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FINANCIAL MANAGEMENT ACCOUNTABILITY AT USDA

HEARING

BEFORE THE

SUBCOMMITTEE ON RESEARCH, NUTRITION AND GENERAL LEGISLATION, OF THE COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY UNITED STATES SENATE

ONE HUNDRED SIXTH CONGRESS

SECOND SESSION

ON

FINANCIAL MANAGEMENT ACCOUNTABILITY AT USDA

SEPTEMBER 27, 2000

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WEDNESDAY, SEPTEMBER 27, 2000

U.S. SENATE,
SUBCOMMITTEE ON RESEARCH, NUTRITION AND GENERAL LEGISLATION, OF THE COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Washington, DC.

The Subcommittee met, pursuant to notice, at 9:30 a.m., in room SR–328A, Russell Senate Office Building, Hon. Peter G. Fitzgerald, (Chairman of the Subcommittee), presiding.

Present or submitting a statement: Senator Fitzgerald.

OPENING STATEMENT OF HON. PETER G. FITZGERALD, A U.S. SENATOR FROM ILLINOIS, CHAIRMAN, SUBCOMMITTEE ON RESEARCH, NUTRITION AND GENERAL LEGISLATION, OF THE COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY

The CHAIRMAN. Good morning. I am going to open this hearing of the Subcommittee on Research, Nutrition and Forestry on the issue of Financial Management Accountability at the U.S. Department of Agriculture.

The General Accounting Office recently released a study asserting that our Federal agencies squandered $20.7 billion last year due to poor financial management. Studies by the USDA Office of Inspector General and the General Accounting Office have found that our U.S. Department of Agriculture is no exception.

Since 1991, USDA has 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 (GAO)."

According to the Inspector General, the USDA's books are such a mess that at the beginning of this fiscal year its fund balance differed with the Treasury Department by $5 billion. Every American family must balance their checkbooks and try to make ends meet, yet this agency manages to lose track of $5 billion.

Although subsequent efforts have reduced this difference, it still stands at more than $230 million. The books and records of USDA have been so poorly maintained for almost 10-years that the Agency has not been able to account for its $118 billion in assets, does not know how much money it needs to collect or how much it currently collects, and it doesn't know the costs of its operations.

While our farmers struggle during these lean times of record low commodity prices, bureaucrats in Washington can't seem to keep track of billions of dollars of taxpayers' money. This disgraceful lack of accountability is especially troubling because the USDA was warned to address some of these problems as long as a decade ago.

The lax fiscal management of the Agency has led to some disturbing findings. According to the most recent IG report, funds intended for soil conservation programs have been shifted and used for items "such as wall murals, transportation, and bringing civil lawsuits against owners of derelict properties."I can't possibly conceive how painting abstract wall murals helps address America's soil erosion problems.

The implications of the problems at the USDA reach beyond the agriculture sector of the economy. Many of the troubles have occurred in the USDA's nutrition programs. In a series of audits, the IG found that funds intended for feeding children at day care facilities under the Child and Adult Care Food Program were sent to addresses that turned out to be empty lots. The responsibilities of this agency are far too important for us to tolerate financial mismanagement of this magnitude.

Other recordkeeping entries indicate the Department cannot substantiate whether its personal property records are accurate. According to the Inspector General, the USDA has a vehicle valued at $97 million. That is one heck of a vehicle. I guess they must have ordered all the options.

The problem is that the USDA acts as if it is not accountable. The chronic financial errors and overpayments revealed in the OIG and GAO reports demonstrate how taxpayers lose when financial agencies are not held accountable.

Any corporation that squandered money this way or couldn't account for its assets and liabilities in a proper manner would have to answer to its shareholders. The American people deserve a government that is accountable to them. After all, it is taxpayers' money these agencies are spending.

I am very troubled by the findings contained in the reports and audits by GAO and the IG. Today's hearing addresses these problems, and I look forward to guidance from the panelists on ways to rectify these problems so that we don't have to do hearings like this in the future.

And with that I would like to ask myself for unanimous consent to submit a longer introductory statement, and I will spare you the full load here at this hearing.

[The prepared statement of Chairman Fitzgerald can be found in the appendix on page 38.]

I want to welcome our panelists and thank them all for coming.

We have Sally Thompson, who is the Chief Financial Officer of the U.S. Department of Agriculture; Roger Viadero, the Inspector General from the USDA; Linda Calbom, who is the Director of Financial Management and Assurance at the U.S. General Accounting Office; and also Mr. Ebbitt. Your first name was?

Mr. EBBITT. James.

The CHAIRMAN. James Ebbitt. You are Mr. Viadero's assistant in the Inspector General's office at USDA.

Thank you all for coming here. I am going to ask Mr. Viadero, the Inspector General, to present his views first, and then, Ms. Thompson, we will proceed to you. I am sure you will want to do a little bit of a rebuttal. And Ms. Calbom, you will also have the opportunity. I will go to you after Ms. Thompson.

And, Sally, we are also going to want to ask you why you wanted to take this position, coming in as you did just 2-years ago, after so many years of lax fiscal management at the USDA. But Roger Viadero, if you could please begin your testimony, and if you could all be kind enough to summarize your thoughts. You have all introduced statements for the record. We will adopt those as part of the record of this hearing, but it would be better if you could just kind of speak free flow, off the top of your head, and summarize your findings and conclusions. Thank you.

Mr. Viadero.

STATEMENT OF ROGER C. VIADERO, INSPECTOR GENERAL, U.S. DEPARTMENT OF AGRICULTURE, ACCOMPANIED BY JAMES EBBITT, ASSISTANT INSPECTOR GENERAL FOR AUDIT

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

Financial information in the USDA is, on the whole, not reliable. We have issued disclaimers of opinions for the last 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 any other 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 do not know, and in the absence of this essential information, their capability to perform their jobs is significantly impaired.

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

The Department's financial management systems 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 Center's Central Accounting System [CAS]. The problems with CAS have been well chronicled. It is poorly documented, provides only summary and not detailed data, and does not meet government wide accounting requirements.

Only one clear course of action is apparent to enable the Department to emerge from the murky pool of bad data: eliminate CAS. The Department is therefore developing a new system called the Foundation Financial Information System [FFIS]. Implementation of the new system has been slow, however, and stymied due to various programming and design problems.

Credit reform. Another longstanding, highly complex and very material encumbrance to the Department's efforts to secure a clean opinion has been the implementation of credit reform legislation. USDA has several highly unique loan programs, subject to credit reform, that total in excess of $70 billion.

The original loan accounting system was not equipped to provide the extensive detail necessary to fulfill credit reform requirements.

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 analyses are on hand, however, to support these critical assumptions. The breadth and complexity of this issue is extraordinary, though the Department, GAO, and OIG are working tandem to attempt to resolve it.

Real property. Another major problem confronting the Department is the Forest Service's accounting for real property. The Forest Service has 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 these pooled assets, which is estimated to be $1.5 billion.

A significant problem also persists in the valuation of the individual real property assets. Our audit tests statistically projected that these assets have been overstated by about $135 million and understated by almost $80 million, or, if you would, a net difference of about $215 million.

Government Performance and Results Act. The next area I would like to discuss deals with the Government Performance and Results Act [GPRA]. As you know, GPRA seeks to improve the effectiveness, efficiency, and accountability of Federal programs by requiring Federal agencies to set performance goals and to report annual performance compared to these goals.

Our audit of the Forest Service's fiscal year 1999 Annual Performance Report found, however, it was based on flawed data and assumptions, to the extent that it did not report reliable information about actual performance or the Agency's progress in meeting its goals and objectives. At each of the four national forests we visited, we found instances where reported performance data contained material—material—errors and omissions.

A few examples: Under the goal "Ensure Sustainable Ecosystems" we found that one ranger district had reported two miles of stream enhancement. When we asked to view the stream, the Forest Service staff acknowledged that two miles of road had been repaired but reported as a stream. No stream.

At one forest we found that the same portion of a road was annually reported as decommissioned. The forest would erect a barrier to preclude its use. Passers-by would remove the barrier, and the Agency personnel would re-erect it.

We conducted a review last year of the Department's final action process, the legislative requirement that agreed-upon audit recommendations be implemented within 1-year. Our review disclosed that USDA agencies had not exhibited the commitment necessary to promptly and effectively institute corrective actions that arise from audits. The Secretary's Management Report to Congress was replete with examples of recalcitrance in terms of the Agency's unwillingness to revise their processes as they had agreed to after the issued audits were resolved.

The failure to implement audit recommendations in a timely manner permitted the continuation of ineffective and inefficient government operations. At the time of our review, the Secretary's Management Report for the six-month period ending September 30, 1998 included 187 audits without final action within 1-year of management decision, with in excess of $989 million in funds to be put to better use, as identified by my reports. Since the conditions identified in these audits had perpetuated in excess of 1-year to over 10-years, the monetary impact of these findings has compounded significantly.

A major reason that final action had not been achieved was that agencies had not published regulations, instructions, et cetera, to formally modify their operations in response to the audit within the one-year time frame legislatively mandated. Although this process is involved, requires various in-house and intradepartmental clearances, and can be the subject of political considerations, all sense of immediacy in the face of critical disclosures has been lost. Rather, corrective actions became ensnared in a bureaucratic web from which it has taken years to be extricated.

I will provide you with just one example of many we noted. We issued a report on the Forest Service's Timber Sale Cruising Controls in 1993. Cruising represented a critical agency function to estimate the volume of wood available for sale and was to replace, pursuant to a recommendation from the House Appropriations Committee, the prevailing method of scaling, which had been found to be highly vulnerable to timber theft.

Our review of the cruising process, as it was being implemented, disclosed significant control weaknesses which had to be remedied immediately, as cruising was to be adopted as the preferred volume estimation method. According to the Secretary's March 30, 2000 report, 5-years after the report was released, only 3 of the 15 recommendations had been acted upon. The reason given for the delay is "Issuance of the Forest Service Cruising Handbook is delayed due to the administrative process involved in its publication."

Subsequent to the issuance of this report, we instigated aggressive actions to get these reports closed. We worked closely with the Department and the agencies through correspondence and numerous face-to-face meetings, and are pleased to report 59 audits were closed in the most recent reporting period. The number that still remains open is unacceptably high, however, at 166.

Overall, improvements have been made and that is primarily due to the efforts put forth by my comrade here, Ms. Sally Thompson, the Chief Financial Officer, who arrived at this Department about two and a half years ago. She has really done a remarkable job of working with the Inspector General and the Inspector General's office. It took a great deal of time, it took a great of energy, it took a great deal of attention-getting to get over the initial inertia, to get this ball rolling. I think collectively both offices, combined, have gotten over that inertia, and we are seeing marked improvements in the Department so far as financial management goes. I still don't know what is going on in some of the programs regarding financial management, but on Sally's part—excuse me, on Ms. Thompson's part—in getting through the National Finance Center and instituting this new FFIS, we see marked improvements.

That concludes my statement, Mr. Chairman. I will be happy to answer any questions you may have.

[The prepared statement of Mr. Viadero can be found in the appendix on page 51.]

The CHAIRMAN. We will wait until the end, until everybody has testified, and then we will start questions.

Ms. Thompson, if you could, preface your remarks by telling us your background before you came to the USDA and your experience before you assumed this position.

STATEMENT OF SALLY THOMPSON, CHIEF FINANCIAL OFFICER, U.S. DEPARTMENT OF AGRICULTURE

Ms. THOMPSON. I have been a math teacher, but more importantly, I was CPA for over 8-years, and then I went into banking. I have been a bank president, and I have been elected State Treasurer for Kansas for 8-years before I took the CFO position here at the Department of Agriculture.

The CHAIRMAN. You have substantial experience.

Ms. THOMPSON. I do. I do, and as you can see, I have half my career or more in the private sector, and your comments were absolutely right in terms of stockholder accountability. On the other hand, I feel that our stockholders are taxpayers, as well the people up here on the Hill, as well as OMB, as well as Treasury. I have many, many bosses. But I do bring background to it.

You asked me why I would want to do this. Because I enjoy taking on challenges, and I pride myself in trying to help clean up the mess, and this isn't the first time I have come in and been, you know, faced with many, many challenges.

I have to say, though, that the support that I have received from Secretary Glickman and Deputy Secretary Rominger has been absolutely incredible. Anything that they could do to help me, they have done so. You may know the history of the Department of Agriculture. It has been very, very decentralized. I, too, would like to express my appreciation for both Roger Viadero and for Linda Calbom and her staff at GAO. They have given me, also, a tremendous amount of support.

I sometimes describe Government, Federal Government, like the Titanic, in that it doesn't make sharp turns, but I am here to say that I am pleased that, unlike the Titanic, we are not sinking. We are making progress. There is much left to do. But what I would like to do is just to cover a few of the progress that we have made in the last couple of years, to say we have overcome this inertia and we do have the ball rolling.

I would like to talk a little bit about the financial statements to begin with, and what it will take to get to a clean opinion. Now, the clean opinion is not in itself, while it is valuable, it is what it represents.

And I try to explain financial management to our Department which, as you know, is largely consumed with delivering programs to our clients out there, throughout the whole world, in fact, and they are concerned about hunger, and they are concerned about production and drought and floods and rural development and that sort of thing, and soil conservation, as you mentioned. And I explain financial management as like a picture frame that tells the world what USDA is all about, and when we get a clean opinion on our financial statements, that says to the world that we have timely, reliable, and creditable information, no matter whether it is in the financial statements or it is in a hearing or wherever numbers are being discussed out there for USDA.

I would like to first talk a little bit about credit reform, that we have worked—we put together an executive task force made up of key people in our department, from particularly Rural Development and the Farm Service Agency and the Commodity Credit Corporation, which have in total over $104 billion of loans, which represents about 40-percent of the Government's non-tax loans. We had old, antiquated systems. When credit reform came in, in 1996, while we could tell you every individual loan history, they were not capable of rolling up and giving you summary information and giving you historical.

So we have a great number of different types of loan programs, and so with GAO's help and with the IG's, we put together a very detailed plan which we are following to try to resolve all these issues. GAO has helped us look at the market to see if there were loan packages out there that we could just implement.

One of the most important ones is single family housing, and that one we are going to need to develop from scratch. We were able this year to hire an accounting firm to come in and look at our data, to make sure that our data had integrity, because a new system is only as good as the data that you put in it. The accounting firm has come back and said yes, we do have good historical data, certainly back to 1992. We may need to do some estimating and approximate information prior to that.

So we are moving along on that. We did free up some funds just this last month to be able to start to design that model. We have been able in the same time, though, to—we have about 6-percent delinquent loans, though. There is the other side of this. While the Government as a whole is 23-percent. So we have a very good track record, but that is still not——

The CHAIRMAN. How do you define "delinquent," if I can interrupt? Is it 30, 60, 90-days?

Ms. THOMPSON. Yes, and there are all different categories of that.

The CHAIRMAN. When does it become delinquent?

Ms. THOMPSON. About 60-days. When they have missed, you know, that 30-day payment, and then the next payment is due.

The CHAIRMAN. Is that a consistent, uniform, 60-days late is a delinquency throughout the Government?

Ms. THOMPSON. Yes. Yes, these are.

The CHAIRMAN. So your 6-percent delinquency rate compares favorably. It is like 23-percent average delinquency for the other government loan programs.

Ms. THOMPSON. Right. There is a very specific schedule called a Schedule 9 that is reported to OMB and to Treasury on how you calculate all of that, and so it is very comparative on that.

We have brought that down, you know, in terms of total dollars. It was about $7.1 billion and it is down to $5.1 billion now, in just the last couple of years.

The CHAIRMAN. How much of it was just written off?

Ms. THOMPSON. That does not count what was written off, on that. Now, to talk about what we have turned over to Treasury——

The CHAIRMAN. Well, did you bring down your delinquencies by just writing off?

Ms. THOMPSON. No. That is what I am saying. These are real dollars that we have brought down.

The CHAIRMAN. OK.

Ms. THOMPSON. Also, there is a program out there for turning over to Treasury for collection after 180-days, and we have made significant progress there. In 1997 we turned over about $71 billion. This last year we turned over $136 billion, and year-to-date, well, through June we have turned over about $118 billion, so we probably will at least equal if not exceed what we did last year.

So that, you know, if you look that up for the last 3-years, that is almost, that is over a 90-percent increase. There is still more to do. You know, I am not going to say for a minute that we don't have a lot more work to do, but I am just trying to give you a picture that we really are working on it, and I am mostly just giving you what has happened in the last couple of years.

