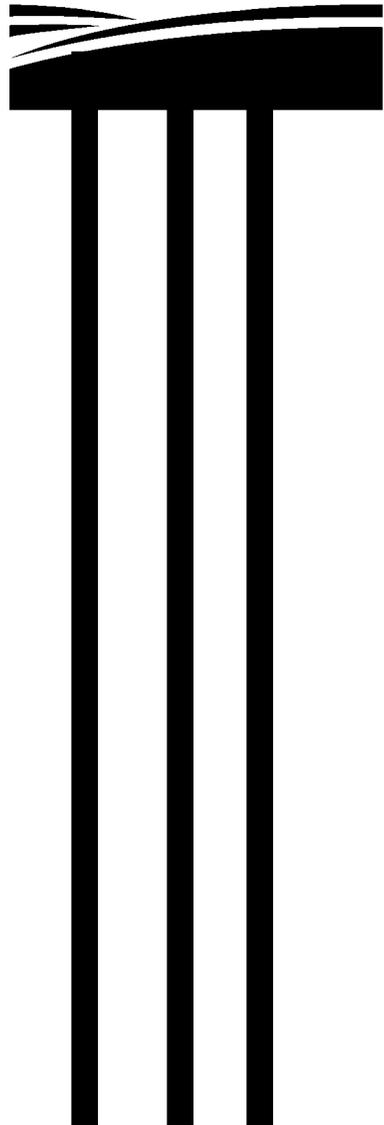


# USDA



U.S. Department of Agriculture  
Office of Inspector General  
Great Plains Region  
Audit Report

RURAL DEVELOPMENT  
2001 FINANCIAL STATEMENT  
FIELD CONFIRMATIONS IN NEBRASKA



**Audit Report No.  
04099-3-KC  
FEBRUARY 2002**



UNITED STATES DEPARTMENT OF AGRICULTURE  
OFFICE OF INSPECTOR GENERAL



Audit  
Great Plains Region  
5799 Broadmoor, Suite 600  
Mission, Kansas 66202

DATE: February 25, 2002

REPLY TO

ATTN OF: 04099-3-KC

SUBJECT: Rural Development – Fiscal Year 2001 Financial Statement  
Field Confirmation Review in Nebraska

TO: M. James Barr  
State Director  
Rural Development

This report presents the results of the Rural Development financial statement field confirmation review for fiscal year 2001 performed in Nebraska. Your February 6, 2002, response to the draft report is included as exhibit B, which shows that you utilized an electronic format to submit your comments contained in the Rural Development Response sections of the report. The Office of Inspector General's position is incorporated into the relevant sections of the report.

Your comments showed concurrence with the audit findings and recommendations and were adequate to reach management decision on Recommendations Nos. 1, 2, 3, 4, 5, 6, 8, 9, 10, 11 and 12. For Recommendation No. 7, we need additional information before a management decision can be reached. In accordance with Departmental Regulation 1720-1, please furnish a reply within 60 days describing the corrective action taken or planned, including timeframes, on the remaining recommendation. Please note that the regulation requires a management decision to be reached on findings and recommendations within a maximum of 6 months of report issuance.

We appreciate the courtesies and cooperation extended to us during the audit.

/s/

DENNIS J. GANNON  
Regional Inspector General  
for Audit

---

# EXECUTIVE SUMMARY

## RURAL DEVELOPMENT 2001 FINANCIAL STATEMENT FIELD CONFIRMATIONS IN NEBRASKA

AUDIT NO. 04099-3-KC

---

---

### RESULTS IN BRIEF

---

This report presents the results of our fiscal year (FY) 2001 audit of Rural Development the State of Nebraska. This audit was performed in conjunction with the Office of Inspector General's audit of the Rural Development FY 2001 Financial Statements. The objectives of our audit were to determine if the Rural Development system of internal control provides reasonable assurance that control objectives were met and that Rural Development has complied with laws and regulations for transactions and events that may have a material effect on its financial statements.

Our review of Rural Development's controls over various loan and grant programs, collection activities, accountable property, and the Purchase Card Management System (PCMS) disclosed no material problems. Generally, we found controls were in place and functioning where only eligible borrowers were approved for loans and grants, collections were accounted for accurately, property existed, and PCMS reviews were being performed.

However, we found that loan files maintained by one area office and one field office did not always include required forms and signature authorities in accordance with loan approval procedures. Also, separations of duties over collections were not fully practiced by one area office and two field offices, although staffing levels were sufficient to allow for recommended duty separations. We further noted that controls over security and accountability of the PCMS were not always functioning as intended. Noted weaknesses related to the number of authorized cardholders, physical security over purchase cards and unused convenience checks, and review and reconciliation of purchase transactions.

We also found that controls over accountability for personal property need improvement. We identified 17 items valued at about \$35,400 that were not accurately recorded or accounted for in the Office of the Chief Financial Officer/National Finance Center (OCFO/NFC) PROP Inventory System. In addition, we noted that computer security controls were not

always practiced, including periodic changing of system passwords, annual reviews of user access to authorized systems, and safeguarding of system backup tapes. Finally, we noted improvements are needed in the maintenance of grant tracking logs.

---

**KEY RECOMMENDATIONS**

---

We recommended Rural Development take appropriate action to ensure that all required forms are completed and maintained on file and prescribed separations of duties over collections are practiced in all area and field offices. We also recommended Rural Development evaluate the number of authorized purchase cardholders, require the safe storage of purchase cards and convenience checks when not in use, and perform timely reconciliations of purchase transactions. Coordination with the National office is recommended to address the appropriate method of payment for airline ticket transaction fees and use of Form SF-1164, Claim For Reimbursement For Expenditures on Official Business.

