled to. What agency are we talking about?

Ms. THOMPSON. You're absolutely right, Mr. Chairman. And——

Mr. HORN. What's the agency?

Ms. THOMPSON. Food Safety and Inspections Services, FFIS. One of the advantages again this comes back to that new accounting system, they did come up on October 1. If they had been getting accurate and timely information and reviewing those reports, this they would have seen on the very timely basis that the income wasn't coming in and expenses were coming in as budgeted. They have since obviously gone back and reviewed those and have increased those fees and certainly now they will be getting timely information. I have about 13 agencies that are—have fees coming in about 305 different programs. But I'm pleased to say that this last year in the 1999, 9 of the 13 have reviewed the fees or are just about finished in reviewing those fees. So we are making progress in that area.

Mr. HORN. What about this one agency. It seems to me if I were the CFO and they were crossing me I would either take care of it and scare the living daylights out of them or I would go to the Deputy Secretary and the Secretary and say look, are you going to back me up on this or aren't you?

Ms. THOMPSON. They have a new CFO in place now.

Mr. HORN. They do. So you will have cooperation then.

Ms. THOMPSON. Yes, sir.

Mr. HORN. OK. Well that's a plus. So I mentioned the need for measurement standards on a lot of these programs. Is the IG and the CFO and—GAO I know is working on this, has worked on it, where are we getting the help at the grassroots such as Agriculture as what are sensible measures as the effectiveness and the efficiency, not just in the money, we've always focused on money but are these programs working? Are they getting done? Are our partners working with us? So what kind of work is going on at the grass roots and agriculture on that?

Ms. THOMPSON. We have a very active group working on performance measurements. We are just in the process of reporting to Congress our first annual performance report that does measure those. Now, again, that goes back to having the right systems in place to be able to measure. It also goes back to having the right performance goals. We're still learning on that. And it's still evolving. I'm in the process of trying to pull that together. We had 1,600 annual performance goals for the Department of Agriculture.

Now, I know we're very large and we're very diverse but that does not really tell you what the Department of Agriculture's really about and where they're priorities are and what they're effectiveness is. So this next year as we go through the process, we're updating the strategic plan; and we will have one strategic plan for the Department. And then that will have it set for annual performance goals, and we'll no longer have 23 or 28 different individual plans and 1,600 performance goals, but we'll have some really meaningful goals for you in each of the three major goals for the Department.

Mr. HORN. If one asked you, take one measurement from all the diverse agencies that you work with, what is the key measurement that ought to be asked about and ought to be utilized in the strategic plan?

Ms. THOMPSON. Well I think it would vary from program to program, but I would look at productivity and the effective that—you know, not how many loans you made but what of the effect of the loans, the results of the loans that you made.

Mr. HORN. Now, on the loan issue do you think, since a number of your agencies have major loaning operations, how do you get at it other than the fact that they seem satisfied, they're still in business or whatever it is, what did you think is the question to be asked?

Ms. THOMPSON. Think since we're responsible for rural America, you know, we're making our loans in rural America whether it's a farm loan, whether it's a single family housing or whether it's a community loan or a utility loan in rural America. So what affect did that loan have on the community.

Mr. HORN. Are you going to judge that, and who is going to judge it, the partner at the grassroots.

Ms. THOMPSON. Think if you look at utilities, you know, what was needed and did it provide utilities to how many homes out there is as a percentage of the homes that needed utilities. If it's a community development loan, you know, for a small business, you would look at it, you know, was it a critical business that was needed to keep rural America going? If it's a farm loan, you know, did it keep—not only did it keep the farmer on the land but was he productive in what he produced?

Mr. HORN. That's quite a bit of information really.

Ms. THOMPSON. It is. It is.

Mr. HORN. You think that's the one we're all about.

Ms. THOMPSON. Right.

Mr. HORN. Makes sense.

Mr. VIADERO. Mr. Chairman, we're conducting an audit right now on the overall Department and how it stands on its performance measures. We are also performing an audit on the Forest Service—we're doing one on the Department and one the Forest Service separate. The one on the Forest Service will be out in May, and the one on the Department will be out in late September. We'll be happy to send you copies as soon as they're available.

