



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

COMMODITY CREDIT CORPORATION'S
FINANCIAL STATEMENTS FOR
FISCAL YEAR 2001



**Audit Report No.
06401-4-KC
February 2002**



UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL



Washington D.C. 20250

DATE: February 26, 2002

REPLY TO

ATTN OF: 06401-4-KC

SUBJECT: U.S. Department of Agriculture
Commodity Credit Corporation's Financial Statements for
Fiscal Year 2001

TO: Board of Directors
Commodity Credit Corporation

This report presents the results of our audit of the Commodity Credit Corporation's (CCC) financial statements for the fiscal year ending September 30, 2001. This report contains our unqualified opinion on the Balance Sheet and the related Consolidating Statements of Net Cost and Changes in Net Position and our disclaimer of opinion on the Combining Statements of Budgetary Resources and Financing. This report also contains our assessment of CCC's internal control structure and compliance with laws and regulations.

In accordance with Departmental Regulation 1720-1, please furnish a reply within 60 days describing the corrective action taken or planned, including the timeframes, on our recommendations. Please note that the regulation requires a management decision be reached on all 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/

JOYCE N. FLEISCHMAN
Acting Inspector General

EXECUTIVE SUMMARY

U. S. DEPARTMENT OF AGRICULTURE COMMODITY CREDIT CORPORATION'S FINANCIAL STATEMENTS FOR FISCAL YEAR 2001 AUDIT REPORT NO. 06401-4-KC

PURPOSE

Our audit objectives were to determine whether (1) the Commodity Credit Corporation's (CCC) financial statements present fairly, in all material respects, the assets, liabilities, and net position; net costs; changes in net position; budgetary resources; and reconciliation of net costs to budgetary obligations in accordance with generally accepted accounting principles; (2) CCC's internal control structure provides reasonable assurance that control objectives were achieved; (3) CCC had complied with laws and regulations for those transactions and events that could have a material effect on the financial statements; and (4) the information in the Management Discussion and Analysis, and the Supplemental Financial Information sections was materially consistent with the information in the financial statements.

RESULTS IN BRIEF

For the fourth consecutive year, we have been unable to issue an unqualified opinion on all of CCC's financial statements. We did express an unqualified opinion on CCC's Balance Sheet; Statement of Changes in Net Position; and Consolidating Statement of Net Cost and we were unable to express, and do not express, an opinion on the Combining Statements of Budgetary Resources and Financing, as of and for the year ended September 30, 2001. This report also contains our assessment of CCC's internal control structure and compliance with laws and regulations.

CCC's Fiscal Year (FY) 2001 Combining Statement of Budgetary Resources (SBR) does not reconcile to the President's Budget. CCC's fund accounts had significant undisclosed differences resulting from different sources of data used for the President's Budget and the SBR and from adjustments made to the SBR that were made too late to be reported to the Office of Management and Budget (OMB). In addition, we could not substantiate the CCC's budgetary accounts which support the SBR and Statement of Financing along with the related footnotes.

CCC has made progress in correcting some of the serious problems reported to CCC officials by the Office of Inspector General (OIG) in our last three financial statement audits (FYs 1998, 1999 and 2000), but much remains to be done. We found CCC was again required to process billions of dollars in adjustments after the deadline established by the Department (November 14, 2001), in order to provide its final financial statements (February 26, 2002,) for the FY ended September 2001. However, our audit coverage still disclosed material errors in the multiple versions of the financial statements provided for audit. We continued to find that financial reports are inaccurate, accounting operations are not reliably performed, account reconciliations are ineffective and appropriate supervisory controls are not in place.

Unless aggressive actions are taken to resolve these problems, achieving the reforms required by recent financial management legislation and new financial statement interim and final reporting dates, will not be accomplished beginning for FY 2002 and subsequent periods. Departmental and CCC officials will not have timely, accurate, and useful financial information with which to make informed decisions and to ensure accountability on an ongoing basis. As a result, users of information from the reports or taken from the underlying accounting systems, risk making errant decisions, whether for budget purposes or operationally, when they rely on questionable information. With assets of over \$15.7 billion, and costs of \$25.3 billion, it is essential CCC make reforms.

Our Report on CCC's Internal Control Structure discusses the following internal control weaknesses:

- Credit reform accounting for CCC continues to be plagued by systematic problems and pervasive errors. We found many material errors went undetected because CCC foreign loan accounting personnel lacked the knowledge, skills, and ability to correctly prepare and record certain credit reform entries according to Treasury case study guidance. Also, operational improvements and more effective supervisory oversight were needed. We have advised CCC officials about these problems since our 1998 audit. While measures have been taken successfully to compute credit reform reestimates and prepare supporting reconciliations, further improvements are necessary.
- CCC supervisory personnel still did not effectively monitor general ledger account balances on a corporate-wide basis or perform necessary reconciliations and analyses to ensure the yearend account balances were accurate. As a result, CCC posted over

\$22.5 billion in adjustments after the “initial” final statements were provided to us on November 14, 2001. Also, numerous account balances were unsupported and/or contained significant, abnormal amounts.