We recommended Rural Development perform physical inventories of accountable personal property and update the OCFO/NFC PROP Inventory System, as appropriate. In addition, we recommended Rural Development develop procedures to eliminate the sharing of computer system passwords, require the periodic changing of computer system passwords, and provide for periodic reviews of computer software/system access authorizations. We further recommended that Rural Development ensure secure storage of computer system backup tapes to reduce risks of unauthorized access and destruction.

---

**RURAL DEVELOPMENT  
RESPONSE**

---

Rural Development understands the recommendations and has addressed each individually in the balance of this report. June 1, 2002, is the estimated resolution date for each recommendation.

---

**OIG POSITION**

---

We concur with the proposed timeframes and the planned corrective actions for each audit recommendation addressed. However, we will need to be advised of planned corrective action for Recommendation No. 7 regarding airline ticket transaction fees.

---

# TABLE OF CONTENTS

---

EXECUTIVE SUMMARY .....	i
RURAL DEVELOPMENT .....	i
RESULTS IN BRIEF .....	i
KEY RECOMMENDATIONS .....	ii
RURAL DEVELOPMENT RESPONSE .....	ii
OIG POSITION .....	ii
TABLE OF CONTENTS .....	iii
INTRODUCTION .....	1
BACKGROUND .....	1
OBJECTIVES .....	2
SCOPE .....	2
METHODOLOGY .....	3
FINDINGS AND RECOMMENDATIONS .....	4
CHAPTER 1 .....	4
LOAN FILES NOT INCLUSIVE OF ALL REQUIRED DOCUMENTATION .....	4
FINDING NO. 1 .....	4
RECOMMENDATION NO. 1 .....	5
CHAPTER 2 .....	7
LACK OF SEPARATION OF DUTIES INCREASED THE RISK OF MISUSE OF FUNDS .....	7
FINDING NO. 2 .....	7
RECOMMENDATION NO. 2 .....	7
CHAPTER 3 .....	9
IMPROVEMENTS NEEDED OVER SECURITY AND ACCOUNTABILITY OF PURCHASE CARDS AND CHECKS .....	9
FINDING NO. 3 .....	9
RECOMMENDATION NO. 3 .....	10
FINDING NO. 4 .....	10
RECOMMENDATION NO. 4 .....	11

---

<b>FINDING NO. 5 .....</b>	<b>11</b>
<b>RECOMMENDATION NO. 5 .....</b>	<b>12</b>
<b>RECOMMENDATION NO. 6 .....</b>	<b>12</b>
<b>FINDING NO. 6 .....</b>	<b>13</b>
<b>RECOMMENDATION NO. 7 .....</b>	<b>14</b>
<b>CHAPTER 4 .....</b>	<b>15</b>
<b>ACCOUNTABILITY OVER PERSONAL PROPERTY NEEDS IMPROVEMENT ....</b>	<b>15</b>
<b>FINDING NO. 7 .....</b>	<b>15</b>
<b>RECOMMENDATION NO. 8 .....</b>	<b>16</b>
<b>CHAPTER 5 .....</b>	<b>17</b>
<b>CONTROLS OVER COMPUTER SECURITY NEED IMPROVEMENT .....</b>	<b>17</b>
<b>FINDING NO. 8 .....</b>	<b>17</b>
<b>RECOMMENDATION NO. 9 .....</b>	<b>18</b>
<b>FINDING NO. 9 .....</b>	<b>18</b>
<b>RECOMMENDATION NO. 10 .....</b>	<b>19</b>
<b>FINDING NO. 10.....</b>	<b>20</b>
<b>RECOMMENDATION NO. 11 .....</b>	<b>20</b>
<b>RECOMMENDATION NO. 12 .....</b>	<b>21</b>
<b>GENERAL COMMENTS.....</b>	<b>22</b>
<b>EXHIBIT A – SUMMARY OF MONETARY RESULTS .....</b>	<b>23</b>
<b>EXHIBIT B – RURAL DEVELOPMENT RESPONSE TO DRAFT REPORT.....</b>	<b>24</b>
<b>ABBREVIATIONS.....</b>	<b>25</b>

---

# INTRODUCTION

---

---

## BACKGROUND

---

Rural Development is the credit agency for rural development in the United States, Puerto Rico, the Virgin Islands, and trust territories.

Rural Development provides loans and grants and extends loan guarantees for housing, community development, and electric and telecommunication programs. The Rural Development mission area consists of three program agencies; the Rural Housing Service, the Rural Utilities Service, and the Rural Business-Cooperative Service.

Nationwide, Rural Development has an outstanding loan portfolio of \$82.4 billion. The loan programs are delivered through each agency's national office, 47 State offices, 266 area offices, and 686 local offices. At the State level, Rural Development provides guidance and oversight of field office activities and administers program activities. A State Office (STO) program specialist is assigned to each program. As part of its oversight function, the STOs perform reviews of program areas and field offices. At a minimum, STOs are required to perform a review of each field office once every five years. In Nebraska, there are 3 area and 15 local branch offices.

Before granting a loan, Rural Development must ensure the applicant is eligible. Eligibility determinations vary by loan program. For housing loans, repayment of the loan is dependant on the applicant having stable income and no significant outstanding debt. Rural Development will verify the applicant's income by contacting the applicant's employer and will verify existing debt by obtaining a credit report. Rural Development has appropriate lien priority on the subject property and, in case of default, the house must be of sufficient value to cover the amount of the loan. An appraisal of the subject property must be completed prior to loan approval with only properties appraised at or above the loan amount being considered. Community development and rural utility loans are made only to municipalities where repayment of the loan is dependent on the tax base of the community or the use of the facility.