Mr. HORN. GAO have any thoughts on this? You have done some work, I know, on performance measures.

Ms. CALBOM. Well, you know, I think that it doesn't matter what you choose to measure, to me one of the real key things is being able to say what did it cost me to get me there. I mean I think you always have to be doing a cost benefit analysis and saying this was a good thing we did but at what cost. And that's why it's so key to get the financial house in order so that you can be able to give the taxpayer that information, what did the taxpayer get for their money. And so it goes hand in hand.

Mr. HORN. Before the Inspector General leaves, since he seems to like it here, isn't going to miss—isn't going to make——

Mr. VIADERO. It's always a pleasure to appear before you Mr. Chairman.

Mr. HORN. Just remember you're under oath with statements like that.

What do you think of the efforts the Department has taken to correct the credit reform problems? How is that? What do you think?

Mr. VIADERO. That's a good closing statement.

Mr. HORN. Are you pleased with the progress? We've heard a lot of words like progress going on around here.

Mr. VIADERO. I ask my able-bodied assistant.

Mr. YOUNG. There are a lot of things happening. I guess there are some problems that won't be taken care of this current fiscal year. One is the working on just getting the models in place to make these projections. And that's one problem we have. The other problem is just making sure they have all the information necessary to make the projections. In other words, going back to get a good history what was—has taken place so they can more accurately estimate what the subsidies are. It's a very difficult process. And I don't see it happening in this current fiscal year.

Mr. HORN. Well, so we wait till when, next spring of 2001, 2002? What's realistic.

Mr. YOUNG. I guess we're tracking it. I guess a lot of things depend on just like everywhere else on the amount of resources and the expertise—having the expertise to be able to use the models and produce the actual subsidy numbers. They're moving along. It's just a slow process. As far as when it's going to be completed, I'm hoping it will be completed next year. But I will have to wait and see.

Mr. HORN. Now, is this seen as a management job or is it seen more as a budget job?

Ms. THOMPSON. Would say it's a budget job. I've got the management in place. I don't have the resources. We certainly need additional people. They're very hard to find. When they do, we all fight over—we found one the other day and we had three agencies bidding for that person. So there is that expertise issue that Mr. Young mentioned but as a budget issue, you know, if I had $2 million tomorrow I could get that single family residential loan model in place.

Mr. HORN. Now, are the individuals you're trying to recruit are these people that have just come out of community colleges or universities or what?

Ms. THOMPSON. We're looking for people that have credit reform background. You know even out of industry there needs to be a lot of training as I mentioned. There's a big difference between financial loan accounting and a banking industry for instance than in our—in the government. But we can train them. But I have to tell you who would want to come to work in the government. I can tell you that our beginning accountants, agreed accountants we are offering them $22,000 to $24,000 a year. They're not going to get anybody out of school. So you don't have to worry about getting somebody green out of school. There isn't anybody who wants to come to work for us at that point. Then when you move up the chain and try to find somebody at that mid-level with credit reform or lending experience, when they can make twice as much in industry or at least 50 percent more makes it very tough.

Mr. HORN. Well are you working with, I know, you're very decentralized in agriculture and you have soil conservation this and that and the old days and so forth, but are—have you got a team that can go down there and analyze how you deal with this when they don't necessarily have to put the paper up do they? If there's a default. Or do you require that within agriculture.

Ms. THOMPSON. Now we do.

Mr. HORN. You do.

Ms. THOMPSON. Uh-huh. That was what Congressman Owens was talking about, are old loans when there was a time there when the legislation didn't require collateralizing. But yes we've got a Department-wide across the Department team working on this. I think Ms. Calbom wants to make an issue.

Ms. CALBOM. If I could make a comment, Mr. Chairman, I think one of the things that we've seen at the other credit agencies that have been able to successfully implement credit reform is that they've had to go out and get contractors to get this baseline of information pulled together because it is a very arduous task. And that takes some money. It's going to take you know, $2, $3 million to get that done. But that is what the other agencies have had to do in order to establish that historical base so you can make these projections.

Mr. HORN. You find them reliable, the ones that are doing this now.

Ms. CALBOM. There are some contractors that we have certainly had experience with that, understand this issue quite well and have done a good job.