- Different credit reform accounting processes were followed by CCC budget and accounting units, causing additional workload for the CCC staff. Also, the failure, in our opinion, to follow established accounting standards for the budget process has led to potential misstatements in the budget, and unnecessary complexities in reconciling the two multi-billion dollar amounts in the financial statements.
- CCC has not completed documenting its internal control structure for its CORE Accounting System. We found system documentation was outdated, fragmented, and did not accurately describe accounting system operations and internal controls.
- Our prior audit of the security over CCC’s information technology (IT) resources reported vulnerabilities and a recent audit of the National Information Technology Center reported material internal control weaknesses that could impact Farm Service Agency (FSA)/CCC operations.
- CCC has not taken aggressive action to clarify calculation of cargo preference reimbursement claims for transportation of commodities.
- CCC’s Management Discussion and Analysis section of its FY 2001 financial statements did not contain meaningful performance measures which demonstrated progress towards meeting its long term goals and mission.

Our Report on CCC Compliance with Laws and Regulations noted the following problems:

- CCC was not in compliance with the Federal Financial Management Improvement Act of 1996 (FFMIA); this was because of untimely preparation of financial statements due to excessive material year-end adjustments, and problems we noted with its foreign loan and domestic program financial management operations and systems. In addition, CCC is in nonconformance with Section 4 of the Federal Manager’s Financial Integrity Act of 1982 (FMFIA).

- Our review disclosed two instances of noncompliance with laws and regulations regarding potential Anti-Deficiency Act violations. CCC also has made little progress in accomplishing substantial compliance with one provision of the Debt Collection Improvement Act of 1996. Also, CCC has not yet conducted required annual reviews of fees associated with the General Sales Manager's guarantee program.

KEY RECOMMENDATIONS

We have previously recommended that CCC obtain outside resources to improve its financial accounting and reporting functions, improve the timeliness and accuracy of its financial account reconciliations, accounting entries, and adjustments. CCC has agreed with the problems in our prior reports and has many actions underway to address the reported conditions. In this report, we have recommended that CCC:

- Develop appropriate organizational changes, system enhancements, and internal control structures based on the recommendations made at the completion of the contracted study.
- Strengthen existing procedures to ensure routine monitoring of general ledger accounts and abnormal balances using a corporate level approach consistent with the timeframes established for preparing interim financial statements.
- Develop and implement procedures which provide for the reconciliation and analyses of all general ledger accounts for CCC's domestic accounting operations.
- Perform reconciliations and strengthen supervisory reviews of CCC's balance with the U.S. Department of Treasury to ensure errors are corrected before preparation of financial reports and statements.
- Evaluate the accounting process used among the three operational locations for CCC general ledger accounts and take appropriate action to ensure they are consistently applied in the future.
- Obtain outside resources to evaluate the CORE Accounting System posting models in order to streamline the system's transaction posting structure.

- Develop and utilize an automated funds control process that prohibits disbursement of funds before either the agency and/or legislative limitations are exhausted.

CCC POSITION

CCC recognized the need to address its financial accounting and reporting functions to improve the quality and timeliness of CCC's financial statements. The CCC Controller has initiated the process to address remedies, both short and long term, to provide timely, accurate, and useful financial information to allow managers to make informed decisions.

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REPORT OF THE OFFICE OF INSPECTOR GENERAL

**TO: Board of Directors
Commodity Credit Corporation**

We have audited the accompanying Balance Sheet of the Commodity Credit Corporation (CCC) as of September 30, 2001, and the related Consolidating Statements of Net Cost and Changes in Net Position for the fiscal year (FY) then ended. We attempted to audit the accompanying Combining Statements of Budgetary Resources and Financing for the FY then ended. These financial statements are the responsibility of CCC's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed below, we conducted our audit in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; Office of Management and Budget (OMB) Bulletin 01-02, "Audit Requirements for Federal Financial Statements"; and other OMB bulletins applicable to the period under audit. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion on the accompanying Balance Sheet of CCC as of September 30, 2001, and the related Consolidating Statements of Net Cost and Changes in Net Position for the FY then ended.

Based upon our audit coverage, we concluded that CCC was not able to provide sufficient and competent evidential matter, even after making numerous material adjustments to its budgetary accounts to support material line items on its Combining Statements of Budgetary Resources and Financing. We could not substantiate CCC's financial statements and footnote disclosures related to its budgetary accounts. These statements are impacted by CCC's inability to fully reconcile and adequately explain differences between its Combining Statement of Budgetary Resources and the Budget actual amounts in the Program and Financing (P&F) Schedules of the President's Budget in time for audit. This reconciliation is required by Statement of Federal Financial Accounting Standards (SFFAS) No. 7, Paragraph 79. Because of the conditions noted, we determined it was not practicable to perform further alternative

procedures to satisfy ourselves as to: (1) the value of CCC's Budgetary Resources, Status of Resources and Budgetary outlays on the Combining Statement of Budgetary Resources and (2) the value of any of the financial statement line items on the Statement of Financing related to budgetary accounts.