The CHAIRMAN. When do you proceed for collection? I am sorry. I am interjecting with some questions now that I don't want to forget and have to come back to later.

Ms. THOMPSON. That is fine.

The CHAIRMAN. Sixty-days is a delinquency. At what point do you refer a loan for collection?

Ms. THOMPSON. At 180-days.

The CHAIRMAN. A hundred and eighty-days?

Ms. THOMPSON. Now, sometimes that—I put that with caveats, because when you are dealing with housing loans, you have got—you know, the borrower has certain legal rights and terms you have to go through, steps that go all the way to foreclosure.

The CHAIRMAN. But you don't begin the process of foreclosing until 180-days, so somebody could be 6-months behind before you start?

Ms. THOMPSON. Well, we certainly have begun the process of trying to collect and doing whatever legally we can make the steps to. But, as I said, you can't start to foreclose. There are standards out there, you know, in the mortgage loan industry, and we are guided by those kinds of statutes as well. It isn't that we don't get on the phone just as soon—within 15-days, you know.

The CHAIRMAN. Within 15-days you will be on the phone——

Ms. THOMPSON. That is right.

The CHAIRMAN.—asking for their payment.

Ms. THOMPSON. That is right, trying to find out what is wrong.

The CHAIRMAN. OK. At what point do you file a lawsuit to collect the loan?

Ms. THOMPSON. It will vary from loan program to loan program and loan type. I hate to be—I am not trying to—I can get you the various—you know, we have got utility loans and telecommunication loans and co-op loans and farm loans of different kinds, and housing loans, so each one of those has different kinds of statutes connected to it. And I would be glad to get you a summary of all that.

But I am simply saying we are very aggressive. We have, over the last few years, consolidated all of the loans into a loan servicing center in St. Louis, which has made a considerable improvement in the process. We have hired people out of the private sector, like a person who headed a Citibank is in there, that is bringing into there the private sector.

Now, you have got to also, and I remind you that we are there because the private sector wouldn't make loans to these people, but Congress has decided that we want to reach out a helping hand. So our clientele to begin with is much different than, coming out of the banking industry, I can tell you that——

The CHAIRMAN. I come out of the banking industry, too.

Ms. THOMPSON. OK, so you understand what I am talking about, you know. But we have made significant progress, and I suspect that Ms. Calbom will touch on that, too, not that we don't have a ways to go, as everybody will say.

If I can kind of move on, I would like to talk a little bit about the new accounting system that Mr. Viadero mentioned. When I came in, it was a project that was in a great deal of trouble. With OMB's help and the Secretary's help, and OPM, we were able to bring in an experienced project team that has turned this around, and as of this weekend we will have over 80-percent of the department up on the new accounting system, which will go a long ways toward solving the accountability issues that you were mentioning and our Inspector General's office was mentioning. It has been a major project for all of us, and we will finish up that within the next year, and we will shut down this old CAS system that the IG mentioned.

He also mentioned reconciliation of Treasury balances, and this is a major, major issue throughout the whole Federal Government, but I am pleased to say that we have provided the Inspector General with all the documentation to have our checkbook balanced, but probably for this fiscal year that is closing as of Friday or Saturday, the 30th—but more importantly, we have a process in place that will keep it reconciled on an ongoing basis.

We have worked with Treasury very closely. Treasury still has a lot more to go, and they are in the process of revising and redeveloping their system. You know, it is a two-way street, when you get your bank statement and you have got your checkbook. Well, our bank statement is obviously coming from Treasury. They all the time will go in and debit our account. The documentation doesn't arrive for 60- to 100-days later, you know, to try to balance our checkbook. They are working on that, too, very significantly.

We have built several automated tools, because the volume at USDA is just incredible. It is more than having 100 checkbooks that you have to balance at the end of the month, you know, and there are millions of transactions. And I have to tell you, with the forest fires that we have had, the transaction volume both on the new accounting system, because the Forest Service came up last October on the new accounting system, just getting all of that run through the accounting system has just been incredible, and the same will be true with trying to keep our checkbook balanced.

But I feel comfortable that we have a team in place that is dedicated towards that, that are very knowledgeable. We have had Price Water house Coopers in. We have had over 100 people for a year working on this project, and we are there, and we are going to keep it there going forward.

Mr. Viadero mentioned the plant, property, and equipment in the Forest Service. I am pleased to say that we agreed this year on a methodology for valuing roads. Roads had never been valued, and so we are going back 100-years to try to accumulate what the costs were to first prepare the ground to put the road in and then to surface it and then to look at the condition it is currently in.

We agreed on a methodology. The engineers have spent a tremendous amount of time this year. I have been in two regional forest offices this last couple of weeks which Mr. Viadero's staff was in, looking at the methodology, looking at the engineering reports, recalculating all of our calculations. Some of those, as you imagine, are document calculations that are this thick. In one, after completely recalculating, they found a $6 difference in hundreds of millions of dollars worth of calculations.

I think we are there. They still have other regional offices to visit and other road documentation to look at in these other regions, but I know that two regions have passed the audit test on that. Now, we have got another 10 to go, and we will see that it is there, but I feel comfortable that we are at least on the right track. Again, it was working in a partnership to come up with a methodology for something that had never been done before.

We are doing the same for all of the real property, you know, the bulldozers and all of the other equipment we use out there in the forests, as well as all the personal properties, buildings that were built in 1920, you know, that had never been valued before. It is a big job, but once it is done, and more importantly, we will have processes in place to try to keep it forward, to keep it current and accurate.

Yes, we have more audit issues to go. I wouldn't be sitting here, I wouldn't have a job if we didn't. But we are working on it, and I think that the Inspector General let you know how much progress we have made. Some of them require systems development and some of them require regulations, and we are pushing those regulations as a top priority of the Secretary right now.

About half of the regulations are sitting at OMB, and they have also promised us they will get those out, and we are pushing very hard to have those regulations issued, about 24, 30 of them, within the next 2-months. A lot of it, you know, the public hearings you have to have, the constituent groups you have to work with, you know, because there is a lot of different views out there on how we deal with things.

I guess I would just like to close and say, to bring your attention to an issue that we have been struggling with and what I have definitely struggled with for two and a half years, and that is having adequate staff and adequate dollars to invest in systems. And I am not talking about me personally, I am talking about the whole department.

If you look as an average, program dollars have increased about 50, over 50-percent in the last 3-years, and every one of those dollars were needed, whether it was for emergency funds for our farmers or whether it was for rural America, to deliver to people that were really in need. On the other hand, the staff dollars to deliver those, because those staff dollars are not included in program dollars, has been cut 30-percent as an average. So if you can view 50-percent up and 30-percent down.

Now, we have done a lot of that in the private sector, as you know, but what we have given our people in the private sector is the tools to do more with less, and we have not done that in the Federal Government. Very fortunate for us, right now, with a lot of luck, there is a provision added to our budget that would allow us to use unobligated balances to do this long-neglected, deferred maintenance of our systems. We have got 1970s and 1980s COBOL programming in these systems.

We put together a committee this last year, made up of the senior management of the department, to put together a corporate strategy to also feed into our accounting system, because what feeds into our accounting system is just as important, whether it is in the area of property, in the area of travel, in the area of human resources, or in budget formulation. And if the Senate agrees to add that language to our budget bill, and the last I heard, there was a good possibility, we would have the funds that we need to put into the systems to bring us probably not into the 21st century, but I would be happy just bringing us into the 20th century right now.

The CHAIRMAN. How much are you seeking?

Ms. THOMPSON. About $100 million.

The CHAIRMAN. OK.

Ms. THOMPSON. That would, of course, be spent over a 5-year period of time, because it would take us—you can't just flip the switch, you know, and get new systems in all of the eight areas; telecommunications, be able to—you know, we need the right equipment out there to be able to deliver to the field. Also, as you know, security is a big issue right now, and so that also includes the security we would need to be delivering that information.

The CHAIRMAN. You recognize you are asking for $100 million at a time when your Inspector General is saying we have a difference of $230 million in your checking book with the Treasury's statement.

Ms. THOMPSON. Well, I am telling you that——

The CHAIRMAN. And he is also saying that he lacks confidence in your books, to the extent that he can't give an opinion one way or the other in whether they fairly reflect your assets, liabilities, revenues, and the like, so——

Ms. THOMPSON. Yes, Mr. Chairman, I would agree with that, but I think that Mr. Viadero would also agree with you that a large part of that inability is due to these antiquated feeder systems that we have, that don't reconcile, that don't track information. And a lot of that is not cash that has been misplaced, it is a matter of not being able to account for it in the right accounts, and that is where you are out of balance.

[The prepared statement of Ms. Thompson can be found in the appendix on page 42.]

The CHAIRMAN. We will get to that in a little bit on the questioning, Ms. Thompson. I want to thank you for your testimony.

We will let Ms. Calbom speak for a few moments, and then we will go to the questions. And, if you could, just bring up anything that you would want to add to what Mr. Viadero or Ms. Thompson has said, so as to not go over old ground.

STATEMENT OF LINDA CALBOM, DIRECTOR, FINANCIAL MANAGEMENT AND ASSURANCE, U.S. GENERAL ACCOUNTING OFFICE

Ms. CALBOM. Thank you, Mr. Chairman. I just wanted to add a couple of comments in a few of the areas that have already been covered.

Probably to me the most important area is estimating the costs of the loan programs. It is an area where I think a lot less progress has been made compared to the other problem areas. That is not for a lack of trying on Ms. Thompson's part. I think it does get down to a resource area and, frankly, a commitment of senior management to take on this issue.

The whole idea of estimating the costs of these credit programs is somewhat complex. I know your banking background, so I know you probably understand that basically what they have to do is estimate the present value of the cash coming in and cash going out, over the life of the loans. And when you have so many different loan programs, it does become quite complex, and you have to measure it by each year and that kind of thing, so it is very complex.

The CHAIRMAN. Are they on accrual accounting for their loans, or cash accounting?

Ms. CALBOM. Well, actually, it is what you might call super accrual. They have to—and this is different than the private sector—they have to estimate the entire cost of the loan at the time they make the loan. You know, in the private sector you kind of wait until things go bad.

But in this case you have got to use historical data and try to estimate, right up front, what do I think my cash flows are going to be? What do I think my defaults are going to be? When are they going to be? When am I going to have delinquent interest payments? You know, that kind of thing. All of this goes into the calculation. It is very complex.

But the law was passed in 1990. The accounting standards, which essentially mirror the law, were passed in 1994. So the agencies had a long time to try to deal with this problem, and they really just now, in the last couple of years, have been focusing attention on it.

You know, in the private sector, if a new accounting rule or a new law was coming out, no matter how complex, I mean, any major bank—which USDA, $70 billion in loans—any major bank would have been right on top of it. Whatever systems were needed, whatever policies and procedures were needed, they would have had them in place by the time that rule was effective.

So this issue is probably the number one issue that we have concern over. It is one of the issues that actually causes us, GAO, to disclaim an opinion on the consolidated statements of the Federal Government. So it is something we think is very critical. USDA, it is complex, but other agencies, now maybe they are not as big, but they have been able to implement the systems that are needed to be able to make these calculations. So we think this is a big issue that needs a lot of attention going forward.

The next issue that both Ms. Thompson and Mr. Viadero have touched on a bit is the fund balance with Treasury accounts. I do agree there has been good progress made. It is essential that this gets cleaned up. You know, this account, it is like their checking account. I mean, all their receipts and disbursements go through it.

The CHAIRMAN. When was the first time the $5 billion difference was cited? How many years ago was that?

Ms. CALBOM. Well, I know that was last year's number, and I know it has been at least, what, some of these differences go back about 10-years, don't they?

The VIADERO. Yes, some go back about 10-years.

Ms. CALBOM. Yes. So, again, another issue that has only just recently received focused attention.

This issue, you know, basically says if you can't balance your checkbook, you don't know if you are allocating your expenses to the right accounts and the right areas. And it all comes into performance measurement because, you know, the financial statements are just one piece of the end game.

The end game is being able to tell the taxpayer what do they get for their money. And if you can't say what accounts, your expenses relate to, and what programs, you cannot tell the taxpayer, how much did it cost me to get this service, this output. And so it is a very critical account to make sure we have in balance because otherwise, everything is suspect.

The last thing I just wanted to touch on, again, was the Forest Service. We have issued a number of reports over the years—I think December 1996 was the first one we did on Forest Service—because of just the pervasive nature of the problems they have had there. And in fact in January of 1999 we put Forest Service financial management on our high risk list.

Now, again, there have been improvements made, the biggest one probably being that the new system, this FFIS system, has been put in place, and that will help with a lot of the other basic, accounting problems, with accounts receivable, accounts payable, and that kind of thing. But, and I think this was mentioned, the real problem is the feeder systems. So you can have a great accounting system, but if the feeder systems that put the data in aren't any good, you know, you are still going to get bad accounting data coming out.

So that is a real major issue. Again, it is dollars we are talking about, but again, it is over the long term having the commitment to fix these things.

The other thing with the Forest Service is they still don't quite have a handle on all their assets out in the field. I know they are trying to do this, and they have come a long way, but frankly we think the autonomous nature of the Forest Service really hinders this.

And one thing that we have suggested is that each of the regions have a chief financial officer installed, which I know is being considered, but we think that is something very important. If you had a chief financial officer that had direct reporting responsibility to headquarters, we think that would go a long ways towards overcoming this whole autonomous nature of the Forest Service.

That pretty much summarizes the points that I wanted to make. These issues are very deep seated, and particularly going forward, even into the next administration, it is going to be just essential that focused attention be maintained on these issues to ensure that they get corrected.

So that is all I had. Thank you, Mr. Chairman.

[The prepared statement of Ms. Calbom can be found in the appendix on page 68.]

The CHAIRMAN. Well, thank you very much.

I wondered, Mr. Viadero, if you have your pictures. We have a picture available of the vacant lot.

Mr. VIADERO. This is our substitute for Vanna White. This is the best the Office of Inspector General could come up with.

The CHAIRMAN. Mr. Viadero, if you could explain what you came up with here, it is my understanding that checks were being sent to that address.

Mr. VIADERO. No, no checks were being sent to that address. That was listed, though, as a home, a day care home, and typically a center home has up to 5 children at it for feeding.

We rode by there—and this started as one of our presidential initiatives. The program was funding for $1.7 billion, and when we started the program, Mr. Chairman, we questioned $1.7 billion or 100-percent of the program.

We went out to several States, did several reviews, but we developed, more importantly, a fraud audit program on this. So this was not a compliance audit. We picked out the worst offenders based upon the fraud audit profile that we developed. This one came out in Ohio, and we rode by there, and that vacant lot was listed as a home. Absolutely incredible. Absolutely incredible.

Now, the problem with this particular operation or CACFP, if you will, is not so much the providers of the service, the mom sitting at home with, you know, anywhere from 2 to 12 children at home, or the——

The CHAIRMAN. What was the name of this program?

Mr. VIADERO. The Child and Adult Care Food Program [CACFP].

The CHAIRMAN. Child and Adult Care?

Mr. VIADERO. Right. Food Program. CACFP.

The CHAIRMAN. OK, and the program was supposed to own centers?

Mr. VIADERO. No, no, the program didn't. We funded, the Department, through the Food and Nutrition Service——

The CHAIRMAN. Right.

Mr. VIADERO.—reimbursed the States. Here is where the problem starts.

The CHAIRMAN. OK.

Mr. VIADERO. The Department of Agriculture funds these programs through the State. The State is the conduit. Here is, the next statement lays the problem out. There are sponsors. There are sponsors that are reimbursed through the State. The sponsors then go out and sign up centers and homes, and they reimburse the homes and centers for the meals served. Okay?

The CHAIRMAN. OK.

Mr. VIADERO. They receive $42 a month administrative fee for every home that they have. Okay? For a center, they get up to 30-percent administrative reimbursement in some states, 30-percent. Now, most of these homes and centers provide at least one, most two meals and a snack, so roughly about $6 a day is allotted from USDA to these centers and homes per child.

In this case, 5 children at $6 is $30 a day. Times that by 30 days. That is what the people—and by the way, these people were convicted, okay?—that is what these people were receiving in just reimbursement for that vacant lot, plus $42 for administrative costs. That is horrible.