The management of the three Rural Development agencies is responsible for establishing internal controls and for ensuring compliance with laws and regulations applicable to its programs. During the course of our review, we tested compliance with a number of these laws and regulations, including the Anti-Deficiency Acts of 1906 and 1950; Rural

Utilities Service Instruction 1780; single-family housing instruction HB-1-3550; and Rural Development Instructions 4279A, 4279B, 1980-A, 1980-D, 1980-I, and 1944-E.

---

**OBJECTIVES**

---

Our overall audit objective was to determine whether Rural Development's financial statements present fairly, in all material respects, the financial results in accordance with prescribed accounting principles. Specifically, we were to determine if the Rural Development system of internal controls provided reasonable assurance that control objectives were met, and that it complied with laws and regulations for transactions and events that might have a material effect on its financial statements.

---

**SCOPE**

---

We performed audit work at the Nebraska STO, the Kearney and Norfolk area offices, and the Lincoln and North Platte field offices. The State, area, and field offices were judgmentally selected based on volume of loan activity for FY 2001. At the State, area, and field offices, we reviewed controls over the borrower eligibility determinations and the loan approval functions for the direct single-family housing, community programs, and multi-family housing loan programs. We also reviewed similar controls over the guaranteed single-family housing and business and industry loan programs. In addition, we reviewed Rural Development internal controls over accounting for personal property, use of the government purchase cards, computer security, graduation of direct single-family borrowers to outside credit, collection of payments and fees, and disbursements of grant funds. We performed fieldwork from July 2001 through September 2001.

In Nebraska, the Rural Development loan portfolio consisted of 3,584 single-family housing borrowers with an outstanding unpaid principal balance of over \$102 million; 286 multi-family housing borrowers with an outstanding balance of over \$97 million; 2,281 single-family housing borrowers with loan guarantees of over \$108 million; 17 borrowers with guaranteed business and industry loan balances of over \$21 million; 24 community facilities borrowers with outstanding unpaid principal balances of over \$10 million; and 88 water and waste borrowers with outstanding unpaid principal balances of over \$39 million.

Our universe consisted of loans closed in FY 2001. In the 5 offices visited, we reviewed 19 of 64 direct single-family housing loans totaling \$1,280,630 (\$3,289,302 total), 15 of 134 guaranteed single-family housing loans totaling \$1,250,700 (\$7,122,540 total), both guaranteed business and industry loans totaling \$1,571,000, all 7 multi-family housing loans

totaling \$540,620, all 4 community facility loans totaling \$616,000, and all 6 water and waste loans totaling \$1,791,900.

We conducted this audit in accordance with Government Auditing Standards.

---

To accomplish the audit objectives we:

## **METHODOLOGY**

---

- Reviewed applicable regulations;
- Examined case files and case file documents;
- Reviewed online history screens from Rural Development accounting systems;
- Conducted interviews with applicable Rural Development personnel at the offices visited;
- Confirmed disbursements with grant recipients; and
- Performed a physical inventory of accountable property at the offices visited.

We judgmentally selected the loans, grants, and transactions included in our review based on large dollar values.

---

# FINDINGS AND RECOMMENDATIONS

---

<b>CHAPTER 1</b>	<b>LOAN FILES NOT INCLUSIVE OF ALL REQUIRED DOCUMENTATION</b>
------------------	---

---

**FINDING NO. 1**

---

Our review of loan documentation for various selected samples of loans disclosed that required forms were not always presented for borrower signature or maintained in loan files.

Missing documentation was attributable to lack of employee familiarity with form existence and purpose, as well as breakdowns in the processing and securing of required forms. Failure to obtain and maintain required loan documentation could jeopardize the security of approved and disbursed loan proceeds.

Forms Rural Development 3550-7, Mortgage Loan Commitment, and Rural Development 3550-23, Applicant Orientation Guide, were not on file for 1 of 5 direct single-family housing loans reviewed at the North Platte field office. Field office personnel could not explain why the required forms were not present in the loan file. As a result, loan proceeds valued at \$79,648.12 were not adequately supported.

Rural Development procedure states that Form Rural Development 3550-7 must be signed by the borrower and returned to the Loan Originator within 15 days, pending deobligation of the loan. Rural Development procedure further requires the Loan Originator to follow with Form 3550-23 to ensure that all relevant topics are discussed with the loan applicant. The loan applicant must initial each item in Part II, sign, and date the document. Rural Development procedure provides that under no circumstances can a loan be closed without signed evidence that the applicant orientation took place.<sup>1</sup>

Forms SF-424B, Assurances – Non-Construction Program, and 424D, Assurances – Construction Program, were not completed and signed by authorized representatives for three multi-family housing loans serviced by the Kearney area office. These forms are included as attachments to the respective application packages that set forth a listing of conditions and require separate signature authorities. Rural Development personnel stated they were not aware of the existence of these forms or the need for separate signatures. Without these forms, Rural Development lacks

---

<sup>1</sup> Rural Development Handbook 1-3550, Paragraph 8.6A.1

assurance that borrowers have been notified of all applicable requirements governing the multi-family housing loan program.

Rural Development procedures<sup>2</sup> provide that Forms SF-424B and SF-424D be completed and signed by the authorized representative of the loan applicant.

We also noted that the Rural Development STO had not provided written notification to lenders for two guaranteed Business and Industry loans that failure to provide required financial statements and analysis could result in the loan guarantee being unenforceable. STO personnel stated they did not consider this action necessary as loan requirements were verbally conveyed to lenders and no procedural requirement for documentation of this loan provision exists. However, documentation to support the discussion of this loan provision would provide Rural Development with a stronger position in the event that financial statements are not provided as required.

---

**RECOMMENDATION NO. 1**

---

Remind personnel to follow established procedures to ensure that all required forms and documentation for loan processing and approval are properly executed and filed.