In our opinion, the Balance Sheet of the CCC as of September 30, 2001, and the related Consolidating Statements of Net Cost and Changes in Net Position referred to above, including the accompanying notes, present fairly in all material respects, in accordance with generally accepted accounting principles, the assets, liabilities, and net position as of September 30, 2001; as well as its net cost, and changes in net position for the year then ended.

Because of the effects of the matters discussed in the preceding paragraphs, we were not able to satisfy ourselves as to the value of CCC's budgetary resources, status of resources, and budgetary outlays for the FY ended September 30, 2001, as well as its reconciliation of net costs to budgetary obligations for the FY then ended. Therefore, we are unable to express, and we do not express, an opinion on CCC's Combining Statement of Budgetary Resources and Statement of Financing.

Our audit was conducted for the purpose of forming an opinion on CCC's financial statements taken as a whole. The information in the Management's Discussion and Analysis and Supplementary Information sections are not a required part of the financial statements but are supplementary information required by OMB's Form and Content of Agency Financial Statements and in subsequent issuances. We have considered whether this information is materially consistent with the principal financial statements. Such information has not been subjected to auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

As discussed in Note 4, CCC provides direct credits and credit guarantees to foreign countries receiving exported agricultural commodities. The allowance for losses associated with these credits and guarantees is considered adequate by management to provide for estimated losses and is based on CCC's evaluation of the portfolios taking into consideration a variety of factors including, repayment status, assessment of future risks, and worldwide economic and political conditions. Future economic and political conditions could affect the ultimate collection of these credits and credit guarantees.

In Note 4 to the financial statements, CCC implemented in FY 2001, SFFAS No. 18, Amendments to Accounting Standards for Direct Loans and Loan Guarantees. The CCC has included the additional disclosures as required by SFFAS No. 18 to improve financial reporting for subsidy costs and performance of Federal credit programs. The amounts for FY 2000 included in Note 4 have been prepared for comparative purposes and are unaudited.

We have also issued a report on CCC's internal control structure, which cites eight reportable internal control weaknesses, and a report on CCC's compliance with laws and regulations, which includes five instances of noncompliance.

This report is intended solely for the information and use of the management of CCC, USDA, OMB, and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

JOYCE N. FLEISCHMAN
Acting Inspector General

February 26, 2002



REPORT OF THE OFFICE OF INSPECTOR GENERAL ON INTERNAL CONTROL STRUCTURE

**TO: Board of Directors
Commodity Credit Corporation**

We have audited the accompanying Balance Sheet of the Commodity Credit Corporation (CCC) as of September 30, 2001, and the related Consolidating Statements of Net Cost and Changes in Net Position and Required Supplementary Stewardship Information for the fiscal year (FY) then ended. We attempted to audit the accompanying Combining Statements of Budgetary Resources and Financing and have issued our report thereon, dated February 26, 2002. Except as provided in our opinion, we conducted our audit in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; Office of Management and Budget (OMB) Bulletin 01-02, "Audit Requirements for Federal Financial Statements"; and other OMB bulletins applicable to the period under audit.

In planning and performing our audit of the financial statements of CCC for the FY ended September 30, 2001, we considered its internal control structure over financial reporting by obtaining an understanding of CCC's internal controls, determined whether these internal controls had been placed in operation, assessed control risk, and performed tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin 01-02 and subsequent issuances. We did not test all internal controls relevant to operating objectives, as broadly defined by the Federal Managers' Financial Integrity Act of 1982 (FMFIA), such as those controls relevant to ensuring efficient operations. The objective of our audit was not to provide assurance on internal control. Consequently, we do not provide an opinion on internal control.

In addition, we considered CCC's internal controls over Required Supplementary Stewardship Information by obtaining an understanding of the internal controls, determined whether the internal controls had been placed in operation, assessed control risk and performed tests of controls as required by OMB Bulletin 01-02, as

amended, and not to provide assurance on these internal controls. Accordingly, we do not provide assurance on such controls.

The information presented in the Management Discussion and Analysis is supplemental information required by OMB Bulletin "Form and Content of Agency Financial Statements" and subsequent issuances. OMB Bulletin 01-02 requires that we obtain an understanding of the internal controls designed to ensure data supporting the performance measures are properly recorded and accounted for to permit the preparation of reliable and complete information. Our audit work in the area of performance measures involved confirming the financial information included in the Management Discussion and Analysis section with information contained in the principal financial statements and ensuring that there was data to support the performance measures. As part of Audit No. 50601-4-CH, conducted during FY 2002, we reviewed and tested CCC's policies, procedures and systems for documenting and supporting financial, statistical, and other information presented in the Management Discussion and Analysis. We found that performance goals included in CCC's FY 2001 financial statements could be more outcome-oriented and better demonstrate CCC's progress in achieving its mission, major goals, and objectives.