The CHAIRMAN. Services that they weren't providing anywhere else, it wasn't just a mistake as to the location of where their center was. They didn't have a center.

Mr. VIADERO. No, it was simply just fraud.

The CHAIRMAN. Just pure fraud. You gave the money to the State of Ohio, and the State of Ohio was reimbursing it to these so-called providers?

Mr. VIADERO. Right.

The CHAIRMAN. Who were committing the fraud. How much were those specific providers paid? Do you know?

Mr. VIADERO. I can get that for you, Mr. Chairman. We might have it right here. In this particular operation, this operation received more than $1.1 billion. I am sorry. I am talking in B's in agriculture. It is $1.1 million.

The CHAIRMAN. OK. Was that provider providing services anywhere?

Mr. VIADERO. No.

The CHAIRMAN. It didn't exist at all?

Mr. VIADERO. Well, it existed, but we had some, this is what we have been proven to be fraud, $1.1 million. They were convicted on that figure.

The CHAIRMAN. Now, does the Department now have policies in place to prevent a repeat of this kind of fraud? How long was this fraud going on before you found it?

Mr. VIADERO. Well, this one was going on, this operation was in business about 10-years. However, we just completed one up in Detroit——

The CHAIRMAN. So were they taking checks for 10-years for services they weren't providing?

Mr. VIADERO. Yes, Sir. See——

The CHAIRMAN. Ten-years, and nobody checked it.

Mr. VIADERO. Let me give you a good quote here, and I am going to—I quote General Eisenhower before he became President, that the unaudited, the uninspected, deteriorates, and that is what happened here. It is a program responsibility. Is the program working? Are there controls in place, and are they working? That is substantively a compliance review. Nobody from Food and Nutrition Service went out and checked it, very simply.

We just finished one in Detroit. $27 million was defrauded from the people of the United States. We convicted them on $27 million worth of Child and Adult Care Food Program fraud. Now, as a result of that and the notoriety they got, the husband of the wife were arrested and he has been indicted for the murder of his former wife.

The CHAIRMAN. And that was recently in Detroit?

Mr. VIADERO. Yes, Sir.

The CHAIRMAN. Was that a program going through the State of Michigan?

Mr. VIADERO. Yes, Sir. There is only one State that does not operate this way, and that is the State or Commonwealth of Virginia. USDA operates the program directly. The sponsors are the incipient level or incipient point of entry into the greed, into the fraud.

We have organizations that operate centers, such as the YMCA, the Salvation Army, and they have come forward to us and said, "We haven't received our reimbursement." So the sponsor has, in many cases, either totally absconded with the reimbursement for food, because the centers get reimbursed for food, or they have lagged for two or 3-months. Now, that is the time value of money, so they are using this, the reimbursement, as a float, if you will.

The CHAIRMAN. Now, was USDA doing no checking on that program at all, that Child and Adult Care Program?

Mr. VIADERO. Well, it is interesting that the USDA gave out a total of $88 million over 5-years to the States to audit the program. In other words, USDA——

The CHAIRMAN. They gave money. So was this a State of Ohio problem or a USDA problem? Whose fault is this?

Mr. VIADERO. Both.

The CHAIRMAN. Both.

Mr. VIADERO. Both parties are jointly and severally liable in this case. Let me give you an example.

The Department of Agriculture gave out about $88 million over 5-years to the States to audit this. Okay? Because the Food and Nutrition Service said they couldn't do audits. They reimbursed the States.

We do have some honest States out there. Some States returned about $24 million over the 5-year period and said they audited the program through other various and sundry programs. The States returned to the Department of Agriculture $24 million.

We found in several States where there was little activity, but States used the money.

The CHAIRMAN. Hold on. Do we have policies in place now to prevent this kind of fraud in the future?

Mr. VIADERO. We had policies in place before. The problem is, nobody went out and looked at it. It is simple. Controls in place, yes or no. Audit working, yes or no. In this case we had controls but they weren't working, by any measure.

The CHAIRMAN. Well, is the problem with this program that you have the State and the Federal Government in charge, and one may think the other is auditing it or checking on it, but in fact nobody is, and it is a lack of accountability?

Mr. VIADERO. Well, I think it is a little——

The CHAIRMAN. I mean, Ohio is probably pointing the finger at the USDA, and USDA is pointing the finger at Ohio.

Mr. VIADERO. I think it is a little difficult—and this is just one picture, I mean, I am not picking on the State of Ohio by any means——

The CHAIRMAN. We will ask Senator Voinovich about this. He was probably Governor when that happened.
Mr. VIADERO. Use her name.
[Laughter.]
The issue, though, Mr. Chairman, is that the State, regardless of where it is, the State received the money from USDA and they signed an agreement to audit this program.
The CHAIRMAN. Can you go against the State, to get that money back from the State?
Mr. VIADERO. We have asked the Food and Nutrition Service to do that.
The CHAIRMAN. Are they doing that?
Mr. VIADERO. They are attempting it.
The CHAIRMAN. Shouldn't the State have to pay that back?
Mr. VIADERO. That is what we thought.
The CHAIRMAN. Now, tell me about the murals that you found, if we could put that up.
Mr. VIADERO. He will win an incentive award for this.
The CHAIRMAN. Now, where is that mural?
Mr. VIADERO. Southern California.
The CHAIRMAN. And it was painted by the Government, or with government resources?
Mr. VIADERO. With government resources. This was funded through the Urban Resources Partnership, through the Forest Service, through National—I am sorry, the NRCS, Natural Resources Conservation Service.
The CHAIRMAN. OK, and it was out of program funds that were supposed to be used to prevent soil erosion, was that right?
Mr. VIADERO. Yes, Sir.
The CHAIRMAN. And there was no authorization in any statute for them to take money out of that soil erosion program and use it to paint murals?
Mr. VIADERO. That is correct, Sir, and we even had two opinions from the Office of General Counsel to support that.
The CHAIRMAN. Who was the responsible official in the U.S. Department of Agriculture who ordered that, that money be used to paint murals on walls?
Mr. VIADERO. The Under Secretary of Natural Resources.
The CHAIRMAN. And what is his name, or her name?
Mr. VIADERO. James Lyons.
The CHAIRMAN. And is he still there?
Mr. VIADERO. Yes, Sir.
The CHAIRMAN. Has he been reprimanded in any way?
Mr. VIADERO. I believe so. I think the House took care of that last week.
The CHAIRMAN. They took care of that last week?
Mr. VIADERO. We had a hearing on this topic last week.
The CHAIRMAN. And this man's name is James?
Mr. VIADERO. Yes, Sir. Lyons. L-Y-O-N-S.
The CHAIRMAN. Under Secretary of——
Mr. VIADERO. Natural Resources and Environment.
The CHAIRMAN.—of Natural Resources. He ordered that this money be taken out. When was that, that he did that?

Mr. VIADERO. Our review of these expenditures covered the period of 1994 through 1997.

The CHAIRMAN. So he was doing it for 3-years.

Mr. VIADERO. From 1994 through 1997. I am sorry, 4-years.

The CHAIRMAN. He was not disciplined internally in the USDA?

Mr. VIADERO. Not to my knowledge, Sir.

The CHAIRMAN. Should not somebody like that, in your opinion, lose their job?

Mr. VIADERO. That is not up to me, Sir. That would be up to the Secretary.

The CHAIRMAN. Did you present your findings to Secretary Glickman?

Mr. VIADERO. The Secretary got a copy of the audit.

The CHAIRMAN. And when did he get a copy of that audit?

Mr. VIADERO. It was issued in December of 1999, Sir.

The CHAIRMAN. And nothing has happened to Mr. Lyons. He is still there, still drawing his salary?

Mr. VIADERO. Yes, Sir.

The CHAIRMAN. I think that is something we should follow up with the Secretary, to find out why someone like that wouldn't be disciplined, or how they could continue to maintain their post.

How many funds were taken out of the soil erosion program?

Mr. VIADERO. Total funding for the program including soil erosion funds exceded $20 million, Sir. That was over the 4-year period, so on average, $5 million a year.

The CHAIRMAN. Was Mr. Lyons—did you confront him with this finding?

Mr. VIADERO. Yes, Sir.

The CHAIRMAN. Did he say he was ordered by anybody to do this?

Mr. VIADERO. No, Sir. He said he had authority to use these appropriations, and that the General Counsel supported his position. It was our interpretation—I am not an attorney, sir——

The CHAIRMAN. So the General Counsel of the USDA supported him?

Mr. VIADERO. Supported us.

The CHAIRMAN. Supported you?

Mr. VIADERO. Yes. And he went back to General Counsel and asked for another opinion, and the second opinion likewise supported us. We were looking for—I think General Counsel uses the term "nexus"—we were looking for just some connection between what was done in the cities to a conservation message.

In some cases it met the standard. In that event, we gave them credit for it, but there were 209 projects such as this. If anybody can see a conservation message in the paint on the side of somebody's privately owned garage, I would appreciate it if they speak up, because we are still looking for it. We have another one.

The CHAIRMAN. And the General Counsel agreed with you there had to be a nexus with soil erosion, and what he was doing was——

Mr. VIADERO. Absolutely. That is what the grant was for.

The next one—again, this is all Southern California we have here——

The CHAIRMAN. Did he, did Mr. Lyons give this money to private individuals and pay them to paint these murals? Was that the idea?

Mr. VIADERO. Absolutely.

The CHAIRMAN. I mean, who were these individuals who got this money? It is $3.4 million?

Mr. VIADERO. Yes, about $3.4 million of the funds spent for the projects we reviewed did not meet the purposes of the statutes from which they were funded. Some of them were——

The CHAIRMAN. Was just paid to people to paint murals?

Mr. VIADERO. Yes. Some of them were inner city groups, to paint them, to get a message out, an environmental message. I can't find the environmental message painted on the side of this commercial building.

The CHAIRMAN. Do you know what groups received that money?

Mr. VIADERO. It is in the work papers, Sir.

The CHAIRMAN. Did you refer this to any law enforcement authority?

Mr. VIADERO. We are the law enforcement branch, Sir. Understand, the Office of Inspector General is composed of about 50-percent audits and about 50-percent investigators. I am the former Special Agent in Charge of Auditing and the Chief Auditor for the FBI.

The CHAIRMAN. But you can't bring a prosecution.

Mr. VIADERO. We refer all of our criminal cases to the Department of Justice. We work with the local United States Attorney——

The CHAIRMAN. Did you refer this to any U.S. Attorneys?

Mr. VIADERO. Oh, yes, Sir.

The CHAIRMAN. You did.

Mr. VIADERO. They are ongoing.

The CHAIRMAN. Is there any prosecution?

Mr. VIADERO. They are ongoing, Sir.

The CHAIRMAN. There are investigations, there is a criminal investigation ongoing on this?

Mr. VIADERO. There are several investigations, Sir.

The CHAIRMAN. This is an outrage.

Tell me about the $97 million vehicle.

Mr. VIADERO. I will ask Mr. Ebbitt to.

The CHAIRMAN. OK. We don't have a picture of that vehicle? I would like to see what a $97 million vehicle looks like.

Mr. VIADERO. But it might have the bad tires on it. I can't——

The CHAIRMAN. Maybe the Batmobile, or—Mr. Ebbitt?

Mr. EBBITT. Mr. Chairman, clearly a mistake. I mean, somehow or other the books and records at the APHIS had recorded this particular vehicle having a value of $97 million, obviously an outright mistake, no——

The CHAIRMAN. It was a Forest Service vehicle?

Mr. EBBITT. No. APHIS.

The CHAIRMAN. Did they put that number in to plug a gap in their financial statements, that they were having a $97 million difference?

Mr. EBBITT. Mr. Chairman, I don't believe that is the case. I mean, the books and records are in such a state that there was no point in trying to plug anything, because, I mean——

The CHAIRMAN. Nothing balances.

Mr. EBBITT.—you couldn't get to the right answer. This was clearly a mistake. One of the major problems, as Ms. Thompson referred to, is property within the Forest Service. We have this major effort underway right now to try and understand these values. And these kinds of mistakes, are being corrected this year, and hopefully before this year is out, as we start next year, we are going to get closer to the right answer.

The CHAIRMAN. Another example you had was an $11 million microscope?

Mr. EBBITT. Yes, Sir. Again, these are just mistakes. How they got there—they were so numerous, clearly just mistakes.

The CHAIRMAN. So their books and records are replete with instances of those kind of mistakes. You are just picking out a few examples to kind of dramatize the situation, a $97 million car, an $11 million microscope, but the bottom line here is that their books and records are in such disarray that they are almost of no help in examining the financial condition or position of the USDA.

Mr. EBBITT. That is correct.

The CHAIRMAN. As it relates to the Forest Service, but the rest of the USDA, you have greater confidence?

Mr. EBBITT. Obviously, Mr. Chairman, the Forest Service is a huge part of the Department of Agriculture, so the problems within the Forest Service carry through to the consolidated statements of USDA. When you put all the numbers together for the Department, the problems of the Forest Service definitely impact the consolidated statements.

The CHAIRMAN. Let me ask this. It has been many years since Congress required all the agencies to have audits, and it was expected that they would all be achieving unqualified opinions from accountants who would be able to state that they have confidence that the financial statements presented accurately reflect the financial position of each of the agencies. That requirement of those audits went into effect in the early 1990s. Was it 1994 or 1990? There have been two acts. There was one in 1990, and then 1994. Which one required the audits?

Mr. VIADERO. We were one of the original departments. We go back to 1990.

The CHAIRMAN. To 1990, okay. It has been 10-years. USDA's books and records haven't been cleaned up in the last decade. The USDA probably has been beaten up by Congress many times over this issue, but it doesn't seem to matter. They keep coming back. I mean, they are trying to improve but we are still not getting clean opinions.

Let me ask Mr. Viadero this question: It seems like there is no down side for an Agency of the Federal Government, or a Department, if they get a bad audit. They can still receive their full appropriations the next year. In fact, they may even use their poor audit to argue that they need more money to get the right systems to clean up their books and records.

Shouldn't there be some penalty for an agency that doesn't get clean audits? What about a 5-percent across-the-board administrative cut for any agency that can't clean up its books and records, to give them a real incentive to improve their practices?

Now, a publicly held company that couldn't get a clean audit really couldn't continue to have its stock traded publicly. Nobody would buy a stock in a company that couldn't get a clean audit. There are down sides for any private company that can't get its act together. It seems to me there is no real down side for a government agency that can't clean up its books, other than it is going to have to endure a couple days of embarrassing hearings on Capitol Hill, but then that is the end of it.

Do you agree with me on that? Shouldn't there be some kind of penalty or an incentive for these departments to get their acts together?

Mr. VIADERO. With regard to the incentives or disincentives, I leave that up to this wonderful body up here on the Hill, because that is going to be the legislative fix. However, just by way of background, if I can, I am starting my seventh year here, and I walked in with the Food and Nutrition Service receiving an disclaims of opinion on their financial statements. They couldn't find $18 billion out of $38 billion.

Now, nobody took the money. You know, no Government employee is going to take $18 billion. $18, maybe, $180, but not $18 billion, and that was just in bookkeeping errors, if you will. Too many people, when they made corrections——

The CHAIRMAN. But it is possible there could be millions of dollars that somebody is actually stealing——

Mr. VIADERO. Absolutely.

The CHAIRMAN.—and we wouldn't be able to detect it.

Mr. VIADERO. I mean, we don't know. I mean, that is the bottom line. We don't know.

But let me get back to the story, if I can. I put in an action team, if you will, consulting. I operated a management advisory service out of the Office of Inspector General, with auditors that did not have any reason to go back to the Food and Nutrition Service again, to go in and work with the Food and Nutrition Service. We brought that organization up to a clean opinion, from an adverse opinion, and I understand that this year we are probably going to have a clean opinion again, at this utterance, on Food and Nutrition Service, so they got it together.

I took 22 people for the last 4-years and entered into an agreement with the Forest Service to do the same thing. It is sort of we have to retrain them after lunch again, what they learned in the morning. We find the same errors being repeated. To this end, in the year 2001, the upcoming fiscal year, we are not going to have a consulting service, because I am taking their money from them on a reimbursable agreement and it is being wasted.

Somebody has to get the Forest Service's attention. You know, the managers in the program, these program people must have 100-percent efficiency rate because it is all going to the program, because nobody is spending any time or effort on the financial management of these dollars.

And to that end, my own budget, I have lost 24-percent of my people in the last 5-years because the Office of Inspector General is looked at as a staff agency, and we have been——

The CHAIRMAN. Who controls your budget?