**Rural Development Response**

USDA Rural Development developed a processing checklist a number of years ago for processing SFH direct loans. Both Form Rural Development (RD) 3550-7, "Mortgage Loan Commitment" and Form RD 3550-23, "Application Orientation Guide" are on the checklist and the field office employees know that they are required. The last update of our processing checklist was issued on NE AN 1937 (3550) dated January 2, 2002. The omissions in the file that OIG reviewed were obviously an oversight by the local staff. The completion of these and other forms are reviewed during our State Internal Review process, and this has not been an issue in Nebraska over the last several reviews conducted. We plan to have a Single Family Housing meeting in April 2002, and we will remind staff of the need for completion of the above forms and all necessary forms as listed on the processing checklist.

All staff involved in the RRH program will be reminded by letter that Forms SF-424B, Assurances–Non-Construction Program and 424D, Assurances–Construction Program must be completed and signed by the appropriate staff.

---

<sup>2</sup> Rural Development Instruction 1944-E, Paragraph 1944.245 (c) (2) (iii), Standard Form (SF)-424.2, Application for Federal Assistance (For Construction). Rural Development Instruction 1944-N, Exhibit C, Paragraph II (A) (1), Standard Form (SF) 424.1, Application for Federal Assistance (For Non-Construction).

All lenders are being notified of the provision that failing to provide required financial statements and analysis could result in the loan guarantee being unenforceable at the time of loan approval. This provision is now being addressed in the Conditional Commitment for Guarantee.

**OIG Position**

We concur with the proposed management decision.

---

**FINDING NO. 2**

---

At one area office and two field offices visited, Rural Development did not follow the collection procedure requirements for separation of duties. This occurred because

one individual performed the duties of collecting, recording, and transferring funds received from program participants. As a result, there was reduced assurance that funds collected at these offices were being accounted for properly.

Rural Development procedure<sup>3</sup> provides that, to the extent practical, at least two employees will be involved in receiving and processing collections. One employee receives collections and prepares the cash receipts and collection logs; a second employee prepares the collection data for payment application. The first employee, who received and recorded the collection, balances the daily collection items.

We noted that required separations of duties over collections were not always practiced at the Norfolk area office, as well as the North Platte and Lincoln field offices, although staffing levels at each office were sufficient to provide for prescribed separations of duties. Rural Development personnel at the Norfolk area office stated they were not aware of the requirement for separation of duties when a check is being processed that accompanies a generic coupon. Personnel at the North Platte field office stated they thought it more convenient and efficient to have one staff member responsible for the processing and transmittal of collections. If collection duties are not properly separated, there is increased risk of errors in the accounting for collections. The State Internal Review process includes an assessment of the separation of duties within the collections process. Based on a 5-year cycle for performing State Internal Reviews, the offices in question were not scheduled for, or required to have, a State Internal Review performed during FY 2001.

---

**RECOMMENDATION NO. 2**

---

Ensure that area and field offices are handling the collection of funds in accordance with agency requirements.

**Rural Development Response**

By June 1, 2002, the Management Control Officer will provide all employees a written directive that requires the continued use of the "Rural

---

<sup>3</sup> Rural Development Interim Management Control Procedures – Collections, dated March 7, 2001.

Development Interim Management Control Procedure – Collections” dated March 7, 2001, which includes a separation of collection duties in all programs. The instructions will also contain an explanation of correct form completion for each type of funds collected, as well as proper submission of funds for each program division.

Require monthly supervisor reviews of collections will be reported to the State Director on Rural Development Manager quarterly oversight reports.

**OIG Position**

We concur with the proposed management decision.

<b>CHAPTER 3</b>	<b>IMPROVEMENTS NEEDED OVER SECURITY AND ACCOUNTABILITY OF PURCHASE CARDS AND CHECKS</b>
------------------	--

Controls designed to ensure security and accountability over the Purchase Card Program were not always functioning as intended. We noted that two cardholders did not transact purchases on a regular basis and that purchase cards and convenience checks were not always properly safeguarded. We further noted that purchase transactions were not always reconciled in a timely manner, supported by adequate documentation, or executed for authorized purposes. These weaknesses in controls serve to increase the potential for loss, theft, or misuse of Government purchase cards and convenience checks. Unauthorized purchase transactions totaled about \$657, while unsupported transactions totaled about \$2,790.

---

**FINDING NO. 3**

**NUMBER OF PURCHASE CARDHOLDERS COULD BE REDUCED**

---

We questioned whether two of five STO employees authorized to execute purchase transactions should continue to maintain purchase cards and convenience checks. We noted that these two employees were responsible for program loan activities and, as such, executed very few purchase transactions using the credit cards or convenience checks.

Prolonged periods of infrequent use of credit cards and convenience checks increase the risks over security and accountability of these instruments.

Review of one cardholder's purchase log and check register showed only 10 credit card purchases transacted over a 3-year period from June 1998 through July 2001, and only one convenience check issued since November 1999. We also noted that security was not adequately maintained over unused convenience checks issued to this cardholder and that purchase transactions were not always reconciled as required. (See Finding No. 4.)

Review of the second cardholder's purchase log and check register showed only four credit card purchases transacted from November 2000 through July 2001, with only four convenience checks issued since October 2000. We noted that security was not adequately maintained over the purchase card and convenience checks issued to this cardholder and we questioned the appropriateness of documentation to support 3 of the 4 purchases transacted with convenience checks. (See Finding No. 6.)

STO staff stated that additional staff members were approved purchase card and convenience check authority as a convenience to the program groups

within the office. However, we noted that the Local Area Program Coordinator (LAPC) and the Procurement Technician transacted most of the STO purchases. We believe that a reduction in the number of authorized cardholders would facilitate overall management of the Purchase Card Program and reduce credit card and convenience check exposure to loss, theft, or misuse.