MANAGEMENT'S RESPONSIBILITY FOR INTERNAL CONTROL STRUCTURE

The management of CCC is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may, nevertheless, occur and not be detected. Also, projection of any evaluation of the internal control structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For its FY 2001 FMFIA report, the FSA/CCC reported to the Office of the Chief Financial Officer (OCFO) on October 2, 2001, that two of the three Section 2, Management Accountability and Control weaknesses, had been corrected and its one remaining Section 4, Financial Management System nonconformance had not yet been corrected. The reported Section 2 weaknesses that had been corrected pertained to: (1) the foreign credit reform accounting and subsidy reestimate process and, (2) underutilization within the agency's workforce of minorities, women, and persons with disabilities, and program discrimination complaints against the agency. The Section 2 weakness that was yet uncorrected pertained to reimbursement claims not being made for excess ocean freight payments and cargo preference reimbursements for costs incurred under the P.L. 480 Food Assistance Programs administered by the Agency for International Development. The uncorrected Section 4, Financial Management System, nonconformance related to CCC's foreign credit, and credit reform financial management systems not being fully automated and integrated into CCC's CORE Accounting System.

Additionally, CCC submitted its 2002-2003 Federal Financial Management Improvement Act of 1996 (FFMIA) remediation plan, which discussed the status of CCC's corrective actions for its reported Section 2 weakness on reimbursements for unclaimed ocean freight transportation and the Section 4 nonconformances in CCC's financial management systems. The plan showed that corrective actions were to be completed by June 30, 2002, and September 30, 2004, respectively.

OIG'S EVALUATION OF CCC'S INTERNAL CONTROL STRUCTURE

For the purpose of this report, we have classified CCC's significant internal control structure policies and procedures into the following categories:

- Cash management – consists of policies and procedures associated with disbursing and collecting cash, reconciling cash balances, and managing debt.
- Commodity loans – consists of policies and procedures associated with authorizing and disbursing loans, accruing interest on loans, collecting loan repayments, and recognizing loan write-offs.
- Export trade – consists of policies and procedures associated with authorizing and disbursing credits and guarantee payments, collecting loan repayments, and disbursing export subsidies.
- Financial reporting – consists of policies and procedures associated with miscellaneous activity, processing accounting entries, and preparing CCC's annual financial statements and budgetary reports.
- Inventories – consists of policies and procedures associated with acquiring commodities through purchase and loan forfeiture, storing and managing commodity inventories, and disposing of commodities through sales and donations.
- Producer payments – consists of policies and procedures associated with determining producer eligibility, disbursing funds to producers, and accruing expenses.

For each of the internal control structure categories listed above, we obtained an understanding of the design of significant control policies and procedures and whether they have been placed in operation. We assessed control risk and performed tests of FSA/CCC's internal control structure.

In making our risk assessment, we considered FSA/CCC's FMFIA reports, as well as our prior and current audit efforts and other independent auditor reports on financial matters, and internal accounting control policies and procedures. Because of the internal accounting control weaknesses related to the problems discussed in this audit, we agree with management's assertion that it has material nonconformances relating to its foreign loan accounting system. Regarding the 2001 FMFIA report, we agree with

CCC's conclusion that it is generally in compliance with Section 2 but we do not believe that CCC complies with Section 4 as noted in its report to the Secretary.

Our consideration of the internal controls over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. We noted certain matters involving the internal control structure and its operation that we consider reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect CCC's ability to have reasonable assurance that the following objectives are met:

- (1) Transactions are properly recorded and accounted for to permit the preparation of reliable financial statements and to maintain accountability over assets;
- (2) Funds, property, and other assets are safeguarded against loss from unauthorized use or disposition; and
- (3) Transactions, including those related to obligations and costs, are executed in compliance with (a) laws and regulations that could have a direct and material effect on the Principal Statements, and (b) any other laws and regulations that OMB, CCC, or we have identified as being significant for which compliance can be objectively measured and evaluated.

Matters involving internal control and their operation that we consider reportable conditions are presented in the "Findings and Recommendations" section of this report.