Mr. VIADERO. The House.

The CHAIRMAN. OK, but——

Mr. VIADERO. We have been looked at, we have been flatlined. We haven't gotten any decreases.

The CHAIRMAN. Has the Secretary been giving you an adequate budget?

Mr. VIADERO. Yes, and we even, we got support out of OMB, from the President. We got support from the Secretary going out.

The CHAIRMAN. But the House cut your budget?

Mr. VIADERO. This year we got flatlined.

The CHAIRMAN. And you feel you could use more resources, too?

Mr. VIADERO. Mr. Chairman, I tell you, my organization is basically labor-intensive, travel and per diem costs for the audits and the investigations. And we are bringing in, we bring in three times our annual budget.

The CHAIRMAN. How many cases have you referred over the years for prosecution?

Mr. VIADERO. Thousands.

The CHAIRMAN. Thousands?

Mr. VIADERO. Thousands.

The CHAIRMAN. Has that involved internal theft?

Mr. VIADERO. Well, I am very happy to say, because that is the job I had at the FBI, my last job was the internal side of it, this is an exceptionally clean Department insofar as internal theft goes. Now, we have internal problems, workplace violence issues.

The CHAIRMAN. Have you seen any collusion on the part of USDA employees who may be working with that child care food provider in Ohio on a scam to send out USDA checks to that provider that doesn't really exist? Have you found——

Mr. VIADERO. Now, we haven't found that, but we have found collusion with State employees and some of the sponsors.

The CHAIRMAN. With State employees?

Mr. VIADERO. Yes. Remember, USDA is just the——

The CHAIRMAN. Did you find that in Ohio?

Mr. VIADERO. No, Sir, not that I recall.

The CHAIRMAN. How about my State of Illinois?

Mr. VIADERO. No, we didn't find that much in Illinois. Minor, minor deficiencies.

The CHAIRMAN. OK. So collusion with State officials. Well, maybe these programs would be better if they were run with the USDA, instead of turning the money over to the States to run them.

Mr. VIADERO. Well, again, the State of Virginia, we don't have any problems.

The CHAIRMAN. They run it, right, and don't——

Mr. VIADERO. Yes, the Department runs it. It is interesting. We did five or six audits throughout the State, and what we found, I think the most horrendous one was, we found somebody was using some of the funds to buy cigarettes and beer, but the amount was absolutely de minimis. I mean, you could not get a Federal prosecution on this in the district. It was that we found $50 here, $70 there, strictly bookkeeping errors. But we did find children at the sites. That is key. We get excited when we visit this and we find people there. OK?

We found such things that we had to report to the local fire marshal's office when we went in, or the building inspector, whoever had the jurisdiction. We found 21 children in a 10 by 15 room, in a basement, with no window. I mean, these are U.S. children here. This is the future of the country. That is less than 10 square feet a person, and if anybody is familiar with children, they generally take more than 10 square feet during the day.

We found in some cases no smoke alarms or no fire alarms, no extinguishers. In one case we found the whole house being heated by the stove, the gas stove and the oven. Not good to have children around. We reported this to the local jurisdiction. We have had some very, very serious prosecutions in this program, I have gone out to meet several top State officials, to bring it to their attention. This is something you have to get fixed right away. You can't wait necessarily for our process of jurisprudence to go to work. We refer them, but we want this condition corrected immediately.

The CHAIRMAN. Well, thank you. I am going to give Ms. Thompson some time for some closing remarks. I guess I want to ask you—we are going to have to move to the next panel—I understand you have brought in a Big Five CPA firm to help you reconcile that cash balance with the Treasury. You now have the difference down to $236 million?

Ms. THOMPSON. No, Sir. We have it down much below that. In fact, it is close to being totally reconciled. Obviously, we broke it into three pieces——

The CHAIRMAN. What is it at now?

Ms. THOMPSON. It is probably less than, what, $5 million, maybe, at the most.

The CHAIRMAN. So you are working that down, you are getting it there. How much have you had to pay the Big Five CPA firm to get——

Ms. THOMPSON. Too much.

The CHAIRMAN. How much is it?

Ms. THOMPSON. About $2 million.

The CHAIRMAN. And what firm is it?

Ms. THOMPSON. Price Waterhouse Coopers.

The CHAIRMAN. And how long have they been working on it?

Ms. THOMPSON. A year.

The CHAIRMAN. A year?

Ms. THOMPSON. They had 40 people in there that literally rolled up their sleeves. This wasn't a consulting job. They helped us put together, obviously, the project plan, and they have been training another 40 or 50 people, of our people, to work on it. But they got in, rolled up their sleeves, and looked at thousands and thousands of transactions that went all the way back into the early 1990s.

The CHAIRMAN. Where was most of that $5 billion error?

Ms. THOMPSON. Again, it was accounting errors. You know——

The CHAIRMAN. Tons of small transactions?

Ms. THOMPSON. Yes.

The CHAIRMAN. It wasn't one big——

Ms. THOMPSON. No. I wish it were. It would have been easier.

The CHAIRMAN. When do you think you will have the USDA's books and records in such a position that you will be able to get an unqualified opinion?

Ms. THOMPSON. We are hoping to get there before DOD does. We are working very hard, and I am not sure that we can get there, but we had a plan in place this year to get it to a qualified opinion, which shows you that we are making progress, and I would hope to get to an unqualified opinion by the next year.

The CHAIRMAN. By next year?

Ms. THOMPSON. Right.

The CHAIRMAN. By 2001?

Ms. THOMPSON. Yes.

The CHAIRMAN. Well, we wish you good luck. It is a tall order, and I clearly believe you have the background to do this job. You have a background in banking, as a CPA, and as a State Treasurer. You certainly appear to have great qualifications. I know you came into a Department that was in horrible disarray, is still in disarray, but hopefully getting better.

And I would encourage you to promote Mr. Viadero's efforts within the USDA, and I hope that if we have a hearing like this next year, that we will hear a better report out of the GAO and your Inspector General. And I want to urge you to keep up the good work. Of course, the administration may change in the meantime——

Ms. THOMPSON. That is true.

The CHAIRMAN.—and somebody else will be sitting here. But I want to thank you very much.

Did you have any more pictures up there that we haven't seen, Mr. Viadero?

Mr. VIADERO. We only have one more art picture, if you would care to see it.

The CHAIRMAN. Well, we might as well take a look.

Mr. VIADERO. The mural, this is the mural.

The CHAIRMAN. OK.

Mr. VIADERO. And, again, we just ask if anybody can see any soil conservation message here.

The CHAIRMAN. All taken out of the soil conservation fund by Mr. Lyons, the Under Secretary of Natural Resources?

Mr. VIADERO. Yes, Sir.

The CHAIRMAN. OK, and did you find out who were the individual community groups that were paid the money, the $3.4 million, to paint these murals? Do you think these murals are worth $3.4 million?

Mr. VIADERO. Sir, my wife has the fine arts degree. I am the accountant.

[Laughter.]

The CHAIRMAN. How many of these, how many murals did the $3.4 million buy?

Mr. VIADERO. I don't have the exact number, but we can get that for you. It is in the work papers.

The CHAIRMAN. In your judgment, was this just a mechanism for paying cash to some community groups in Los Angeles?

Mr. VIADERO. That is part of the ongoing investigation, and unfortunately, we can't talk about it.

The CHAIRMAN. There is a grand jury. Possibly this money was just spread around the community. Do you suspect any kickbacks were received in the Department of Agriculture?

Mr. VIADERO. No, Sir.

The CHAIRMAN. You don't?

Mr. VIADERO. No.

The CHAIRMAN. Well, at least that is good. Well, Mr. Viadero, Ms. Thompson, Ms. Calbom, Mr. Ebbitt, thank you all very much.

We will proceed to the second panel. Well, thank you very much. We have on the second panel Mr. Thomas Schatz—is that the correct pronunciation?—president of the Citizens Against Government Waste, and the Honorable Maurice P. McTigue, the distinguished visiting scholar at the Mercatus Center at George Mason University. Mr. McTigue has done a study on the audits that have been done of all Federal agencies, have has published some reports that got widespread attention.

I would like to start with you, Mr. McTigue, first, and then proceed to Mr. Schatz, and I may just interject along the way with questions. Mr. McTigue, thank you for being here.

STATEMENT OF HON. MAURICE P. MCTIGUE, DISTINGUISHED VISITING SCHOLAR, MERCATUS CENTER, GEORGE MASON UNIVERSITY

Mr. MCTIGUE. Thank you, Mr. Chairman. Just a couple of comments on my background. I am a visitor to the United States. I have been here for 3-years. I spent the 3-years prior to that as New Zealand's Ambassador to Canada, and the 10-years prior to that as an elected Member of the Parliament of New Zealand. I was a member of the Cabinet of the Parliament of New Zealand. I held seven different portfolios.

And that was during a period of change to the machinery of government that is very similar to the change that you are going through in the United States, in other words, a major movement away from accountability just for cash inflows and outflows as far as government was concerned, and a new accountability requirement that was designed to show what were the public benefits that flowed from the expenditure of taxpayer dollars and from government-funded programs.

And it is really on the basis of that experience that the work that I do at Mercatus is very much monitoring what is happening with the implementation of your Government Performance and Results Act, and observing the impact that those new incentives have on Government agencies and how that may change their behavior and their performance over time.

Mr. Chairman, this isn't an experience that is unique to my country and your country. There is about 50 to 60 countries around the world that are going through remarkable changes to their accountability regimes, and they are all headed in exactly the same direction, that government organizations have to be much more accountable for the public benefits that they produce and able to identify exactly what those public benefits are.

Having listened to the testimony that has appeared before you this morning, Sir, and recognizing the gravity of the risks concerned with regard to agriculture, I want to take that another stage further, because in my view the greatest risk is not just mismanagement of money, but is mismanagement of the activity which is designed to produce very significant public benefits, and because of these issues may not be able to indeed do that.

I want to really pick two areas of activity, and they are two areas that I did cover in my written testimony to you, and the first of those is with regard to the Forest Service. And if you look at the responsibility of the Forest Service, first and foremost it is a custodial role. And if you have a custodial role, then the first issue that you have to address is, are we able to manage this resource in perpetuity for the benefit of the American people, and really the first rule should be, first, do no damage.

If you look at the performance reports of the Forest Service, it is very hard to find out where they give a high priority to the health and protection of the resources under their care. Good management would say that the first thing that you do when you have a custodial role is to say what are the mission-critical issues that could put this particular resource in jeopardy? And in the case of the Forest Service and the forests themselves, it would be things like fire, it would be wind blow, it could be disease, it could be animals, a variety of different things.

The first priority for your management, then, would be to diminish those risks. If you look at a lot of the research that has been done around the national forests in recent years, the Forest Service has been continually warned that there was a catastrophic potential fire risk to the forests because of the rapid build-up in fuel inside the forests.

Now, the Forest Service can't prevent fires from happening, but its managerial practices certainly can diminish the severity or the intensity of the fires by making certain that the fuel levels within the forests don't get beyond a certain level. It is very difficult to find that anybody has been concentrating on that issue.

And I think that those are things that Congress itself needs to concern itself about. Are they, first and foremost, able to concentrate and effectively carry out their custodial role for all of the resources that they have under their control? And given the experience of the current year, I think that, that is questionable.

The second thing that you would have to ask would be, does anybody know exactly what the critical risks are to these resources, and what strategies do they have in place to make certain that these risks are at least diminished or in many instances eliminated? And I think that, that would currently be difficult to find.

So this is not an issue that can be excused by saying that we don't have the resources to be able to do this, because with mission-critical issues, those are the areas in which you put the very first of your resources. Some of the peripheral issues you may not be able to fund because of resources, but mission-critical issues should have first call on resources, and you can't say at a later date, "Sorry, we weren't able to do that because we didn't have enough resources."

I now want to take a slightly different tack and look at one of the other areas of responsibility that USDA has, and that is to reduce hunger and ensure food for the hungry. And quite clearly, when Congress decided that these programs should exist, it was addressing two issues.

The first issue was hunger, and the requirement to reduce hunger really says that USDA should be looking at causal factors. What are the causes of hunger, and what can we do to diminish or eliminate those causes of hunger? The second one was the consequences of hunger. There are hungry people, so let's see that we feed hungry people. But it seems to me that the more important of the two is the first, the requirement to diminish hunger.

If you look at the measures that come through in the annual report of USDA in this area, it isn't possible to determine from that whether the problem of hunger is getting better or worse. If you look at the feeding programs, it seems that at a time of extraordinary affluence in the United States, more and more people are requiring feeding. So one of the measures can be, how many people did you feed? But another measure that seems to be absent, in my view, is how many hungry people did you not feed, because that is of serious consequence as well.

And if you take on a social responsibility like that, then I believe that you do have an ongoing responsibility to pass on to those who control your destiny in terms of financing your operations, a full picture of whether or not you are impacting these particular social problems that you are addressing, whether or not you have an understanding of what the causal factors are, and can you draw distinct linkages between your activities and these particular problems?

Now, I don't think that you can say fairly that the USDA is responsible for hunger. No. But what you have given it is a responsibility in that field, and it should be able to trace the activities of its programs and directly link them to how much they are diminishing hunger. If they were able to do that, you would then be able to decide which of the programs were most effective and which of the programs therefore were most deserving of resources.

If you were able to optimize those resources into the very best of those programs, then you may be able to materially improve the lot of hungry people in society without actually having to put any more resources into the programs, because you would be funding only those which were most effective. At the moment it is very difficult to be able to draw a measure of effectiveness of those feeding programs across the activities of USDA.

Mr. Chairman, I would be the first one to admit that we can't expect everybody to get this perfect in year one, and we are dealing with year one. The 1999 financial year was the first year that everybody had to comply with the full implications of GPRA.

But I think that it is timely for Congress and the Senate to start to put some pressure on these organizations to say at least by next year we need to be able to able to have a fair indication that you are impacting these problems, that you are able to get on top of mission-critical issues as far as the Forest Service is concerned, that the risk is diminishing, not increasing, and that the resources that you are using are indeed fulfilling some of the goals that have been set out for you in the mandates given to you by Congress and the administration.

The CHAIRMAN. If I could interject at this point, Mr. McTigue, and bring up a question I asked of the last panel, I asked Mr. Viadero specifically, and he didn't want to answer in his role as Inspector General of the USDA, but maybe you as an academic and somebody who has a lot of experience in government, as a Member of Parliament in New Zealand and as an Ambassador from New Zealand to Canada:

What would be a good idea for Congress to do to get these departments to take our requirements of getting their books in order seriously? Doesn't there have to be some down side other than just getting berated before a Senate or a House panel and enduring one or 2 days of bad publicity, and then they go back to their old ways and keep their books in an unsatisfactory state? Should we look at something like cutting their administrative budget automatically if they aren't presenting financial statements that are given unqualified opinions?

Mr. MCTIGUE. I think that the intent that Congress clearly had at the time that it passed GPRA was to put itself in a position where it could measure the efficacy, the effectiveness of different programs, and then decide which of those programs it was going to fund. The work that you are doing here this morning I would consider to be part of the research work that goes into trying to identify effectiveness inside the organization, and that should influence the decisions that are made about appropriations.

Unless there is a clear linkage between high quality performance and the allocation of resources, then I don't think that well-intended criticism is ever going to really change behavior. The only thing that will change it is if you link resources to poor performance, or the loss of resources to poor performance.

The CHAIRMAN. I agree with you on that. It might be a political problem around here, though, to do that. Is there a way of linking their administrative resources to their performance, as opposed to linking their overall budget resources to their audit results, because we don't want to cut some of these programs that are intended, for example, to feed the hungry? Would you see anything, any way we could target our linking of resources?

Mr. MCTIGUE. Yes. Let me just put the targeting to one side for a moment and say that in my view there are a significant number of dynamics at work, as soon as you decide to move scrutiny of activity to an assessment of what was the public benefit that followed as a result.

By requiring full disclosure, and you are entitled to that—what government agencies do should not be an issue of hide-and-seek between themselves and those people who stand in the shoes of the owners, the American public—there should be full disclosure. If you have full disclosure and full transparency, just the fact that the poor performance is going to become known will have a salutary effect on management inside the organization in the first instance. In the second instance, public knowledge of it will also put pressure on the legislature to take action on those programs that they see as being ineffective.