---

**RECOMMENDATION NO. 3**

---

Review the frequency of purchase card and convenience check transactions for each authorized cardholder and determine whether the number of authorized cardholders should

be reduced.

**Rural Development Response**

Rural Development understands the concern identified. We will review card and convenience check usage by June 1, 2002, and at the end of each Fiscal Year and determine if the number of cardholders should change.

**OIG Position**

We concur with the proposed management decision.

---

**FINDING NO. 4****PURCHASE CARDS AND  
CONVENIENCE CHECKS NOT  
ADEQUATELY SECURED**

---

STO employees did not always follow procedure for safeguarding purchase cards and convenience checks. We found that 1 of 5 purchase cards was not stored in a secure location and that convenience checks issued to 4 of 5 STO employees were not adequately protected. Failure to adequately safeguard purchase cards and convenience checks

increases the risk of theft, loss, or misuse.

Departmental procedure provides that cardholders maintain purchase cards and convenience checks in a secure fashion to prevent unauthorized charges against the account.<sup>4</sup>

We noted that the purchase card and convenience checks issued to one STO employee were maintained in a bookbinder on an open bookshelf. A second employee also stored convenience checks in a bookbinder on an open bookshelf, while a third employee stored checks in an end basket on the desk. This employee maintained possession of 56 unused checks included in three packets of checks. The LAPC, who is authorized a single-purchase spending limit of \$25,000, maintained unused

---

<sup>4</sup> Purchase Card Quick Guide to Proper Use of the Card and Convenience Checks, dated February 2001.

convenience checks in an unlocked desk drawer to facilitate the frequent issuance of checks. The STO has a locking safe that could be used to secure purchase cards and convenience checks when not in use. STO employees concurred that purchase cards and convenience checks could be secured in the locking safe.

---

**RECOMMENDATION NO. 4**

---

Take appropriate action to ensure that purchase cards and convenience checks are always safeguarded by cardholders in accordance with Departmental policy.

**Rural Development Response**

Rural Development concurs. We will issue an appropriate directive by June 1, 2002, requiring all cardholders to appropriately safeguard purchase cards and convenience checks in accordance with Departmental policy.

**OIG Position**

We concur with proposed management decision.

---

**FINDING NO. 5**  
**RECONCILIATIONS OF PURCHASE**  
**TRANSACTIONS NOT**  
**ADEQUATELY PERFORMED**

---

Reconciliations of purchase card transactions were not always performed in a manner to ensure the authenticity and appropriateness of transacted purchases. We noted that reconciliations of purchase card transactions were not always timely performed and that documentation to support transacted purchases was not always adequate. As a result, purchase card transactions totaling \$2,573 were not adequately supported.

The Purchase Card Management System (PCMS)/Micro-Purchase Guide states that the cardholder will reconcile transactions at least once a month in PCMS using the documentation retained from each purchase.<sup>5</sup>

We selected 5 high dollar purchases transacted by STO employees between October 2000 and May 2001, to evaluate the effectiveness of the reconciliation process. Our review disclosed two transactions that were not reconciled in a timely manner. We noted no PCMS screen documentation to support the reconciliation of two purchase transactions from November 2000, for \$1,146.30 and \$1,046.60, respectively. The cardholder stated that based on the length of elapsed time, he could not confirm whether the reconciliation had been performed. During our review of another cardholder's purchase

---

<sup>5</sup> PCMS/Micro-Purchase Guide, Page II-7, dated September 2000

log, we identified two additional purchase transactions for \$60, dated February 26, 2001, and \$25, dated April 5, 2001, that had not been reconciled at the time of our review. The cardholder stated that he had experienced problems with accessing the appropriate PCMS screen and had referred the problem to the LAPC.

We also noted that documentation to support the authenticity of purchase transactions was not always adequate. We identified 3 of 4 convenience check payments for seminar fees that were supported only by memos prepared by the authorized cardholder. The PCMS /Micro Purchase Guide states that any time a purchase is made over the counter or by telephone, documentation must be maintained. The documents will later be used to verify and reconcile the purchases. Payment for seminar fees should be supported by documentation advertising the seminar or a copy of the registration information and supporting supervisory approval. The cardholder agreed that such documentation could be retained for support of seminar fees paid by convenience check. Fees for the three seminars totaled \$295.

---

**RECOMMENDATION NO. 5**

---

Take appropriate action to ensure that cardholders complete reconciliations of purchase card and convenience check transactions in a timely manner.

**Rural Development Response**

Rural Development concurs. An appropriate directive will be issued by June 1, 2002, to remind all cardholders to reconcile in a timely manner. An additional reminder will be done on a periodic basis to assure that timely reconciliation will occur.

**OIG Position**

We concur with the proposed management decision.

---

**RECOMMENDATION NO. 6**

---

Remind cardholders of the requirements to obtain and retain required documentation to support the authenticity and supervisory approval of purchase transactions.

**Rural Development Response**

Rural Development concurs. This reminder will be issued in an appropriate directive by June 1, 2002.

## **OIG Position**

We concur with the proposed management decision.

---

### **FINDING NO. 6**

#### **CONVENIENCE CHECKS USED FOR UNAUTHORIZED PURPOSES**

---

Convenience checks were not always used for authorized purposes or for properly approved expenses. We noted that convenience checks were improperly used to pay for airline ticket transaction fees and to reimburse employees for cellular telephone expenses without third party approval. Questioned expenses totaled

\$874.

We performed tests to evaluate the accountability and propriety of purchase transactions executed by the five authorized cardholders at the STO. Our review of the purchase transaction logs for these employees disclosed that convenience checks were improperly used to process airline ticket transaction fees. The LAPC explained that the travel agency selected by the STO to provide travel services assesses an airline ticket transaction fee of \$28.50 per ticket. The travel agency applies a discount to the transaction fee if paid by check rather than by Government Travel Card.