FINDINGS AND RECOMMENDATIONS

I. ACCOUNTING AND FOREIGN CREDIT REFORM PROBLEMS CONTINUE TO HAVE A MATERIAL IMPACT ON COMMODITY CREDIT CORPORATION FINANCIAL STATEMENTS AND BUDGET SUBMISSIONS

For the last seven consecutive years, we have reported significant problems in the procedures used by CCC for reporting on its credit reform accounting, and other financial information. CCC has not implemented an effective accounting and financial management system to produce complete, reliable, timely and consistent financial statements. Extensive improvements are still needed to resolve longstanding systemic accounting operational problems and in the availability and reliability of critical financial data used to prepare its financial statements. These problems continue to plague CCC because it still has not taken sufficient action to implement the recommendations contained in our prior audit reports. CCC corrective actions have been piecemeal and/or ineffective. As a result, CCC was unable to prepare financial statements with sufficient, competent, supporting documentation the past 4 fiscal years. For FY 2001, CCC submitted its initial set of financial statements within the timeframe established by the Department. However, this set of financial statements contained numerous errors, omissions, and were materially misstated. Consequently, CCC and departmental officials do not have a reliable source of information for budget and program decision making purposes. CCC has net assets totaling \$15.7 billion and net cost of operations of \$25.3 billion.

Since our audit of CCC's FY 1998 financial statements (Audit No. 06401-9-FM, dated February 22, 1999), we have recommended CCC strengthen its financial management operations by reorganizing its accounting, budgeting and reporting functions; and making other changes to improve the timeliness and accuracy of its financial statements, accounting and budgetary reports. Also, we recommended that the Chief Financial Officer (CFO) become involved in resolving these serious problems. In response to our prior recommendations, CCC informed us that necessary accounting and financial personnel had received extensive training in the use of OMB cash flow models. CCC added new staff members, including a controller, provided additional training, and engaged additional Financial Management Division accounting resources to strengthen its financial management operations. Also, CCC officials advised that the CCC Chief Accountant would be more involved in foreign accounting operations. In addition, CCC obtained an outside contractor who performed an independent validation and verification of CCC's credit reform accounting, successfully computed its credit reform reestimates and established reconciliation procedures to timely and properly

reconcile its foreign records, especially CCC's Fund Balance with Treasury (FBWT), and credit reform accounts on a monthly basis. CCC has continued to train its credit reform accounting staff to improve the recording and approval of credit reform accounting transactions. Key personnel completed training in vendor ACCESS (Reestimate Model), EXCEL (Reestimate Model), Balances Approach, and have studied and obtained experience with Credit Reform guidance.

However, our current audit work disclosed that actions taken to date by CCC officials still have been ineffective in resolving the longstanding problems we have reported. We continue to find a lack of quality assurance over CCC foreign loan accounting operations and preparation of its financial statements. Our review disclosed CCC foreign loan accounting personnel still need additional training in credit reform direct and guarantee loan program accounting and reporting concepts, and U. S. Standard General Ledger (SGL) and U.S. Department of Treasury (Treasury) case study posting requirements. CCC is in the process of contracting with a commercial firm to evaluate CCC's foreign credit reform financial operations and coordinating this study with the Office of the Chief Financial Officer (OCFO). The study is to address appropriate organizational changes, system enhancements and internal controls. The planned completion date for this endeavor is September 30, 2002.

FINDING NO. 1

Non – Standard Credit Reform Accounting For CCC Budget Caused Misstatements and Increased Workload

As we reported in our prior two reports, there are substantially different credit reform accounting and reporting standards for the budget and financial statements for CCC. In our opinion, the difference in budgetary reestimates adversely impacts CCC's budget submissions because the budget does not reflect the current financial status of the individual countries. For FY 2001, CCC credit

reform subsidy costs for direct credits and guarantees disbursed during the year were estimated at over \$258 million.

Effective for FY 1992, the Federal Credit Reform Act (Act) of 1990 required the President's Budget to reflect the "costs" of direct loan and guarantee programs. "Costs" are defined by this Act to mean the estimated long-term cost to the Government of direct loans or loan guarantees, calculated on a net present value basis, excluding administrative costs and incidental effects of receipts and outlays. The primary intent of the Act is to ensure that the subsidy costs of federal loan programs are taken into account in making budgetary decisions.

In a memorandum, dated February 18, 1997, OMB advised agencies with international foreign loans and guarantees that when reestimating default subsidies, a country's expected default cash flow should remain the same

as estimated at the original time the loan/guarantee was obligated.¹ However, the SFFAS No. 2, "Accounting for Direct Loans and Loan Guarantee" requires that the subsidy (loan loss reserve) be estimated as of the date of the financial statements using the current country default risk rating. To estimate the potential impact of using different risk ratings, we reestimated the subsidy for the remaining years of a loan to a country whose risk grade had dropped and noted that costs would be understated in the budget by 58 percent or \$13 million for this one country for one loan. In addition to distorting the budget, this procedure causes CCC personnel to prepare two different credit reform reestimates which takes additional staff time.