In my view, you cannot address all of this issue by attacking administrative allocations of monies only, because you may indeed be the architect of the problem, or blamed for being the architect of the problem, because there aren't sufficient administrative resources to actually effectively deliver the program. So I think there is a risk there.

In fact, we heard the Chief Financial Officer saying that the inability to be able to gather accurate information was one of the major causal factors in their inability to be able to properly manage their resources. There is some truth in that, but you would have to say that if that was one of the most important mission-critical issues for Agriculture in the last 10-years, there should have been money being diverted from other areas to address that issue.

The CHAIRMAN. That is a very good point. What did they do in New Zealand? Did they have a requirement of audits for each agency and department?

Mr. MCTIGUE. Yes, indeed. But more than that, what you call the Secretary, we call the Chief Executive Officer of a government organization, the Chief Executive Officer has a formal written contract, legally enforceable, with the Government to deliver a certain volume and quality of outputs. The failure to deliver those would result in the termination of that person's position, so there is full accountability. That Secretary, or in our case the Chief Executive Officer, will have those types of contracts with their senior management team and down on through their organization, so the accountability has been brought very much an individualization basis as well as a global basis for the organization.

The CHAIRMAN. Well, here, where we have a government that is spending $2 trillion, roughly, per year, it wasn't until the 1920s, as I understand it, that we required the agencies or departments to have budgets at all that they would present to Congress, and it was only in the early 1990s that we required audits at all. I gather that prior to 1990 there were no audits being done of any of these departments. And now that we are spending $2 trillion a year, and many of the departments are not able to get their books and records in an intelligible state, there is still the possibility that just vast amounts are being wasted, misappropriated, stolen in some cases, possibly, and we wouldn't even know about it.

How do the USDA's books and records or financial recordkeeping compare with the other agencies of government that your center has looked at and done reporting on?

Mr. MCTIGUE. One of the things that we did a real study on, because in our view it is the most important incentive created by GPRA, was what is their level of disclosure and what is the transparency of their reporting, and USDA did not come out very well in that study. Of the 24 CFO agencies, it came out as number 22, so very close to the bottom.

The CHAIRMAN. Who are the worst two?

Mr. MCTIGUE. USDA—I would have to have a look, Mr. Chairman. The best two, I can tell you while I am having a look, was——

The CHAIRMAN. Defense?

Mr. MCTIGUE. No, the best wasn't Defense. The worst were—USDA was number 22, and Department of Commerce was also 22, and the worst of the lot was the National Science Foundation.

The CHAIRMAN. National Science Foundation was the worst of the lot?

Mr. MCTIGUE. Yes, in terms of the quality of its disclosure. And what we are really doing there is saying that if you can get open, very good disclosure, and you get very open transparency, then the pressures created by the Congress and the public will see that performance improves. That is not a measure of their performance. That is a measure of their reporting. But the quality of their reporting is usually indicative of other things that are happening inside the organizations.

The organizations that came out well——

The CHAIRMAN. How many of them had unqualified opinions?

Mr. MCTIGUE. I can't answer that, Sir, without doing some—without going back to our——

The CHAIRMAN. That number has been going up. It was very few. Initially, I think none had unqualified audit opinions, and now we have a number that are achieving that.

Mr. MCTIGUE. My recollection, Sir, is actually the other way, that we are getting more agencies now who have unqualified opinions than when you first required the creation of Inspectors General back in 1990, so there has been some improvement but you still have a number of agencies that have qualified accounts.

The CHAIRMAN. Right.

Mr. MCTIGUE. So that you have a wide range of——

The CHAIRMAN. And some that have disclaimers of opinion altogether, like USDA.

Mr. MCTIGUE. Indeed there are, yes. There is a wide range in terms of the quality of financial reporting and the quality of reporting generally. But I think that what we have been able to detect across Government organizations is, there is considerable good will to address the issue and to get better at it.

And it is interesting that some of the best performers were organizations that 10-years ago were considered to be among the worst performers. A notable one there, of course, is FEMA, which came from being an organization which Congress talked about getting rid of and eliminating entirely in 1990, today being an organization that performs considerably better. So it does show that it is possible to turn around poor performing organizations and make them perform somewhere close to the international standards.

[The prepared statement of Mr. McTigue can be found in the appendix on page 88.]

The CHAIRMAN. Mr. Schatz, would you wish to jump in at this point and talk about the perspective of Citizens Against Government Waste?

STATEMENT OF THOMAS A. SCHATZ, PRESIDENT, CITIZENS AGAINST GOVERNMENT WASTE

Mr. SCHATZ. Thank you very much, Mr. Chairman. And just an observation about this hearing, which is, of course you are the only Senator at this hearing, but if you were here discussing spending money, I am sure that most of the Senators would be showing up to participate in that activity. And that is unfortunately one of the other problems that you and your colleagues face in terms of bringing management issues to the attention of not just the agencies but also the Senate and the House itself.

There was discussion briefly about incentives, and in the last year I know that the Chairman of the Government Reform and Oversight Committee in the House, Mr. Burton, and also the Chairman of the Appropriations Committee, Mr. Young, did write a letter to the agencies that were on the high risk list of GAO to inform them that they would be considering their performance in terms of providing support for their activities in the fiscal 2001 appropriations process.

Now, I don't know if they have followed up on that because of course we haven't seen all the final bills, but there is at least a recognition that the Government Performance and Results Act is in place; that there is some accountability that is being considered in the appropriations process. And that of course is the first time that a letter like that has been sent, in my recollection, and hopefully those kinds of activities will be followed up, both by the oversight committees as well as the Appropriations Committee.

The CHAIRMAN. You are suggesting there needs to be a tie-in between committees like ours, which are an oversight committee, and the Appropriations Committee. And it may well be true that while we are out doing all these oversight hearings on this committee and other committees, the Appropriations Committee, which is giving monies to these departments, really doesn't know what the results of all these hearings are. And so there has got to be a greater link in reporting back to the Appropriations Committee, and they really have to get involved in this, or the oversight committees are going to have no effect in getting improvement in these agencies.

Mr. SCHATZ. In particular that is true in these last several weeks of the Congress, where most of what is read about in the papers and the reports from the appropriators is that they are just going out to spend more money. This will be another record year of spending. Spending will go up more than the appropriators intended.

Certainly within that spending, because it will be done, there should be some effort to provide the support, for example, that is sought by the CFO of USDA in terms of more resources to improve technology, to improve the performance of the agencies themselves. So, while we would certainly prefer that the money not be spent in terms of all these additional projects, at least there would be some support or some effort put in to provide some money for the various projects that are out there, that have not been funded, that haven't been able to provide these changes in assistance.

When you hear about COBOL system from the 1970s and 1980s in terms of computers, you know, we were in college, or in some cases with some of the staff maybe in high school when these systems were put in, and nothing has been changed.

The CHAIRMAN. Couldn't an agency like USDA, which spends billions and billions of dollars, find $100 million worth of waste and cut it out, and redeploy that money internally to take care of their needs in information services?

Mr. SCHATZ. I would certainly agree with that, Mr. Chairman, but——

The CHAIRMAN.—if we just give them another $100 million, they don't have the incentive to go out and find the waste, fat, fraud and abuse that they otherwise would have if we didn't give them that extra $100 million.

Mr. SCHATZ. But what occurs in the appropriations process, as you well know, at the end of each Congress, is all of these projects and programs get put in by the House and the Senate that force the Agency to spend the money elsewhere. And certainly if you were in charge yourself, as the CEOs I believe in New Zealand might be, of these departments and agencies, you could really reallocate those resources in the appropriate manner.

But if you follow all the line items and you follow all of the monies through the appropriations process, if somebody wants to spend money on wood utilization research, for example, and that is $5.8 million a year almost every year that we have been around since 1985, they spent that amount on this particular project, if USDA says, "We're going to take that $5.8 million and go out and buy some new computers," you can be sure that the Members from the States that are affected by that project will say, "Sorry, you can't do that." So you and I might agree on what we consider a wasteful project, but once Congress says, "Go out and spend it," it is difficult for the Secretary or the CFO or anyone else to go and reallocate that money without some flexibility in terms of what they do.

We just had a report by Senator Thompson, who asked the General Accounting Office to examine improper payments. There is some $20.7 billion in improper payments, and that is only in 12 agencies throughout the Federal Government.

The CHAIRMAN. Are these of the nature that we talked about with that soil conservation program being used to paint murals?

Mr. SCHATZ. It is not necessarily along those lines. For example, in the Food Stamp program there are improper payments going out. Medicare, there is $13.5 billion in improper payments. Some of those are paperwork errors——

The CHAIRMAN. Overpayments to providers?

Mr. SCHATZ. Not necessarily overpayments. They may be payments that are made in error. They may be, for example, a payment that is made that doesn't take advantage of a discount. If you have a contract with a vendor, and if you pay early you are supposed to take a 15-percent discount, but you actually pay the entire bill, that is called an improper payment. And there is actually legislation that is, I believe, being marked up today by the Senate Committee on Governmental Affairs, to put in a recovery audit program which has been——

The CHAIRMAN. Describe recovery auditing.

Mr. SCHATZ. Recovery auditing is a process where an organization, whether it was in or outside the Government, goes into the Agency and examines the transactions inside the Agency to determine whether the payments were made properly. In other words, was the right amount paid? Was it paid in a timely manner? Was there an overpayment that should be refunded back to the Agency?

And right now they have done a pilot program in the Department of Defense, and I don't recall the exact number, but they have recovered tens of millions of dollars through this process. And the bill would actually provide funding back to management improvement. Twenty-five-percent of what is recovered can go——

The CHAIRMAN. Are these computer systems that you are putting in, or are you just hiring accountants to come in and audit your payments to vendors to make sure that you didn't overpay them?

Mr. SCHATZ. Well, there is actually no money being spent by the Government. In other words, the audit company itself gets paid only if it recovers funds, so the money goes back to the Agency or to the Treasury.

The CHAIRMAN. But there are presumably companies out there that are probably lobbying for that bill to be passed, because it——

Mr. SCHATZ. But it is a competitive situation. In other words, in some cases the Agency itself might do the audit. In other cases it might be a private sector organization. Actually one of the issues within the bill is whether you can go within the Agency itself and——

The CHAIRMAN. Let me just bring up a situation that happened in the State of Illinois in our last administration. In their Medicaid payments, they brought in somebody to do recovery auditing. The first year they paid this company $200,000 and I think they recovered $5 or $6 million. The next year the State paid this company about $4 million and they recovered $8 million. Then the following year it was found that the State of Illinois was paying this consultant $8 million to recover $8 million, and it led to prosecutions and people went to jail on that. I mean——

Mr. SCHATZ. Well, there is always, whenever you are talking about money, there is always an incentive to get more than you should get, whether it is within the Agency, with these murals or the other things that we have talked about. But certainly there is money out there that could be either collected or reallocated to deal with these management issues.

But again, if you look at what the Inspector General spoke about in the earlier panel, in terms of what they have been receiving for support, the Secretary supported them, asked for more money, and the House has said, "Sorry, we're just going to keep you at the same level," but they get a 3 to 1 return on that investment.

Now, that is within the Government itself. Whether you are talking about, although people don't like to talk about the IRS, they do collect more than you pay for in terms of audits, as well. So when you put the resources into either finding the waste, fraud and abuse or fixing the system so you can actually understand what is going on with these various programs, you do find an awful lot of money.

There was a report by the House Government Reform and Oversight Committee in 1996 talking about management in the 21st century, where they said there could be as much as $350 billion in waste, fraud and abuse throughout the Federal Government. Needless to say, the Department of Agriculture played some prominent role in that report.

And I would actually like to submit that for the record, the Agriculture portion, as well as what we put out called "Prime Cuts" that identifies in this case, for this year, 52 specific recommendations to reform USDA with savings of $57 billion over 5-years. So when you say yes, we can——

The CHAIRMAN. Would you highlight a couple of those recommendations, some of the better ones?

Mr. SCHATZ. Well, one is that, interestingly, the Food Stamp program—and this was actually a recommendation from the Grace Commission 16-years ago—does not update the program annually to reflect changes in the participant households' size and composition. The last time they changed that was 1971, so clearly the nature of a family——

The CHAIRMAN. So as kids move out of the house——

Mr. SCHATZ. Well, what they do is, they take the average family and they say, "This is what an average family should get for Food Stamps," but that number has changed. What that would mean is that you would get less money for Food Stamps, so it is politically a very difficult decision to make, but it is actually a factual one if you approached it from simply that standpoint and said, "This is how we should be spending money on this particular program." And that, as I said, goes back quite a number of years.

We also have talked about—well, we talked about the Natural Resource Conservation Service a little bit. The Natural Resource Conservation Service simply tells farmers how to take care of their own land, and we think that at this point farmers can probably figure that out for themselves. That is about $3.5 billion over 5-years.

The CHAIRMAN. Telling farmers how to take care of their own land?

Mr. SCHATZ. Right.

The CHAIRMAN. What is it——

Mr. SCHATZ. Well, I don't know a lot of the details on it. These are summaries of other resources. Now these, by the way, are referenced to the original source, whether it is the Inspector General or another source, and we can provide some more details on that particular——

The CHAIRMAN. OK.

Mr. SCHATZ. Another one is to reduce the county offices, field offices of USDA. They have been reduced over a number of years, but we believe they could be reduced further. Certainly people have access to information on the internet or by computer, and——

The CHAIRMAN. Well, we just passed a bill this year, it was my bill, to require the USDA to allow farmers to file their paperwork on line.

Mr. SCHATZ. Right.

The CHAIRMAN. But it will take USDA a couple of years to have that capability, and they really argued with us about the implementation time line for this and tried to slow it down as much as they could.

Mr. SCHATZ. Well, that again goes back to the incentives. It goes back to ensuring that there is more interest on the part of your colleagues in the House, as well, to exercise the oversight.

And also, as Mr. McTigue pointed out, the more that people are aware of the kinds of changes that need to be made, in this case some progress has been made at USDA, the public also needs to know about what is going on in order for them to demand more changes. Because, again, you will get more people interested in providing money for the various projects at USDA than actually fixing the management problems themselves.

There are a number of other recommendations, as well, that we have in here, and again I would be happy to submit that for the record.

The CHAIRMAN. In general, I take it that both of you support Congress giving more resources for financial management, for Inspectors General, for the sorts of things that could result in cost recovery or expense reduction. You recognize that Congress has put restrictions on how the USDA can spend its funds, so when we give it its overall appropriation, it must spend this much on this program, this much on that program, and it can't just reallocate within itself, steer the financial resources within the Department, oftentimes to beef up its financial accounting, for example, and its information systems. So in general, you guys support the concept of Congress giving them more money for their internal control operations?

Mr. SCHATZ. Well, hopefully by eliminating the waste and mismanagement, in other words, providing money back into the system in those circumstances, as opposed to just simply saying, "Here's another $100 million." Because again, with an agency of that size, as you have pointed out, there is plenty of room to reduce the excesses and come up with a way to provide these management systems. Any other organization would be doing that in order to modernize itself, to keep up with whatever competition it may have, and that sense of urgency needs to be permeated throughout the agencies themselves.

You have also pointed out the Chief Financial Officer will likely be someone new, so that the systems are very important, that they remain in place, so that anyone coming in can say, "Well, here is an unqualified opinion. I know exactly what is going on, because all of those feeder systems are correct and all the information is correct," and we know that GAO and the IG will agree with that, because they are more or less kind of more permanent oversight in terms of what is going on. So that is certainly something that has to get done.

Mr. MCTIGUE. Mr. Chairman, if I were sitting in your seat, I certainly wouldn't give carte blanche and an open check. I would only do that if they were able to produce for me a study that showed these are the strategic, critical elements that need to be addressed, this is the cost of each of them, and this is the benefit that should flow from those.

And in my experience of doing that, the best measure is how will this impact our capability? And the capability that you would want to see improved was their ability to control and manage their assets, their ability to be able to produce the information necessary to improve their decisionmaking on where they would allocate their resources. But all of the other things on the periphery, I wouldn't give a carte blanche for that at all.

The other thing is this, that as you develop the capability to be able to measure the effectiveness of program activity, you are going to get to a point where you are going to be able to at least maintain or improve the public benefit, but do it with less in resources, because you are going to put your resources into the most effective of your programs. Some of the international orders of magnitude in that area are quite enormous, and some of them we are seeing replicated here in the United States.