We examined a June 15, 2001, invoice that itemized 12 airline ticket purchases with associated transaction fees totaling \$214.00, or \$17.84 per ticket. Based on the perceived savings in airline ticket transaction fees, the STO elected to pay for such fees by check rather than Government Travel Card. Airline ticket transaction fees for the period October 2000 through June 2001 totaled \$657.

The PCMS/Micro-Purchase Guide provides that the purchase card and convenience checks will not be used for the purchase of airline or other travel-related tickets. Instead, the Government Travel Card should be used for these items.<sup>6</sup> A representative of the Office of Property, Procurement, and Emergency Preparedness, Procurement Policy Division, concurred that the airline ticket transaction fee is a travel related expense that should be transacted as a charge to the Government Travel Card.

Our review also disclosed that convenience checks were used to reimburse STO employees for cellular telephone expenses without third party approval. This occurred because procedures were not in place to require third party approval of miscellaneous expenses on Form SF-1164, Claim For Reimbursement For Expenditures On Official Business. The PCMS/Micro-Purchase Guide provides that convenience checks may be used to

---

<sup>6</sup> PCMS/Micro-Purchase Guide, dated September 2000, Page II-5.

reimburse employees for miscellaneous expenditures that include telephone calls used for official business.<sup>7</sup> However, the guide further states that before issuing a check, Form SF-1164 must be approved by an authorized official other than the cardholder.

We noted that one employee received reimbursement for \$63 in cellular telephone expenses, while a second employee received reimbursement for \$154 in expenses. Both cardholders stated the expenses represented official business transacted while they were in travel status.

The LAPC stated that Form SF-1164 is not included in the Rural Development list of required forms.

---

**RECOMMENDATION NO. 7**

---

Coordinate with the National office and the Office of Property, Procurement, and Emergency Preparedness regarding appropriate action to be taken with respect to authorized method of payment for airline ticket transaction fees and supervisory approval of business related expenses using Form SF-1164, Claim For Reimbursement For Expenditures on Official Business, prior to processing reimbursements through issuance of convenience checks.

**Rural Development Response**

Rural Development, in Nebraska, has had a third party approval process in the past, but it was not done on an SF-1164. An appropriate directive will be issued by June 1, 2002, to all Nebraska employees requiring the use of Form SF-1164, Claim For Reimbursement For Expenditures on Official Business, prior to processing reimbursements for these expenditures.

**OIG Position**

We need additional information on Rural Development National office policy on use of convenience checks for airline ticket transaction fees before we can reach management decision.

---

<sup>7</sup> PCMS/Micro-Purchase Guide, dated September 2000, Page II-4, states, cardholders may issue checks to employees for reimbursement of miscellaneous expenditures (e.g., supplies, services, registration fees, and telephone use for official business) that were cleared with the cardholder before the purchase was made. Before issuing a check, Form SF-1164, Claim for Reimbursement for Expenditures on Official Business, must be approved by an authorized official other than the cardholder.

---

**FINDING NO. 7**

The STO did not properly account for all personal property within the PROP Inventory System. We identified 17 personal property items that were not timely entered into or updated in the inventory system. As a result, the value of personal property recorded in the PROP Inventory System was understated about \$35,400.

All property acquired by Rural Development is required to be input into the PROP Inventory System.<sup>8</sup> Accountable personal property is defined by Rural Development procedures<sup>9</sup> as “all furniture and equipment with an acquisition cost of \$5,000 or more, including Information Technology equipment, as well as sensitive and leased property, regardless of acquisition cost”. Sensitive personal property is further defined as personal property, with an acquisition cost of less than \$5,000, that is highly susceptible to loss or theft and includes (regardless of cost) camcorders, cameras, laptop computers, and cellular telephones. According to STO personnel, the last statewide physical inventory of property was completed in December of 1998. A complete physical inventory of accountable personal property was completed in August 1999 and was updated in July 2001.

We obtained PROP inventory reports from the OFCO/NFC, dated July 2, 2001, that listed 3 personal property items for the STO and 15 items for the four area and field offices visited. Physical inventories performed at each location disclosed 17 personal property items that were not accurately reflected within the PROP Inventory System.

At the STO, we identified a laptop computer, camcorder, copier, and four cellular telephones valued at \$31,784 that were not recorded in the PROP Inventory System. At the area and field offices, we identified two laptop computers, five cellular telephones, two copiers, and a digital camera that were not properly accounted for as personal property. We noted that one cellular telephone and both copiers identified at the field office level were replacement property that had not been timely updated in the PROP Inventory System. The remaining items identified at the field office level were not recorded as accountable personal property. The net value of inaccurately accounted for personal property at the field office level totaled \$3,618.

<sup>8</sup> National Finance Center Procedures Title IV “Central Accounting System Manual,” Chapter 6 “Property Management Information System”, Section 4 “Personal Property System (PROP),” Page 4. Agency responsibilities dated March 1998.

<sup>9</sup> Rural Development Instruction 2024-H, Custody, Control, Utilization, and Disposal of Accountable Personal Property, Subsection 2024.352 dated May 2001.

---

**RECOMMENDATION NO. 8**

---

Take appropriate action to ensure physical inventories of accountable personal property are performed within the State where warranted. Reconcile all personal property items and make corrections to the PROP Inventory System as appropriate.

**Rural Development Response**

Rural Development concurs. Physical inventories of accountable personal properties will be completed by June 1, 2002 and will occur timely in later years as required by instruction. Personal property will be reconciled and corrections made to the Prop Inventory System by June 1, 2002. Future corrections will be done within 30 days of actions requiring a revision to the PROP system.