Mr. HORN. What about the office of personnel management do they understand what your needs are and are trying to improve recruiting or trying to improve the amount of money that goes with a certain job?

Ms. CALBOM. I was surprised to hear Ms. Thompson's comment on that because that's a little lower I think than we bring in our starting accountants. So I don't know what your situation is.

Ms. THOMPSON. There's a 5, 10 accountant. $22,000. Grade 5, maybe grade 7.

Mr. HORN. That's grade 5 at what step.

Ms. THOMPSON. A grade 5 to 7 is the 22,000 to 24,000. And that's——

Mr. HORN. Those have usually been the GS numbers when you're getting out of college unless he had a Ph.D. or something then it was say 9 to 11 or something.

Ms. THOMPSON. Yes.

Mr. HORN. But they adjusted those salary scales at OPM.

Ms. THOMPSON. I have only been in the government 2 years, and I can't answer that.

Mr. HORN. The government isn't like banks or corporations where their CPO's work on everybody else's board and all get their salary up. It's a different animal here.

Ms. THOMPSON. No. I understand from what the people back here that have been around for awhile they have not adjusted those salaries.

Mr. HORN. Well, should they?

Ms. THOMPSON. Absolutely.

Mr. HORN. Well, I think I have great respect for the civil service. We have to make sure we're getting the next generation of people that want to serve the public. But it's going to have to mean face up to the kind of reality of life in Washington, life anywhere else in America, with rare exceptions you can't get even a decent house in most places. So maybe Agriculture will have a lot of loaning to do, just going to call it something other than a farmer I guess. But that you got to deal with your authorizing committee.

Ms. THOMPSON. Yes.

Mr. HORN. Well, thank you. Is there anything any of you would like to add that you think we've missed? Mr. Williams. We welcome any thoughts you have.

Mr. WILLIAMS. I think we have covered all the points that we at GAO have expressed an interest in. Well actually we could add a little bit about that.

A lot of these issues that we've talked about in the Forest Service over the last 5 or 6 years if you take a look at the Inspector General's report one of the issues that always seems to come up is that there's erroneous data coming from the field. So we put a lot of emphasis on the need to have the CFO's in the regional office. So that's something that we continue to encourage the agency to take a look at because they think that it's important that you have these quality staff out in the regions producing and monitoring the financial information that's coming in because you need to have accurate information. It needs to be coming in on a consistent basis because you get into problems when you've got individuals in one region producing information one way and you have individuals in another region in some cases not as concerned about the financial management issue as they should be.

That consistency and the reliability of having the CFO's out in the regions would definitely be an improvement. So that's why we really focus in to try and get a structure out there that is similar to what the Forest Service has implemented at the headquarters. Because one of the things that we noticed is that that commitment that we observed at headquarters with the new CFO, we think a structure similar to that out in the regional offices could improve the operations considerably.

Mr. HORN. That's a very helpful statement. Anybody else want to say anything on this?

Ms. GOERL. I would just like to respond to that. I think one of the key things is quality staff and quality in these positions. It's very difficult in a highly competitive arena that we are here now. In the Forest Service we are initiating a study very shortly and we have set up the work group for the support to review our field structure. Not only the cost of staffing, the level of staffing, but also the organizational and reporting responsibilities.

And my personal belief is that with the new financial system that we need a different kind of structure out there. We can probably manage more directly with the new system apply policies more consistently. But we still need some more commonality and uniformity in the manner in which we manage those functions in the field. And, I think we could probably do it with less people.

Mr. HORN. Do you find that people in the field understand that the management systems we're trying to get here and the measurements you're talking about which make a lot of sense to me that

that's to help their situation or do they look at it as something that's going to hurt their situation?

Ms. GOERL. I think initially because of the autonomous nature of the Forest Service which goes back years, there was a little bit of a threat to the likelihood that they would lose some sort of control, which can always be a concern. But, I think when we brought them in with us to reengineer the processes and see the new systems, we got a lot more support, a lot more really good ideas, and a lot more consensus around the idea that we need to do something different. We need to be much more uniform.