For example, a number of the Government departments in my country were able, when you allocated the resources only to the most effective programs, to produce about 20- to 40-percent more in public benefit for about 20- to 30-percent less in money, a very large order of magnitude.

But if you actually look at FEMA as an organization, and we did a case study on it earlier this year, between 1990 and now you can look at the level of activity of FEMA, the number of disasters it was managing and everything like that, and what it is doing today, and today it is doing about 20-percent more to 25-percent more for about 20- to 25-percent less money, a similar order of magnitude. Now, the cost of the disasters has gone up. That is the money they pay to other people. But the administrative cost of running the organization has come down considerably.

So what that says to me is that in a number of organizations inside the U.S. Government, there is room for gains of about that magnitude. But at the moment I don't think that anybody is doing the critical thinking in terms of what are the resources we need in place to be able to give us the capability of doing that.

[The prepared statement of Mr. Schatz can be found in the appendix on page 83.]

The CHAIRMAN. Well, thank both of you. You have been wonderful. I appreciate your time and attention, and compliment you on your good work and your studies in this regard, and I hope we can keep in touch. The key is that this committee stay on the USDA, and I think that we talk to our appropriators, as well. And we have learned a lot from you. I want to thank you both. Thanks very much.

Mr. MCTIGUE. Thank you very much, Mr. Chairman.

The CHAIRMAN. With that, this meeting is adjourned.

[Whereupon, at 11:25 a.m., the Subcommittee was adjourned.]

APPENDIX

SEPTEMBER 27, 2000

STATEMENT OF SENATOR PETER G. FITZGERALD

Committee on Agriculture, Nutrition, and Forestry
Subcommittee on Research, Nutrition, and General Legislation

Hearing on Financial and Program Accountability at the U.S. Department of Agriculture

Wednesday, September 27, 2000

This morning I am pleased to chair this hearing on financial and program accountability at the U.S. Department of Agriculture ("USDA"). This hearing will address five issues impacting accountability at USDA.: (1) USDA's compliance with federal financial management laws; (2) the reliability of USDA's consolidated financial statements; (3) USDA's implementation of IG recommendations; and (4) USDA's compliance with the Government Performance and Results Act ("GPRA").

USDA has serious accountability problems over the $118 billion in assets and $120 billion in budgetary resources. Since 1991, USDA has 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" according to recent GAO testimony and reports. GAO states that the accounting problems at USDA are deep rooted and will take time, commitment and substantial resources to correct. According to the audit of the financial statements for fiscal year ("FY") 1999 by the USDA Inspector General ("IG"), USDA "has many serious financial management system problems that impact the Departments' ability to provide accurate and reliable reporting on its financial operations" that are the result of material weaknesses in the internal control procedures.

Achieving the reforms required by financial management laws is essential to effectively manage USDA's billions of assets and budget authority. However, according to reports by the IG and GAO, USDA does not comply with important federal financial management laws. These laws are critical for ensuring that agency financial management activities are consistently and accurately recorded and promptly and uniformly reported throughout the federal government.

According to IG audits and GAO reports, for the last six years financial management within USDA has not been sufficient to provide assurances that its consolidated financial statements are reliable and presented in accordance with generally accepted accounting principles. This means that USDA, as a whole, does not know whether it correctly reported: (1) monies to be collected in total; (2) how much money is collected; (3) and the cost of its operations. According to these reports and audits, USDA has three serious financial problems that impact its ability to provide accurate and reliable reporting on its financial operations.

First, USDA has not reconciled the its Fund Balance with the Treasury. The IG first identified unreconciled differences between USDA records and Treasury records in its fiscal year 1992 audit. As of September 30, 1999, the IG reported the unreconciled amount was about $5 billion. Until this problem is corrected, the integrity of much of USDA's financial data is questionable.

Second, USDA is unable to make reasonable cost estimates for its loan programs as required by the Federal Credit Reform Act of 1990 ("FCRA"). Since 1994, the IG has reported material problems in the processes and procedures used by USDA's lending agencies to estimate and re-estimate loan subsidy costs. According to testimony by GAO on March 21, 2000 before the House Subcommittee on Government Management, Information and Technology, Committee on Government Reform, USDA had not to date provided the resources needed to properly address this problem. In an August 22, 2000 letter to USDA, GAO reaffirmed this conclusion and determined that management was not properly supervising efforts to address this problem.

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 seriously impacts the government's consolidated financial statements and the integrity budget estimates. Moreover, the inability to provide reasonable loan cost estimates adversely impacts effective program stewardship and accountability. USDA's use of unreliable information affects the availability of credit programs to potential borrowers because changes in cost estimates can affect the number and amount of loans and guarantees available. Therefore, until USDA is able to provide reasonable estimates, Congress does not have valid cost data on which to base its decisions about whether to expand or scale back USDA's loan programs.

Third, USDA is unable to substantiate the value of pooled assets primarily due to accounting and financial problems of the Forest Service. Since the first audit of the Forest Service's financial statements in 1991, the IG has found serious accounting and financial problems, some of which continue today. These shortcomings mean that USDA and the Congress do not have accurate financial data to track the cost of programs and activities and to make informed decisions about future funding. According to the IG's February 2000 audit report on USDA, the Forest Service, which reports $3.1 billion of general property, plant, and equipment - 82% of USDA's total - and 192 million acres of national forest land and grassland, "remains unable to reliably track and report on major assets worth billions of dollars."

USDA has not promptly and effectively instituted corrective actions that arise from audits issued by the IG. The Secretary's Management Reports to Congress are filled with examples of USDA's unwillingness to revise its processes in accordance with its agreement to do so after the audits were resolved. In numerous instances corrective actions on audit recommendations have either not been implemented or not implemented in a timely manner. As a result, the recommended actions to foster economy and efficiency and reduce the risk of fraud, waste, and abuse have not occurred.

According to the IG, a major reason that final action has not been achieved is that the agencies have not published regulations, instructions, or handbooks to formally modify their operations in response to the audit within the mandated one year time frame. Although this process is involved, all sense of immediacy in the face of critical disclosures has been lost; corrective actions have become unnecessarily ensnared in bureaucratic tape. The numerous audits awaiting final action for this reason raise serious concerns about the reasonableness of the publication process in USDA.

The failure to implement necessary regulations in the Child and Adult Care Food Program ("CACFP") is illustrative of the seriousness of this problem. Since 1993, the IG has conducted over 55 audits and investigations resulting in the identification of many cases of the fraudulent misappropriation of funds for CACFP. In its August 1999 report, the IG stated that the CACFP was highly vulnerable to abuse because the primary controls for combating fraud and abuse have been vested in the CACFP sponsors. According to the report, the integrity of the program could not be maintained without, aggressive, clear, and consistent guidance and oversight from FNS. Indeed, the IG concluded that FNS widespread program abuse was continuing even though FNS had been repeatedly informed that significant changes were needed to ensure the integrity in the program. Over the last five years, the IG and an FNS task force made reports and recommendations to FNS that significant regulatory changes were needed to ensure integrity in the CACFP. According to the IG, if "if FNS had been more diligent in implementing the needed regulatory changes, it could have prevented or detected much of the fraudulent activity we found during our audits and investigations." Congress finally acted when FNS failed to do so. The concerns raised over the past seven years by the IG were substantially addressed by Congress in the Agriculture Risk Protection Act of 2000.

According to reports by the IG, USDA's failure to take corrective actions has also resulted in waste, fraud and abuse in the Urban Resources Partnership program. In 1994, the undersecretary for Natural Resources and Environment ("NRE") established the Urban Resources Partnership ("URP") to work directly on projects related to natural resources in urban areas. According to the November 1999 IG report to Congress, the URP was initiated without specific statutory authority or appropriated funds. Instead, the program was financed using funds appropriated for existing Forest Service and NRE programs. As stated by the IG, "As a result, over $20 million in USDA funds were improperly expended or obligated for the URP program during FY's 1994 through 1998."

Moreover, the May 2000 IG report states that URP recipients did not always use funds to meet the purposes of the statutes from which the appropriations were obtained. According to an audit by the IG, 131 awards for $3.4 million were identified as not meeting the intended purposes. Moreover, the program did not include controls to ensure that award funds were used in accordance with Federal regulations. For example, according to the May 2000 IG report, funds designated for soil erosion prevention were used for items "such as wall murals, transportation, and bringing civil lawsuits against owners of derelict properties to force demolition or rehabilitation of structures . . . not related to soil erosion."

Finally, various reports reveal that USDA has not effectively implemented the Government Performance And Results Act of 1993 ("GPRA"). GPRA requires USDA to set goals for program performance and to report annual performance compared with goals. According to the most recent government-wide assessment of federal agencies implementation of GPRA, USDA's fiscal year ("FY") 1999 Annual Performance Report demonstrated a very poor implementation of GPRA. Analysts from the Mercatus Center at George Mason University reviewed the reports of the 24 major federal agencies. The Center ranked USDA's report 22nd of the 24 agencies and described the report as one "most in need of improvement."

On June 30, 2000, GAO issued its review of USDA's Performance Report. The GAO review determined that the 450 performance goals incorporating 940 performance measures made it difficult to form an accurate picture of USDA's overall performance. According to the GAO review, USDA's Report did not provide a sufficient basis to determine whether progress has been towards: (1) assuring that the country has an adequate and reasonably priced food supply; (2) reducing hunger and ensuring food for the hungry; and (3) reducing food stamp fraud and error.

On June 28, 2000, the IG issued an audit of the implementation of GRPA by the Forest Service in FY 1999. According to that audit, the Forest Services's FY 1999 Annual Performance Plan is "based on flawed data and assumptions to the extent that the report does not provide reliable information about actual performance or the agency's progress in meeting its goals and objectives." In addition, the IG determined that internal controls over performance reporting were inadequate and designed and implemented. Specifically, FS did not have an effective system to review and correct improper reporting. As a result, errors and omission were not corrected and the resulting data could not be used by Forest Service managers to evaluate performance.

I am very troubled by the findings contained in the reports and audits by GAO and the IG on financial and management accountability at USDA. These findings demonstrate that serious accountability problems at USDA have not been properly addressed. Today's hearing addresses these problems and I look forward to guidance from the panelists in discussing the accountability issues at USDA.

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

September 27, 2000

Introduction

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Financial Management Systems

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

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

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

Administrative and Financial Systems

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

Fund Balances with the U.S. Treasury

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

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

General Property, Plant and Equipment

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

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

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

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

Forest Service's Accounts Receivables

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

Internal Control Structure Weaknesses

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

Security

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

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

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

Debt Collection

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

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

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

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

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

TESTIMONY OF

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

before the
Senate Committee on Agriculture, Nutrition,
and Forestry's Subcommittee on Research,
Nutrition, and General Legislation

on the
Status of Financial Management
at the Department of Agriculture

September 27, 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 James Ebbitt, Assistant Inspector General for Audit.

I will discuss today the issues that you requested I address, specifically: financial management in USDA, Government Performance and Results Act issues, and the adequacy of USDA agencies' implementation of corrective actions in response to audit recommendations.

FINANCIAL MANAGEMENT

In order to be effective, management must have reliable financial information. 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 since 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.

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). FFIS establishes a common coding structure, and integrates data from other financial, and mixed systems, while modernizing or replacing 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. 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. .

Fund Balance with Treasury

Another longstanding accounting problem at NFC, the Department's "Fund Balance with Treasury," has finally been rectified for CAS. NFC's CAS account had 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 was of paramount importance for several reasons--the amount of money involved and the inherent vulnerability of cash to theft or misappropriation. To resolve this problem, the Department brought in a "Big 5" CPA firm to reconcile the cash at NFC. The contractor, at considerable expense, was able to reconcile all but $236 million; it projected the cash impact to be an increase of $7.9 million. (Complete reconciliation could not be achieved due to an absence of records to support dated activity. Significantly, however, FFIS is now out of balance due to many of the control weaknesses that befell CAS. The Department is working aggressively now to identify and eliminate the 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.

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 usable 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.

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 to date has been 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, has now developed a strategy whereby this data can be reasonably estimated. The most prevalent problem in this area remains the lack of adequate supporting documentation to verify capitalized costs and in-service dates. We are currently examining real property during our FY 2000 financial statement audit.

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.

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 officials assert that the accountability over real property has been achieved. As noted, our current audit is independently evaluating that assertion.

GOVERNMENT PERFORMANCE AND RESULTS ACT

The next area I would like to address is issues arising from the implementation of the Government Performance and Results Act, or GPRA. As you know, GPRA seeks to improve the effectiveness, efficiency, and accountability of Federal programs by requiring Federal agencies to set goals for program performance and to report annual performance compared with goals. Our audit of the Forest Service's FY 1999 Annual Performance Report found, however, that it was based on flawed data and assumptions to the extent that the report did not provide reliable information about actual performance or the agency's progress in meeting its goals and objectives. The Forest Service report did not accurately reflect agency performance or progress towards meeting goals and objectives. The quality of the underlying data was suspect. Errors and omissions occurred because performance reporting was not incorporated into the business processes of the FS and because field-level employees did not understand the need or value of accurate performance reporting. Reported data was garnered through a patchwork of information systems that lacked basic internal controls to include programmatic reviews, documentation of reported results, and clear written guidance.

At each of the four national forests we visited, we found instances where reported performance data contained material errors and omissions. A few examples follow:

- Under the Goal "Ensure Sustainable Ecosystems," we found that one Ranger District had reported two miles of stream enhancement. When we asked to view the stream, Forest Service staff acknowledged that two miles of road had been repaired but reported as a stream.

- At one Ranger District, for the performance measurement, Noxious Weed Treatment, 5 acres were reported as treated, which met the target. However, we found that 18 acres had actually been treated; the reduced amount was reported to preclude an increased target in subsequent years.

- At one Forest, we found that the same portion of a road was annually reported as decommissioned. The forest would erect a barrier to preclude its use, passers-by would remove the barrier, and then agency personnel would re-erect it.

We recommended that FS develop and implement a comprehensive strategy to ensure the collection and reporting of accurate, complete, and meaningful performance data. As a part of that strategy, the agency should put in place a set of effective internal controls, to include comprehensive management reviews, program level reviews, and controls to test the reasonableness of reported performance data. We are currently conducting a review of the Rural Development mission area's implementation of GPRA.

ADEQUACY OF CORRECTIVE ACTIONS

We conducted a review last year of the Department's final action process, the legislative requirement that agreed upon audit recommendations be implemented within one year. Our review disclosed that USDA agencies had not exhibited the commitment necessary to promptly and effectively institute corrective actions that arise from audits. The Secretary's

Management Report to Congress was replete with examples of recalcitrance in terms of the agencies' unwillingness to revise their processes as they had agreed to after the issued audits were resolved. As a result, the audit process in USDA was potentially undermined. The failure to implement audit recommendations in a timely manner permitted the continuation of ineffective and inefficient Government operations. At the time of our review, the Secretary's Management Report for the six-month period ending September 30, 1998, included 187 audits without final action within one year of the management decision date with over $989 million in funds to be put to better use identified by OIG. Since the conditions identified in these audits had perpetuated from in excess of one year to over 10 years, the monetary impact of these findings had compounded significantly.

A major reason that final action had not been achieved was that the agencies have not published regulations, instructions, etc., to formally modify their operations in response to the audit within the one-year time frame mandated. Although this process is involved, requires various in-house and intradepartmental clearances, and can be the subject of political considerations, all sense of immediacy in the face of critical disclosures had been lost; rather, corrective actions became ensnared in a bureaucratic web from which it has taken years to be extricated.

One such example is an audit we issued in 1988—12 years ago—on the Food and Nutrition Service's Women, Infants and Children (WIC) program. The overall objective of the audit was to evaluate the effectiveness of FNS' management of the WIC Program relating primarily to the retail purchase systems used by State agencies. Our audit disclosed extensive program abuse by vendors. We made compliance purchases at 107 large non-chain stores and were overcharged by 82 of those stores by nearly 29 percent. We found the cause of this material weakness to be inadequate vendor monitoring systems, which had not been designed to identify, and followup on, high-risk vendors. This, in turn, was traceable to the lack of specific vendor monitoring requirements in the FNS regulations.

A total of 38 recommendations were made, with 20 recommendations still awaiting final action. Corrective action for these recommendations was almost exclusively contingent upon the issuance of new regulations for the WIC Program.