**OIG Position**

We concur with the proposed management decision.

Controls over computer security were not always adequately prescribed or functioning as intended. We noted that system passwords were not always adequately protected, access to authorized systems was not always appropriate, and backup tapes were not always adequately secured. Inadequate or non-functioning controls could subject computer software and program data to manipulation and misuse.

---

**FINDING NO. 8****PASSWORDS NOT ADEQUATELY PROTECTED**

---

Review of computer software/system accesses disclosed that user passwords for the UNIFI and PCTare systems were not changed every 90 days. Passwords were not changed as system software packages did not require or cue users to designate new passwords on a periodic basis nor had the STO established procedure to

require periodic designations of new passwords. Failure to apply recommended security measures over the designation and changing of passwords increases the risk of unauthorized access and inappropriate use of computer software/systems.

Departmental Manual 3140-1.1, Section 8 c 6 states that all users of ADP facilities, at all organizational levels, share the responsibility to:

“Protect telephone numbers, passwords, and all other system access keys against unauthorized disclosure; change passwords frequently; use passwords which give no cue to names, content of data, or systems being protected; and protect input/output data from casual inspection or unauthorized retrieval.”

Departmental Manual 3140-1.6, Appendix D, Part 6b states that the maximum life of a password for interactive applications is 90 days.

The Rural Development Employee Security Handbook, Part 3.2.4 a. (1) (b) states that new users shall change the password immediately after obtaining their initial user ID and password. The procedure further states that passwords shall be changed frequently and original passwords should not be reused. Part 3.2.4 a. (1) (a) states that passwords shall not be shared and that each individual user is responsible for his/her password(s).

We also noted that two staff members at the Norfolk area office used the same password for accessing the PCTare system. The Information Resources Manager stated that PCTare identifications are shared between

users and that the passwords for these identifications have never been changed. Computer security measures do not support the sharing of system passwords.

---

**RECOMMENDATION NO. 9**

---

Establish procedures to require periodic designations of new passwords for the UNIFI and PCTare system (e.g., at least every 90 days). Also, require that each user of the PCTare system be assigned a unique identification and password.

**Rural Development Response**

Rural Development will issue a policy statement by June 1, 2002 having employees using UNIFI change their password every 90 days and submit the change in a signed and sealed envelope to the IRM for verification and use in the event of an emergency. We expect the system to change in 2002 to a web-based system with a more secure set of password and ID guidelines. Within the PCTare system we are unable to change the password due to software limitations. The agency is looking into switching Time and Attendance software to a system called STAR, which would alleviate the security issues that exist with PCTare.

**OIG Position**

We concur with the proposed management decision.

---

**FINDING NO. 9**  
**SYSTEM ACCESS NOT ALWAYS APPROPRIATE**

---

We noted that system users at the North Platte and Lincoln field offices were authorized access to computer software/systems that were not related to their designated areas of program responsibility. This occurred because Rural Development managers did not perform timely or adequate reviews of software/system access authorizations to ensure that authorizations for each user were current and appropriate. Failure to maintain appropriate access authorizations to computer software/systems could jeopardize the security of program systems/data through intentional or unintentional acts.

Rural Development Employee Security Handbook, Part 3.2.1 states that only individuals with a legitimate need to view or use specific data should be granted access to the Agency automated systems. These individual users should be allowed the minimum privileges needed to carry out their duties. Part 3.2.4 a. (3) also states that users receive access on a "need to know" basis. Any access granted to an employee is for accomplishing the agency mission and goals.

We questioned the propriety of computer software/system access authorizations for 6 employees at the North Platte field office and 2 employees at the Lincoln field office. Questioned access authorizations involved the major computer software applications/systems available, including the Travel and PCTare systems.

For example, two members of the Lincoln field office staff were authorized to process travel vouchers, although no such access was required because travel vouchers for the Lincoln field office staff were currently processed through the Beatrice area office. We also noted that PCTare was loaded on system users' computers at the Lincoln and North Platte field offices, although no access to PCTare was required as Time and Attendance reports for field office employees were processed through the area offices.

Rural Development field office personnel stated that the cited systems were virtually inaccessible as they did not possess the system disks or had forgotten the system password. However, system security would be best served by removing the software from the designated user computers.

Our review of computer software/system access also disclosed an identification logon for a former STO employee who retired on December 30, 2000. This logon should be inactivated to reduce the risk of unauthorized system access.

---

**RECOMMENDATION NO. 10**

---

Evaluate current software/system accesses for all employees and adjust/limit access authorizations to correspond with assigned program responsibilities and employment status. Establish procedure to require periodic reviews of computer software/system access authorizations for all employees.

**Rural Development Response**

By June 1, 2002, and annually thereafter, the Rural Development IRM will compile a list of current accesses for all employees and submit this to their supervisors for evaluation and recommendation for removal or additional accesses according to job duties assigned.

**OIG Position**

We concur with the proposed management decision.

---

**FINDING NO. 10**

**BACKUP TAPES NOT  
ADEQUATELY SECURED**

---

Computer system backup tapes for the North Platte and Lincoln field offices were not adequately secured to ensure/preserve the integrity of program data. We noted that backup tapes for the North Platte field office were stored on an open bookshelf in an open office of a financial institution, while a backup CD-ROM disk was stored at the home of a field office employee. Backup tapes for the Lincoln field office were stored in an annex building located behind the U.S. Department of Agriculture service center building. The close proximity of the annex building subjects the backup tapes to the same level of potential damage or destruction in the event of a natural disaster. Failure to maintain proper security over computer system backup tapes could result in the tapes being stolen, tampered with, or destroyed.