We made recommendations to the Department in our prior audit of the USDA Consolidated Financial Statements for FY 1998, Audit Report No. 50401-30-FM, dated February 22, 1999, to establish a working group to resolve all departmental credit reform problems. During FY 1999, the Department's CFO established a task force to assist in resolving the Department's credit reform problems. As part of its efforts, this task force worked to obtain consistency in the processes followed to estimate loan subsidy costs between the budget and financial statements. To date, OMB advised that it changed its credit reform budget procedures to be more consistent with financial accounting standards. This change is to be effective for the FY 2003 budget. Because OIG continues to work with the Department and CCC to overcome this condition, we are making no further recommendations in this report.

¹ The Inter-Agency Country Risk Assessment System (ICRAS) was developed to provide a consistent method of measuring the risk associated with loans and guarantees made to international borrowers. In this system, each borrower country on an individual basis is assigned to 1 of 11 risk categories. Default probabilities (risk premia), measured over the life of the loan or guarantee, are estimated for each risk category. These risk premia are then used to determine both expected repayment and subsidy levels.

FINDING NO. 2

Improvement in Overall Corporate Financial Accounting and Reporting Needed

For the seventh consecutive year, we found significant errors and omissions in CCC's records for their foreign loan accounting operations. In addition, CCC's accounting records for its domestic accounting operations also contained significant errors and omissions. These errors and omissions, involving billions of dollars, could have been

detected and prevented had appropriate reconciliations been performed, adequate training been provided and supervisory oversight been more effective. These problems are further compounded because CCC's foreign credit subsidiary systems and credit reform financial systems are not fully automated and integrated into CCC's CORE Accounting System. As a result of these material internal control weaknesses, transactions are not properly and timely recorded, processed, and summarized to permit the preparation of reliable financial statements and reports without numerous and substantial adjustments. These conditions will significantly hamper CCC's ability to meet the timelines established by OMB Bulletin 01-09, "Form and Content of Agency Financial Statements"², for preparing meaningful, complete, and accurate interim and year-end financial statements in the future.

Details of the conditions noted include:

- As noted in all our prior CCC audits, CCC continued to post extensive and material adjustments to its financial statements after the general ledger was closed for the FY. This occurred because CCC's current year-end closing process is not effective to ensure material errors are prevented or identified and corrected before the general ledger is closed. CCC's CORE Accounting System is not yet fully automated and integrated with its loan subsidiary systems and credit reform financial systems. In addition, CCC personnel lack sufficient knowledge and proficiency with Federal credit reform accounting procedures, necessary accounting skills, and need more effective supervisory oversight exercised over their activities. The following chart shows the volume and impact of CCC's adjustments in compiling their November 14, 2001, January 4, 2002, February 1, 2002, and February 26, 2002, versions of its FY 2001 financial statements:

² OMB Bulletin 01-09 requires that unaudited interim financial statements be submitted to OMB by May 31, 2002 for the six-month period ending March 31, 2002. The bulletin further requires that beginning in FY 2003, unaudited interim financial statements be prepared and submitted to OMB on a quarterly basis no later 45 days after the end of the reporting period to be accelerated to 21 days after the end of each quarter.

Date	Domestic	Foreign	Total
Through November 14, 2001 (Original Date)	83 Adjustments \$63.8 Billion	42 Adjustments \$6.9 Billion	125 Adjustments \$70.7 Billion
November 15, 2001 through January 4, 2002 (2 nd Version)	32 Adjustments \$7.0 Billion	30 Adjustments 13.2 Billion	62 Adjustments \$20.2 Billion
January 5, 2002 through February 1, 2002 (3 rd Version)	2 Adjustments \$.4 Billion	12 Adjustments \$1.2 Billion	14 Adjustments \$1.6 Billion
February 2, 2002 through February 26, 2002 (4 th , Final Version)	4 Adjustments \$0.7Billion	0 Adjustments \$0 Billion	4 Adjustments \$0.7Billion
Total	121 Adjustments \$71.9 Billion	84 Adjustments \$21.3 Billion	205 Adjustments \$93.2 Billion

We reviewed 199 of the 205 adjustments and determined that 33 contained errors. We also determined that 55 of the 205 adjustments reviewed were made to correct previous general ledger accounting entries or previous adjusting entries that had been made in error. As in prior audits, we attributed these errors to lack of sufficient training, accounting skills and ineffective supervisory oversight.

For the FY 2000 financial statements, CCC posted 226 adjustments totaling \$345 billion. CCC has not made substantial improvement in this area in order to meet the timelines established by OMB for interim financial statements and to meet future OMB timelines for interim and year-end financial statements.