FNS concurred with the recommendations to develop regulations to strengthen vendor monitoring requirements and management decision was reached on September 23, 1988. The explanations afforded by the agency, however, were not adequate to provide justification for the 12 year delay in the issuance of regulations. FNS proposed new WIC Food Delivery System regulations in 1990; however, according to agency officials, because of strong opposition from the vendor community, as well as Congressional concern, these regulations were never finalized. In fact, the regulations were removed from FNS' regulatory agenda in 1993 and a policy decision to move forward again with the rule was not made until 1997. Without revised WIC Program regulations, FNS cannot ensure that abuse by WIC vendors is precluded or detected in a timely manner. If vendor abuse could have been reduced, additional funds would have been historically available to more persons eligible for WIC Program benefits. WIC funding has totaled $30 billion since FY 1988.

Another example is our audit of the Forest Service's Timber Sale Cruising Controls, issued in 1993. Cruising represented a critical agency function to estimate the volume of wood available for sale and was to replace (pursuant to a recommendation by the House Appropriations Committee) the prevailing method of scaling, which had been found to be highly vulnerable to timber theft. Our review of the cruising process, as it was being implemented, disclosed significant control weaknesses which had to be remedied immediately, as cruising was to be adopted as the preferred volume estimation method. According to the Secretary's March 31, 2000, report, 5 years after the report was released only 3 of the 15 recommendations have been acted upon. The reason given for the delay is "Issuance of the FS Cruising Handbook is delayed due to the administrative process involved in publication."

Another major reason corrective action has been slowed is that modifying automated systems, apparently, does not happen overnight, or, in the case of our 1991 audit of the Forest Service's Timber Management Antitrust Controls issued in over 3314 nights. Corrective action on this audit has been delayed, due to "conversion to the IBM computer system from the data General computer system and the development of the new Timber Information System..." The 1991 audit was a followup to a 1986 audit which had identified a significant vulnerability to collusive bidding in the FS timber sale process. Numerous instances were disclosed in which timber companies did not bid against each other (and secured the purchase with the minimum bid), submitted only token bids, or subsequently shared sales after not bidding. The integrity of the timber sale program was at issue and, potentially, significant amounts of revenue were being lost. We recommended, in part that a computerized bid-monitoring system be developed to identify irregular bidding patterns which then could be used to refer possible antitrust violators to the Department of Justice. After 14 years, the agency's response to this critical issue has been to do…nothing. The relevance of the conversion from Data General equipment to IBM is not readily apparent; nonetheless, it was not initiated until long after the initial audit was issued. Similarly, the Timber Information System, now cited as part of the reason the corrective action has not been taken, was presumably not even a distant thought in 1986.

In its written comments to OCFO regarding this audit, the agency took issue with our characterization regarding the lack of corrective action, stating it had "…not sat idly by…in fact, the Forest Service has made major investments in time and money to be responsive to the issues raised by OIG." The FS further stated that it had spent over $200 million to implement the IBM computer system and another $11 million to implement the Timber Information System. The agency expects the system to be working "around March 2000," at which time the recommendation can be addressed. The FS did not dispute the severity of the underlying problem, nor that no corrective action has ensued since OIG disclosed this critical issue in 1986.

This does not appear to be "responsive" to the recommendation as asserted by the agency.

Subsequent to the issuance of this report, we instigated aggressive actions to get these reports closed. We worked closely with the Department and the agencies through correspondence and numerous face-to-face meetings, and are pleased to report that 59 audits were closed in the most recent reporting period. The number that still remains open is unacceptably high, however, at 166.

Mr. Chairman, this concludes my statement. I would be happy to answer any questions you may have.

United States General Accounting Office

GAO

Testimony

Before the Subcommittee on Research, Nutrition, and General Legislation, Committee on Agriculture, Nutrition, and Forestry, U.S. Senate

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FINANCIAL MANAGEMENT

USDA Continues to Face Major Financial Management Challenges

Statement of Linda M. Calbom, Director
Accounting and Information Management Division

GAO
Accountability * Integrity * Reliability

GAO/T-AIMD-00-334

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. Much of my testimony today is an update of our March 2000 testimony on USDA's financial management,[1] which focused on the problems identified in the USDA Inspector General's (IG) audit report on USDA's fiscal year 1999 financial statements.

In February 2000 the IG issued a disclaimer of opinion[2] on USDA's fiscal year 1999 consolidated financial statements–the sixth disclaimer of opinion in as many years—indicating that the agency has pervasive problems in accounting for its $118 billion in assets and $120 billion in budgetary resources provided for fiscal year 1999. Before USDA can achieve financial accountability, it must address a number of issues that we and USDA's Office of Inspector General (IG) have reported as serious problems. Financial accountability is achieved when an agency has strong financial management systems and internal controls that can generate useful, relevant, and reliable day-to-day financial information to support ongoing management and accountability.

My statement will focus on the agency's challenges in achieving financial accountability and complying with key financial management laws and regulations. I will also discuss the corrective actions that USDA and its component agencies have completed or have underway to resolve these problems. Regarding financial accountability, USDA faces significant challenges in four major areas: (1) implementing the Federal Credit Reform Act of 1990 and related accounting standards,[3] (2) reconciling its Fund Balance with Treasury accounts, (3) addressing weaknesses in the Forest Service's financial

[1]*Financial Management: USDA Faces Major Financial Management Challenges* (GAO/T-AIMD-00-115, Mar. 21, 2000).

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

[3]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. This statement was supplemented by SFFAS No. 18, *Amendments to Accounting Standards for Direct Loans and Loan Guarantees,* which becomes effective for periods beginning after September 30, 2000.

accounting and reporting, and (4) correcting certain other material internal control weaknesses.

In brief, USDA continues to face major challenges in correcting severe and long-standing financial management problems and achieving financial accountability. During the last 2 years USDA financial managers have taken these challenges seriously and made a commitment of resources not only to resolve financial management weaknesses that have precluded the agency from receiving an unqualified, or "clean" opinion on its financial statements, but also to begin moving toward a long-term goal of achieving financial accountability. There is one notable exception, however, to our assessment of USDA's efforts. In August 2000, we reported[4] that Rural Development (RD), one of USDA's major component agencies, has made slow progress in improving credit program cost estimates and missed several milestone dates because of a shortage in both the staff and funding resources that are needed to resolve long-standing credit reform weaknesses. Because of this issue, USDA is likely several years away from achieving financial accountability.

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 established a CFO structure in 24 major agencies and charged the Office of Management and Budget to provide the necessary financial management leadership and focus. To help instill greater accountability and fix pervasive and costly breakdowns in internal controls, 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.

[4]*Credit Reform: Improving Rural Development's Credit Program Cost Estimates* (GAO/AIMD-00-286R, Aug. 22, 2000).

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. 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)[5] 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 requirements in order to maximize their performance and ensure their accountability.

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 these programs are reported in USDA's consolidated financial statements and make up a significant portion

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

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 and Child Nutrition Programs, which represent a significant portion of income security net cost reported in the U. S. consolidated financial statements.

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 conducted our update work for this testimony from September 12 to 25, 2000, in accordance with generally accepted government auditing standards.

MAJOR ACCOUNTING AND REPORTING DEFICIENCIES

USDA faces significant financial management challenges in four major areas: (1) implementing the Federal Credit Reform Act of 1990 and related accounting standards, (2) reconciling its Fund Balance with Treasury accounts, (3) addressing weaknesses in the Forest Service's financial accounting and reporting, and (4) correcting certain other material internal control weaknesses. USDA and its component agencies must resolve these issues to obtain a clean audit opinion and begin to move toward achieving financial accountability. I will briefly discuss the importance of each of these issues and why they represent major challenges to USDA and its component agencies.

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, are intended 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[6] of estimated net cash flows, excluding administrative costs.

Since 1994,[7] 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[8] 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. USDA's Chief Financial Officer established a task force in March 1999 to assist in resolving the agency's credit reform problems.

Due to the magnitude of RD's credit programs, an unqualified audit opinion on USDA's consolidated financial statements will not be possible without the successful implementation of credit reform. However, as we reported in our March 2000 testimony and again in August 2000, progress in resolving RD's problems in implementing credit reform has been slow because USDA has not provided sufficient resources needed to properly address this problem. We also stated that without sustained top level management commitment and the necessary dedicated staff and funding resources, RD will not be able to improve the quality of its credit program cost estimates in a timely manner. Furthermore, 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 that can be made.

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[6]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.

[7]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.

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

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 is not in a position to take advantage of this opportunity.

Status of Reconciling 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. 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's supporting computerized systems–referred to by USDA as 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.

To address the Fund Balance with Treasury reconciliation problem, 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, the IG and we have monitored this effort for the past year. Until this problem is corrected, the integrity of much of USDA's financial data is questionable.

The IG recently issued a report and a letter to USDA's Chief Financial Officer on the results of its work to monitor USDA's efforts to resolve its Fund Balance with Treasury reconciliation problems.[9] The report deals with the adequacy of corrective actions taken by USDA to correct its reconciliation problems with its old accounting system. This report concluded that recommendations made by USDA's contractor, PricewaterhouseCoopers LLP, when fully implemented, would resolve this long-standing material weakness. In the letter, however, the IG raised some concerns about USDA's progress in resolving unreconciled balances recorded in the Forest Service's new accounting system, the Foundation Financial Information System (FFIS) implemented on October 1, 1999. This letter stated that the absolute difference between Treasury and the Forest Service general ledger records as of June 2000, was over $276 million for disbursements, and over $41 million for collections. This letter also stated that the IG staff had discussed these problems with officials from the USDA's Office of the Chief Financial Officer and the Forest Service who agreed that actions need to be taken and have developed a time-phased plan to address the FFIS cash reconciliation problems.

[9] *OCFO Commits to Correct a 10-Year Problem with Its Fund Balance with Treasury Account* (Report No. 11099-14-FM, Sept. 2000) and *FFIS Fund Balance with Treasury* (Letter to the USDA CFO, Sept. 2000).

financial reporting weaknesses plaguing its operations. Because of this high-risk designation, we have given sustained attention to monitoring the Forest Service's efforts to achieve financial accountability.

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. Furthermore, 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. Three of these weaknesses—food stamp recipient claims, financial management systems, and accounting for personal property—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 identified overissued food stamp benefits, which were estimated to total $193 million[11] as of September 30, 1999. However, based on a review of the status of state agencies' progress in improving their claim systems, FNS noted that

[11]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.

only 24 of the 53 state agencies in June 2000 had claim systems that can report accurate, complete, and supportable information on overissued food stamp benefits and related collections. Of the remaining 29 state agencies, 28 have prepared corrective action plans to address reported deficiencies in their systems and only one has not prepared a corrective action plan. FNS has established September 2001 as the deadline for implementation of all corrective action plans. In addition, FNS issued claims regulations in July 2000 that strengthened controls over states' handling of food stamp recipient claims. For example, these regulations created detailed procedures for establishing, processing, and monitoring claims.

While we recognize that these efforts have strengthened controls over recipient claims, additional efforts are needed. 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 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.

USDA's attempts to address this need go back to December 1994 when the Office of the Chief Financial Officer (OCFO) purchased FFIS, a new accounting system, with the goal of replacing the old accounting system USDA-wide. But while USDA has implemented the new system in several component agencies over the past few years, it has experienced delays in agencywide implementation. Current plans call for 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.

Accounting for Personal Property

In its fiscal year 1999 audit report, the IG reported that material internal control problems existed 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.

USDA DOES NOT FULLY COMPLY WITH CERTAIN KEY LAWS AND REGULATIONS

Over the past decade the Congress has passed several important pieces of legislation designed to improve financial accountability in the federal government: the Chief Financial Officers (CFO) Act of 1990, the Government Management Reform Act (GMRA) of 1994, and the Federal Financial Management Improvement Act (FFMIA) of 1996. 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 two discussed below.

First, the IG concluded that USDA had not fully addressed problems related to compliance with the CFO Act. Specifically, the agency had 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 had 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.

Second, 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.

As required by the act, USDA has prepared a remediation plan that includes corrective actions that are scheduled to be completed no later than September 2003.

STATUS OF EFFORTS TO RESOLVE USDA'S FINANCIAL MANAGEMENT PROBLEMS

To its credit, USDA has achieved some accomplishments this fiscal year in addressing its financial management weaknesses. I would like to highlight the efforts of both USDA and the Forest Service to resolve these problems and work toward financial accountability.

USDA

USDA's 1999 Annual Program Performance Report, issued on March 29, 2000, lists various financial management improvements accomplished by USDA's Office of the Chief Financial Officer. These and other corrective actions identified based on other documents and discussions with USDA's financial managers, follow:

- Increased the number of component agencies receiving an unqualified audit opinion from two to three;
- Hired a contractor to study USDA's deficient supporting computerized systems–referred to by USDA as feeder systems–to recommend solutions for integrating, consolidating, or reengineering these systems;
- Implemented USDA's new accounting system in the Risk Management Agency;
- Substantially increased funding to study and resolve the reconciliation problems with its Fund Balance with Treasury account–as of June 1, 2000, USDA incurred over $2.8 million dollars, according to the IG, in contract costs, and millions more in direct and indirect personnel costs; and
- Worked closely with Forest Service financial managers on correcting the Forest Service's financial management problems.

Although USDA has strengthened the involvement of its credit reform steering committee in monitoring the agency's progress, thus far USDA management has been slow in providing the necessary resources to resolve the agency's problems in implementing credit reform.

Forest Service

The Forest Service has completed several corrective actions and begun others that, if successfully carried through, represented important steps toward achieving financial accountability. While the Forest Service has a long way to go to achieve financial accountability, it continues to make progress in addressing its financial management weaknesses. Specifically, the Forest Service has accomplished the following:

- Implemented a new accounting system on October 1, 1999, as scheduled;
- Reorganized and strengthened the Office of Finance at agency headquarters;
- Initiated an assessment of the Forest Service's highly decentralized and autonomous field office financial management structure, with a final report expected this fall;
- Completed and implemented its methodology for valuing road assets with the IG's concurrence;
- Developed 34 financial management performance measures in such areas as debt management and personal property to address weaknesses in financial accountability;
- Developed and proposed a simplified budget structure for the National Forest System and the Capital Improvement and Maintenance Appropriations;[12]
- Worked towards addressing problems in reconciling the Fund Balance with Treasury account;

[12]According to the Forest Service's Office of Finance, the House appropriations subcommittee responded with a variation of the Forest Service's proposal that is expected to be included in the Forest Service's final fiscal year 2001 appropriation.

- Implemented a new concept in October 1999 for charging expenditures based on work performed in addition to a standard set of definitions for indirect costs; and

- finalized a long-range plan with goals and objectives, timeframes, and measures for attaining financial accountability.

As these accomplishments demonstrate, the Forest Service is making 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.

CONCLUSION

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 McCoy Williams at (202) 512-6906. Individuals making key contributions to this statement included Lou Schuster, Phillip McIntyre, Dan Blair, Carla Lewis, and Maria Zacharias.

(913917)

CITIZENS AGAINST GOVERNMENT WASTE

Testimony of
Thomas A. Schatz,
President,
Citizens Against Government Waste before the
Senate Subcommittee on Research, Nutrition, and General Legislation
September 27, 2000

Good morning, Mr. Chairman. Thank you for the opportunity to testify today before the Senate Subcommittee on Research, Nutrition, and General Legislation. My name is Tom Schatz and I represent the 1,000,000 members and supporters of Citizens Against Government Waste (CAGW).

CAGW was created 16 years ago after the late Peter Grace presented to President Ronald Reagan 2,478 findings and recommendations of the Grace Commission (formally known as the President's Private Sector Survey on Cost Control). These recommendations provided a blueprint for a more efficient, effective, less wasteful, and smaller government.

Since 1984, the implementation of Grace Commission and CAGW recommendations have helped save taxpayers more than $650 billion, but our work is far from done.

The Grace Commission Task Force on Agriculture made 58 specific recommendations, ranging from improving slaughter inspections to decentralizing cash collection in the Farmers Home Administration. The Grace Commission understood the importance and complexity of reforming USDA.

Unfortunately, reform comes slowly to that department. Every year, CAGW publishes *Prime Cuts*, a compendium of spending reduction options from various sources including the Congressional Budget Office, Office of Management and Budget, inspectors general, and other public and private sources.