General Accounting Office (GAO) system controls<sup>10</sup> provide that routine copying of data files and software and the secure storing of these files at a remote location are usually the most cost-effective actions an entity can take to mitigate service interruptions. Also, the Rural Development Employee Security Handbook, Section 3.4.2 a. states that system backup tapes are to be taken to an off-site location. Off-site storage locations include, but are not limited to, another agency or Government site, a safe deposit box at a local bank, or a commercial off-site storage facility with controlled access. An employee's home should not be considered as an alternative except in the case of emergencies.

We also noted that field office personnel were not always aware of the location of backup tapes stored off-site or the date and content of the last system backup performed. These situations existed based on performance of the system backup function by Natural Resources Conservation Service staff and lack of information flow between agency personnel. Lack of knowledge regarding the location of backup tapes, as well as the date and content of last system backup, negates the intended benefits of the computer system backup function.

---

**RECOMMENDATION NO. 11**

---

Take appropriate action to ensure that field office backup tapes are stored in a secured environment to prevent access by unauthorized personnel or potential damage due to disaster.

**Rural Development Response**

By June 1, 2002, the IRM will review this issue with the field offices and NRCS, and the appropriate location for backup tapes, in accordance with

---

<sup>10</sup> GAO Federal Information System Controls Manual, dated January 1999, Page 126.

the Rural Development Security Handbook. The IRM will work with the offices and NRCS to find the best secure location, if not already in use, to store the backup tapes.

**OIG Position**

We concur with the proposed management decision.

---

**RECOMMENDATION NO. 12**

---

Require field offices to take steps to ensure that a log is maintained that clearly indicates the location of backup tapes stored off-site, as well as the date and content of the most recent

system backup.

**Rural Development Response**

By June 1, 2002, the IRM will work with the field offices and NRCS to implement a communication policy to ensure Rural Development employees are aware of off-site location, date, and content of backups.

**OIG Position**

We concur with the proposed management decision.

---

## GENERAL COMMENTS

---

Concerns were noted at the North Platte field office and the Kearney area office regarding the status of grant tracking logs and the ability of Rural Development staff to monitor disbursements to grant recipients. Regulations<sup>11</sup> provide for a lifetime total of grant assistance to any recipient and spouse of \$7,500.

The North Platte field office maintained a manual grant-tracking log that identified recipient name, grant amount, and date of grant disbursement. Our review disclosed one grant disbursement for \$3,750 that was not recorded on the field office grant-tracking log. With existing computer capabilities, development of an automated tracking system would seem to present field offices with improved capabilities to maintain and share grant disbursement data. Field office staff advised they are working towards development of an automated grant disbursement tracking system, yet no timeframe exists for completion of this effort.

The Kearney area office had developed an automated grant tracking system that included grant disbursement data for the past 10 years. However, concerns were still expressed by area office staff regarding lack of historical data relative to spouse information, including name and social security number.

Rural Development should require all area and local offices to transfer grant disbursement data to an automated environment with prescribed fields of information for maximum effectiveness in monitoring and applying grant disbursement limitations.

---

<sup>11</sup> Title 7 Code of Federal Regulations, Part 3550.112

---

## EXHIBIT A – SUMMARY OF MONETARY RESULTS

FINDING NO.	DESCRIPTION	AMOUNT	CATEGORY
7	Unauthorized and improperly approved uses of convenience checks	\$874	Questioned Costs and Loans, No Recovery
8	Unaccountable Personal Property	\$35,402	Accounting Classification Errors

- #7 RD indicated that all dollar amounts were resolved during the review. The issue was the use of the form to request reimbursement. Use of checks were authorized and approved, just not on the correct form. This has been corrected.
- #8 RD indicated that all dollar amounts listed here in Exhibit A were accounted for or corrected while the auditors were on-site conducting the review.

## EXHIBIT B – RURAL DEVELOPMENT RESPONSE TO DRAFT REPORT



United States  
Department of  
Agriculture  
  
Rural Development

Office Address  
100 Centennial Mall North  
Room 308 Federal Building  
Lincoln, NE 68508

Mailing Address  
Room 152 Federal Building  
100 Centennial Mall North  
Lincoln, NE 68508  
402-437-5551  
402-437-5408 (FAX)  
402-437-5093 (TDD)

February 6, 2002

**SUBJECT:** USDA Rural Development – Fiscal Year 2001 Financial Statement  
Field Confirmation Reviews in Nebraska

**TO:** Dennis J. Gannon  
Regional Inspector General for Audit

**ATTN:** 04099-3-KC

Attached is Nebraska USDA Rural Development's response to the subject audit.

The report is being electronically sent to you as deemed permissible by your office. A hard copy of this letter with original signature will follow by mail. Utilizing electronic format to submit the report significantly reduced costs to the government and supported the effective use of government staff hours. We appreciate your acceptance of the report in this format.

You will note in the response that actions are being taken on each of the audit recommendations with a targeted completion date of June 1, 2002.

If you have any questions, please contact Melba Davison at (402) 437-5597 or e-mail [melba.davison@ne.usda.gov](mailto:melba.davison@ne.usda.gov).

A handwritten signature in cursive script that reads "James Barr".

M. JAMES BARR  
State Director

Attachment

USDA Rural Development is an Equal Opportunity Lender, Provider, and Employer  
Complaints of discrimination should be sent to  
USDA, Director, OCR, Washington D.C. 20250-9410

---

## ABBREVIATIONS

---

FY	
Fiscal Year .....	i
GAO	
General Accounting Office .....	20
LAPC	
Local Area Program Coordinator .....	10
OCFO/NFC	
Office of the Chief Financial Officer/National Finance Center .....	i
PCMS	
Purchase Card Management System .....	i
RD	
Rural Development .....	5
STO	
State Office .....	1