- Although we noted improvements in CCC's calculation of its credit reform reestimates and other present value estimates in preparing and recording its financial statements this year, CCC personnel made errors when preparing and recording the results of these calculations in the general ledger. For example, CCC recorded reestimate calculations totaling \$142 million in the general ledger and duplicated them using adjusting entries after the general ledger was closed. In addition, CCC made errors in preparing entries when recording the OMB approved credit reform reestimates. These reestimates totaled \$2.1 billion. As a result, 63 adjustments totaling \$19.1 billion were posted to correct the allowances for credit receivables and their related activities in the February 26, 2002, version of its financial statements.
- CCC did not record two Forms SF-132, Apportionment and Reapportionment Schedules, totaling \$71.8 million during FY 2001

because its accounting personnel were not aware of them. This occurred because personnel did not track the Forms SF-132 issued to them by OMB and did not reconcile their amounts to the general ledger. As a result, CCC's budget authority and obligations incurred, on its Statement of Budgetary Resources (SBR), was understated by \$39 million.

- We again noted that manual accounting entries were not correctly prepared. For example, an OMB approved Credit Reform downward reestimate (funds returned to the Treasury) totaling \$38.8 million was incorrectly entered as an increase to its foreign loans receivable general ledger account. CCC personnel explained that because of CORE Accounting System limitations some incorrect accounting entries were intentionally made but were eventually corrected. As a result, CCC processed 17 individual accounting entries, including adjusting journal entries, to correct this downward reestimate in their financial statements and four adjusting entries to correctly record the interest expense totaling \$5.3 million on Treasury borrowings for the Farm Storage Facility Loan Program. We identified numerous other instances where recorded accounting entries were in error and required multiple accounting entries to correct.
- For the two previous fiscal years, we reported numerous problems with CCC's account analyses and reconciliations for its foreign loan accounting operations. We found that CCC's foreign loan accounting operations improved in this area during FY 2001. However, we found that effective policies and procedures were needed for its account analyses and reconciliations for its domestic accounting operations (Form KC-185, Detail of General Ledger Account). CCC's current KC-185 reconciliation process did not ensure all material differences are identified and corrected in a timely manner. Furthermore, this process was not applied consistently and did not address all possible accounting anomalies. Specific problems we identified with this process follow:
 - CCC identified differences between its proprietary and budgetary accounts totaling \$2.2 billion (absolute value) in its account analysis for Account No. 6101, Operating/Program Expense, Non-Federal as of September 30, 2001. However, no corrective action or further research was documented.
 - CCC identified a difference of \$3 million in its reconciliation for Account No. 1350, Loans Receivable, that was still being researched at the time the financial statements were prepared. In addition, we noted other reconciliations that included reconciling items with references such as "unable to reconcile D-Sub to general ledger" and "CAS Unknown Differences."

- The reconciliations/account analyses prepared for the FBWT accounts (Accounts No. 1016 and 1017) did not reflect that the accounts had been reconciled to its feeder systems as of September 30, 2001, and did not address the abnormal balance in Account No. 1017 totaling \$229 million.
- The reconciliations/account analyses prepared for Account No. 4610, Allotments-Realized Resources and Account No. 4620, Other Funds Available for Commitment, did not address the abnormal balances in these accounts at the Program Category (PCAT) level. Account No. 4610 had 5 of 25 PCATs with abnormal balances totaling \$430 million and Account No. 4620 had 47 of 85 PCATs with abnormal balances totaling \$48 billion.
- CCC did not prepare a Form KC-185 for all significant CCC funds (Treasury Fund Symbols) and did not document the rationale for excluding certain SGL accounts from the Form KC-185 process. For example, Forms KC-185 were not prepared for the general ledger accounts within Fund 12X2278, P.L. 480 Non-Credit Reform. CCC incurred costs exceeding \$1 billion in this fund.
- CCC had not fully implemented a comprehensive review of budgetary and proprietary accounting relationships as part of the Form KC-185 process.
- CCC incorrectly calculated the interest expense for the Farm Storage Facility Loan Financing Fund and incorrectly recorded the interest expense for two foreign loan-related financing funds. CCC personnel did not always follow OMB instructions for calculating the financing fund interest expense and CCC's supervisory oversight was not effective to ensure that credit reform calculations for financing funds were always recorded correctly. As a result, interest expense was misstated by \$26 million. CCC corrected these errors in the February 26, 2002, version of the financial statements.
- We noted CCC personnel did not follow corporate accounting policy regarding the accrual of loan deficiency payments. This occurred because policies and procedures had not been developed for requesting changes to corporate accounting policy and obtaining concurrence of the Controller prior to implementation. Prior to FY 2001, CCC accounting policy was to accrue amounts due and payable for loan deficiency payments as of September 30. In recent years, this accrual routinely exceeded \$1 billion. After we brought this matter to CCC's attention, it subsequently recorded an accrued liability and increased program expenses by \$870 million as of and

for the FY ending September 30, 2001, in the February 26, 2002, version of the financial statements.