This year, *Prime Cuts* detailed 52 specific recommendations to reform USDA. The potential savings from these recommendations is $11 billion in the first year and $57 billion over five years. I would like to submit the Agriculture section of *Prime Cuts* into the record. Included in this year's list are recommendations to eliminate sugar and peanut subsidies, as well as to eliminate corporate welfare programs such as the Market Access Program and the Export Enhancement Program.

Prime Cuts tries try to fine tune good programs that have gone astray and eliminate those programs that are not needed. The most notorious example of a good program gone bad is the food stamp program managed by the Food and Nutrition Service (FNS). Food stamp fraud has been an issue for CAGW since the Grace Commission

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recommended streamlining the program a decade and-a-half ago. While the most pervasive food stamp problem is illegal trafficking, many management problems continue to perplex FNS, such as their failure to update the program annually to reflect changes in the average participant household's size and composition. The benchmark for defining an average American recipient household was established in 1971, and no changes have been made since to reflect the country's changing demographics. The recommendation, for which the Grace Commission estimated savings of more than $3 billion over five years, was never implemented.

As the food stamp program has grown, so have the documented instances of fraud. The Grace Commission, General Accounting Office (GAO), Office of Management and Budget (OMB), and the USDA Inspector General (IG) have all tracked and made recommendations to reduce food stamp fraud. With its far-reaching disbursement, high visibility, and inconsistent government oversight, scamming the Food Stamp program has become an almost effortless crime. The stamps themselves act as an underground currency for opportunists, petty thieves, drug and illegal arms dealers, counterfeiters, smugglers, and money launderers. A review of recent newspaper articles and unofficial loss estimates due to illegal trafficking and overpayments suggests the true cost of fraudulent activity may be $5 billion annually.

In 1997, CAGW testified that a handful of states had instituted the electronic benefits transfer (EBT) system, and recommended wider use of the EBT system. Today, 40 states and the District of Columbia use EBT systems to deliver food stamps. While there have been some improvements in the food stamp program, mismanagement continues to be a problem.

In particular, the State Option Food Stamp Program (SOFSP) and the Child and Adult Care Food Program (CACFP) have internal control deficiencies that continue to befuddle FNS officials. In its most recent semiannual report, the USDA IG recommended that, in regard to the SOFSP, FNS should "take immediate action to address the accounting and reporting deficiencies, issue clarifying guidance to State agencies, and recover invalid Food Stamp Program (FSP) expenditures."

CACFP officials have terminated 26 sponsors receiving more than $46 million annually in food and administrative funds. Of the 60 individuals charged with crimes through CACFP, 45 have been found guilty and 37 sentenced. In one particular case, the president of a Michigan day care center was sentenced to nine years in prison followed by three years of supervised release. The man was ordered to pay $13.5 million in restitution, a $10 million fine and a special assessment of more than $3,000.

One of the most disturbing problems pointed out by the semiannual report was the Urban Resources Partnership (URP) program. According to the IG, URP was initiated without specific statutory authority or congressional appropriations. The IG went on to criticize the program, saying, "In addition, cities/areas were not selected to participate in URP on a competitive basis, URP recipients did not always use funds to meet the purposes of the applicable statutes from which the appropriations were obtained, and the program did not include controls to ensure that award funds were used in accordance with applicable Federal regulations." URP funds have been used to fund projects such as painting a mural on a wall and creating a database in Buffalo to catalogue the city's trees. This committee should not sit idly by while USDA officials continue to spend additional money on this illegal program.

The IG was also highly critical of the Rural Utilities Service (RUS) telephone program. The IG claims that RUS continues to make and service telephone loans to financially strong borrowers who likely could obtain financing from other sources. The IG identified 434 borrowers with loans totaling $1.9 billion who had "sufficient financial strength to repay their loans and/or could obtain, or be graduated to, non-Government lending sources." On top of this, the mismanagement of the electricity program should shock many taxpayers. The IG charges the electricity program borrowers are not investing in rural development as intended by Congress. Instead, the borrowers reported investments in U.S. Treasury notes, stocks and bonds, money market certificates, certificates of deposit, and commercial paper. These recommendations are similar or identical to those made by the Grace Commission. It is time to turn words into action and reform these programs.

Another problem that has plagued USDA for years is in its Office of Civil Rights (OCR). The IG noted that OCR could not identify the location of more than 1,200 program complaint case files and could not accurately determine where one-third of all complaints stood.

GAO supported the IG's work in this area earlier this month in testimony before this very committee. GAO identified a number of outstanding problems with OCR, including: continuing management turnover and reorganization; inadequate expertise that contributed to processing delays; lack of clear, up-to-date guidance and procedure; and poor working relationships and communication within OCR and between the office and other USDA entities. These weaknesses led USDA to settle a lawsuit with black farmers that could cost the federal government $2 billion.

One of the most important Grace Commission recommendations enacted by Congress was the Chief Financial Officers (CFO) Act of 1990. The CFO Act requires all cabinet level and other major federal agencies (24 total agencies) to prepare financial statements to be audited by each agency's inspector general or an independent external auditor in accordance with "Government Auditing Standards issued by the Comptroller General of the United States." This common-sense approach to financial accounting has escaped USDA. In referring to USDA's FY 1999 Consolidated Financial Statements, the IG stated that the agency, "does not know whether it correctly reported monies to be collected in total, how much money is collected, the cost of its operations, or any other meaningful measure of financial performance."

The IG report details financial management weaknesses overall and in specific areas such as the Forest Service. The IG notes that the Forest Service uses a non-integrated general ledger system for nearly 84 percent of its financial activity. This means there is an inability to trace individual transactions from general ledger accounts to supporting subsidiary records. For example, the IG reported that a former forest service employee used a government credit card to buy $8,500 worth of personal items such as groceries. The forest service only recovered $6,000 of the illegal credit card charges.

In March of this year, GAO issued its 1999 audit of the U.S. government's financial statements. According to GAO, among the seven major challenges facing the federal government are its inability to "properly estimate the cost of certain major federal credit programs and the related loans receivable and loan guarantee liabilities, primarily at the Department of Agriculture." GAO went on to say that USDA could not estimate the net loan amounts to be collected because of a lack of key historical data needed to predict borrower behavior, such as the timing and amount of future defaults and prepayments. GAO blamed this lack of historical data on system inadequacies.

USDA is not entirely to blame for this fiscal fiasco. Over many years, rather than investing in technology and upgrading financial and computer systems, Congress puts in pork and funds duplicate, obsolete, or mismanaged programs.

On September 28, 1996, almost exactly four years ago, the House Committee on Government Reform and Oversight, under Chairman William Clinger, Jr. (R-Pa.) released a scathing report on government waste, House Report 104-861, *Federal Government: Examining Government Performance As We Near The Next Century.* The committee stated its "quick review of fraud, abuse and mismanagement uncovered more than $350 billion in potential savings could be achieved if greater resources were devoted to good management practices. Hundreds of billions more will be wasted in the near term on cost over runs, program delays, delinquent payments, loans, grants and unfulfilled contracts."

Specifically related to this committee's jurisdiction, the Government Reform Committee found that the Consolidated Farm Service Agency was making ill-advised loans and failing to collect millions in debts owed, including delinquencies of $6.4 billion out of the total of $17.8 billion in guaranteed and direct loans. It found that the Rural Housing and Community Development Service was allowing its loans to be used improperly. It also found mismanagement at the Food and Consumer Services area, including food stamp fraud and the misuse of appropriated funds for political polling. In the area of telecommunications and technology, the committee determined USDA wasted hundreds of millions of dollars on its Info Share project, including the purchase of outdated hardware and software. It also reported USDA did not have adequate controls for ensuring its telephones were used for business purposes. More than 600 collect calls over a four-month period were accepted by USDA employees from individuals at correctional institutions, many of which were routed long-distance to phone sex and adult party lines in the Dominican Republic. I request the portion of the Clinger report related to USDA be entered into the record.

Another long-standing area of waste and mismanagement, which under the leadership of Senate Governmental Affairs Committee Chairman Fred Thompson (R-

Tenn.) has only recently been examined, is improper payments by federal agencies. Sen. Thompson asked GAO to review federal agencies to determine the level of such payments. In its 1999 report, GAO found $19.1 billion in such payments across eight agencies; in its July 2000 report, GAO found $20.7 billion in 12 agencies. It is no surprise that USDA was included in the report, as more than $1.3 billion in improper payments were being made in the food stamp program.

Financial management is an area that must be addressed immediately. CAGW is not asking for dramatic changes, just common-sense accounting. We recommend USDA continue its implementation of the Financial Information System Vision and Strategy (FSVIS) project to make their financial books legible.

For the taxpayer, it is important that USDA programs be managed effectively from the onset. Time and again when the IG uncovers fraud, the recovery of funds doesn't come close to the money lost.

But the impact of fraud and abuse cannot be measured solely in dollars. Those who truly need our help don't always get it, while others receive benefits they don't deserve. Even worse, every dollar wasted through mismanagement takes food from families who need food stamps, children who need school lunches, and workers who need tax relief.

Congress should hold those responsible for the administration of these and all programs accountable for their effectiveness. Ensuring the IG has adequate resources to carry out its mission will also help to reign in USDA's rampant mismanagement.

Thank you very much for this opportunity to testify. This concludes my testimony. I will be happy to answer any questions at this time.

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TESTIMONY

From

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Mercatus Center at
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For

Subcommittee On Research, Nutrition and General Legislation
Committee on Agriculture, Nutrition and Forestry
United States Senate

September 27th 2000

On

Financial and Management Accountability at U.S. Department of Agriculture

Mr. Chairman, I am honored to present testimony before your committee on this issue. According to recent analysis by the GAO, the department (USDA) has a history of falling short in the same areas year after year. I would like to provide meaningful commentary on these management challenges, but to do so I need current, high quality, accurate information provided by USDA. Unfortunately, such information is not easily obtainable. That is a serious management issue in itself, because transparency and full disclosure are features normally found in high-performance organizations; they tend to reinforce one another.

Perhaps I can clarify this by asking, "What new incentives might be created that would influence USDA to master these challenges?" A study of the behavior of organizations shows that open disclosure of results serves as an incentive to master performance challenges. If this information is fully transparent to the public and affects future revenue streams, then the incentives to improve performance are even stronger.

The Government Performance and Results Act (GPRA) creates just such an incentive. Theoretically, Annual Performance Reports required by the Government Performance and Results Act should contain all the information Congress needs to assess the performance of a government organization. However, an examination of USDA's FY 1999 report would not be very enlightening because at this stage, the department does not meet the test of full disclosure and transparency in its reporting. Therefore, it is avoiding one of the most important requirements of the GPRA.

This particular problem is not unique to USDA. At the Mercatus Center at George Mason University, my colleagues and I have been concerned about the quality of agencies' performance reporting. Transparent disclosure of public benefits and agency outcomes allows Congress to accurately review performance and make informed decisions about future funding allocations. To help establish standards and expectations for reporting under GPRA, we conducted a study of the FY 1999 performance reports and published our findings in May of this year. Not surprisingly, in this very first effort, many agencies struggled with the task and the general quality of reporting was mediocre.

Congress' introduction of this reporting requirement has two significant impacts. First, there is disclosure of the organization's performance to the public, and the range of possible reactions that invites. Second, but less recognized, is the internal process of organizational review necessary to produce the performance information for the report. This process is important because it reveals to the organization its own strengths and weaknesses, and provokes strategies to address its shortcomings. Current analysis of USDA's report indicates that it has not responded to the two incentives referred to above, as much of its data appears to process-oriented rather than outcome-oriented.

To use a private sector analogy, this process can be compared to preparation of an annual report of a publicly listed company. The administration acts as the board of directors, the department is the company, and you, the legislature, act on behalf of the owners: the American people. This process should not be a game of "hide and seek," as you are entitled to full knowledge and full disclosure of the performance of the organization you own. In fact, you have an obligation to the shareholders, the American people, to assure them that this organization can deliver its outcomes before you reinvest shareholders' money each year.

In the grading of departments' first strategic plans (1997) by the House Majority Leader, Congressman Dick Armey, the USDA finished 17th out of 24 agencies. In the study of the same agencies' first performance reports (for FY 1999) by the Mercatus Center in May, USDA ranked 22nd out of 24 agencies. Herein might lie a clue to the problems Agriculture is experiencing. If there is not a clear, commonly-held view of the "public good" produced by its programs, and measures that clearly reflect progress towards the

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achievement of that "public good," then it is almost impossible to have high quality managerial practices.

In order for management to make sound judgments on mission critical issues, there must be a clear view of the goal. Without the ability to accurately identify mission critical factors, prioritization of resources becomes, at best, a problematic affair. Typically, the response to such a situation is to assume that managerial problems can only be rectified by additional resources, rather than recognizing that reallocation of current resources to mission critical areas could begin to solve the problem.

I will now use a couple of strategic goals from USDA's Annual Performance Report to pose questions that highlight strengths and weaknesses in the performance of this organization. I am going to take literally the information provided, and examine the claims and implications of the report. This exercise is designed to stress the importance of high quality outcome measures – one important component of responsible disclosure.

Strategic Result Area

The Forest Service

The Mission of the Forest Service is first and foremost a custodial one. They are charged with managing the nation's forest estate in perpetuity for the best interests of the American people. As this is their primary responsibility, the first planning question they should ask is: What are the risks that might destroy the forest? Answer: Fire, high winds, disease, animals and excessive timber extraction. The next question should be: How can we diminish these risks? Answer: Lower the fire risk; improve wind filtration through the forest; control disease; remove damaging animals; control extraction inside sound ecological limits. The next question then is: Which of these risks currently has the highest probability? That risk has first call on resources.

In order to assess USDA's progress towards the heart of their mission, the committee might ask USDA: How long have you been aware of the build up of fuel in the forest? Who did you tell of this increasing risk? What did you do to diminish that risk?

Note: It is not sufficient to presume that because an agency is active in a particular area that any improvement is a result of their involvement. Often there is improvement that cannot be attributed to the agency. Agencies need to prove that there is a causal link between their activity and the improved result.

Strategic Result Area

Reduce Hunger and Ensure Food for the Hungry.

The key indicator in this result area should be: By how much has hunger been reduced? The measures given should reflect how much each program was able to reduce hunger. Only when there is a clear cause and effect linkage is it possible to be effective in producing public benefits in these social policy areas. I know these are more difficult measures to develop, but the mission is to reduce hunger. Unless there are measures that

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show a linkage between program activity and reduction in hunger, it is not acceptable to claim success.

In the area of nutrition, the only acceptable measure is how much nutritional levels were improved by program activity. Measuring the level of educative activity does not provide evidence that there is improvement to nutritional levels. It just presumes these educational programs provide benefit. A much more valuable measure would be to track a sample group of clients and measure nutritional improvement. That would make it possible to determine with much greater accuracy which programs produced the greatest benefits and concentrate resources on those programs.

Note: In this outcome area, it is important for Congress to be reasonably certain that the current mix of programs and the level of resource allocation to those programs will produce the greatest public benefit. In my view, the current data provided by USDA does not allow that judgment to be made with any certainty. Unless an agency like USDA can produce that quality information, it is almost impossible to meet the first test of good management: the organization's resources are being allocated in the best possible way to maximize the public benefit.

Conclusions

In conducting this review of managerial performance at the USDA, the committee should first establish whether or not USDA is able to provide evidence of their progress towards various missions. Using their current annual report, it is impossible to make that judgment with certainty. This indicates a data problem that needs to be addressed. For example, when looking at their funds management programs, transfer payment or loans programs, there is a high emphasis on recoveries. That is an after-the-fact strategy and should only be a back up to the more important prevention strategy. Lowering or eliminating the error rate does not seem to be getting the same emphasis. To achieve significant improvement, USDA should devise a prevention strategy.

The information most useful to Congress is that which indicates success or failure of an agency in achieving required outcomes. USDA needs to do better in focusing on a particular outcome and choosing measures that reflect progress towards that goal. I would be the first to admit this is not easy; particularly where USDA has to work through second and third parties, and in many instances has little control over the outputs produced. However, that does not excuse the absence of outcome data from their performance report.

A useful tool in clearly defining the outcome is a very simple process of answering the following questions: What is the public evil being eliminated? What is the public good being enhanced? What measure would clearly show progress toward this goal? Good management then makes sure that all programs move that measure in the correct direction. Good congressional oversight ensures that funds are taken away from ineffective programs and are reallocated to those programs that demonstrate progress toward appropriate outcomes. I hope that this information is useful to your committee in its oversight of USDA. Thank you for the opportunity to testify.

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