That experience has set us in a pretty good position to take the next step at looking at this new technology where we have a lot more options on how we can manage in the future, especially when we look down the road to getting the feeder systems changed too. Those still require enormous amounts of manual interaction by a lot of people, all through the Forest System. And every time you add that dimension, you add more errors and more opportunity for misinterpretation. So anything that we can look at that streamlines and more uniformly looks at how you interpret and enter data for a financial system is a real value. We're getting a lot of consensus around that. We need to continue to work with them and bring them along or we will have people who are suspect of what we are planning.

Mr. HORN. How about the hardware and the software? Are you trying to get it off the shelf and are there analogies that one could make with the private sector or university sector whatever it is on planning and this kind of thing.

Ms. GOERL. Oh, absolutely. I think the—that there is no reason in today's environment to not use off-the-shelf systems. And I come to this from my experience as a CFO at Customs Service and prior to that as a Controller at GSA. I would not look anywhere but off-the-shelf at this point. And the sophistication of those for government use have really grown, especially in the last 5 to 6 years. So there is no reason not to consider that.

One of the advantages I think that has helped government but more specifically Forest Service, is Y2K. We upgraded our infrastructure—hardware and telecommunication infrastructure so we can not only use that off-the-shelf software a lot easier and implement it more quickly, but we can use Web-enabled systems. These systems can be developed quickly, and allow us to make them available across the country. When you have the number of people that we have that interact with our financial system which is close to 2,000 across the country, anything that I can implement easily on the Web I want to use. I think we're positioned very well for that. But we're still relying on, even with our new financial system, very archaic legacy feeder systems that still require still a lot of people to work with them. So as much as I want to streamline and improve our infrastructure, until I get the feeder systems replace, I will have only so far I can improve. But we're confident that we're going to get there in the next couple of years.

Mr. HORN. Well that's good. So you want to add anything Mr. Young?

Mr. YOUNG. No. I think we've said or covered most everything that we had.

Mr. HORN. OK. Mr. Newby you want to add anything?

Mr. NEWBY. No.

Mr. HORN. Anybody who wants to say anything this is your chance. We're very democratic.

Ms. THOMPSON. Could I just wrap it up a little bit to say that I am really appreciative of all of the help that both GAO and the Inspector Generals have given our Department this last year. I am very encouraged with where we're going and where we're going to be. And to give you just one example of what Ms. Goerl was talking about was we're looking at a procurement system right now that's being used by the Department of Interior which again is one of those off the shelf. But we do a lot of the Bureau of Land Management and with Park Services.

We bring that procurement system in, having the information on that as well, we will be getting not only the savings that we need and upgrading those systems but also being able to get a great deal of efficiency in the field by all three of those agencies being able to share the same system. At the same time, I am working very hard to get us a Federal payroll system where all the Federal Government is using the same payroll system. Because we desperately need a new payroll system. I have talked with VA and the DOI which are the two biggest payroll servicers along with us so I think there's a lot of partnership going on out there which the Federal Government and the taxpayer is going to benefit significantly and hopefully we can all get that economies of scale as well and move along faster.

Mr. HORN. That would be primarily at your New Orleans facility.

Ms. THOMPSON. It would be the same payroll system used by the VA and DOI and New Orleans so that means that every time a Federal employee changes agencies they wouldn't have to start all over with paperwork almost as a new employee. There's plenty of business out there for all of us. There is no need for all of us to be competing on systems development. Let's compete on service delivery and let's all use the same system.

Mr. HORN. I guess I can say amen to that. Or "a-woman" as the case may be. So thank you all for coming. I want to thank the staff that prepared this hearing which I found it very interesting, the—there he is in the door, J. Russell George, staff director and chief counsel for the Subcommittee on Government Management, and to my left and your right the detailee from the General Accounting Office professional staff member on the committee for Louise DiBenedetto. And we thank her for all the work she's put in. Bonnie Heald, director of communications. I don't see her here. But I know she's listening to this. It's going on House channel 21. Bryan

Sisk, clerk, Ryan McKee, the staff assistant. For the minority staff, Trey Henderson, counsel, and Jean Gosa, minority clerk and our faithful court reporter is Julie Thomas. We thank you. So with that, we're adjourned.

[Whereupon, at 3:56 p.m., the subcommittee was adjourned.]

○