- For the two previous fiscal years, we reported that CCC's general ledger for its foreign loan accounting operations contained abnormal balances that were material to the financial statements. Although we noted improvements in this area during FY 2001, CCC does not have effective corporate-wide policies and procedures to ensure all foreign and domestic general ledger accounts containing abnormal balances are identified and corrected. Also, the financial statement impact is not assessed and resolved for each general ledger account with a material abnormal balance. These abnormal balances continue to occur, in part, because incorrect accounting adjustments are allowed to be made or corrective action is not required by CCC supervisory personnel. For example, CCC identified an abnormal balance totaling \$271 million on its November 14, 2001, financial statements provided to us. However, personnel did not assess the financial statement impact of this abnormal balance or timely correct it. As a result, the uncorrected abnormal balance continued to materially misstate its third version FY 2001 financial statements provided to us on February 1, 2002. CCC corrected this error on its final version of financial statements provided to us on February 26, 2002.
- CCC's reconciliation of its Fund Balance with FBWT general ledger account to Treasury accounts (TFS-6653) for its main revolving fund (12x4336) was not prepared in a manner to clearly identify differences due to timing or error. Furthermore, CCC personnel responsible for preparing the reconciliations, did not perform additional research and take corrective action on those differences that were in error. CCC's reconciliation initially provided to us, reflected 38 individual differences totaling \$360 million (absolute value). CCC personnel initially designated 11 differences totaling \$194 million (absolute value) as errors. After our inquiry, CCC performed additional research and identified and corrected one difference totaling \$7.1 million that was in error. However, during our review of the revised reconciliation, we identified two additional errors totaling \$212.4 million that needed correction. CCC corrected these errors in the February 26, 2002, version of the financial statements.
- CCC did not properly account for its property and equipment and did not have adequate internal controls over its non-accountable, sensitive property (not capitalized). This occurred because CCC did not perform reconciliations, but instead, made journal entries in FY 2001 totaling \$31 million (absolute value) to force its general ledger account to agree with its property subsidiary system (OCFO/National Finance Center's Property Management

Information System). Also, CCC did not consistently follow the Department's policy to capitalize only property and equipment costing \$5,000 or more and did not record its depreciation and amortization expense on a monthly or quarterly basis. We further noted that CCC did not monitor and control all of its non-accountable personal property that was considered sensitive (property and equipment highly susceptible to pilfering, theft, and abuse such as, individual laptop and desktop computers, cell phones, pagers, etc.). As a result, we could not validate the value of CCC's property and equipment totaling \$10 million, net, and the related depreciation and amortization expense totaling \$5 million as of and for the FY ending September 30, 2001.

- CCC maintains accounting operations at three main accounting offices. We noted the following CCC general ledger accounts or accounting processes that were not used consistently among the three CCC accounting locations:

Account No. and Name or Accounting Process	Foreign Accounting Operations, Alexandria, VA.	Domestic Accounting Operations, Kansas City, MO.	Domestic Accounting Operations, St. Louis, MO
No. 1010, Fund Balance with Treasury (FBWT)	Used to record some FBWT activity. Year-end closing account for all activity in Accounts No. 1011 – No. 1019.	Used to record FBWT activity recorded by the banking system.	Used to directly record all FBWT Activity.
No. 1016, SF-1219/1220 Disbursements	Used to record the SF-1219/1220 disbursements occurring during the fiscal year.	Used as clearing account to match disbursements recorded in the general ledger and disbursements recorded by the banking system.	Not used.
No. 1017, SF-1219/1220 Collections	Used to record the SF-1219/1220 collections occurring during the fiscal year.	Used as clearing account to match collections recorded in the general ledger and collections recorded by the banking system.	Not used.
Credit Reform Financing Fund Interest Income Interest Expense	Recorded annually.	Recorded quarterly.	Frequency not determined.
No. 4142, Current Year Borrowing Authority Realized – Indefinite	Apportionment schedule amounts are adjusted inconsistently before year end.	Apportionment schedules are not always recorded.	Apportionment schedule amounts are adjusted before year end.

RECOMMENDATION NO. 1

Develop appropriate organizational changes, system enhancements and internal control structures based upon the recommendations made at the completion of the contracted study. Develop a comprehensive plan within 6 months to remedy these longstanding problems.

RECOMMENDATION NO. 2

Take appropriate actions to ensure receipt of all Forms SF-132 issued by OMB and ensure they are tracked and always reconciled to the general ledger in the future.

RECOMMENDATION NO. 3

Strengthen existing procedures to ensure routine monitoring of general ledger accounts and abnormal balances using a corporate level approach consistent with the timeframes established for preparing interim financial statements. Ensure these procedures provide for accurate research of the cause(s), determination of financial statement impact and accomplishment of corrective actions, where warranted.

RECOMMENDATION NO. 4

Establish procedures for requesting and approving changes to corporate accounting policy for all CCC programs and require written concurrence by the Chief Accountant and/or Controller before implementing them.

RECOMMENDATION NO. 5

Develop and implement procedures which provide for the calculating and recording of credit reform financing costs in accordance with Treasury and OMB guidelines.

RECOMMENDATION NO. 6

Develop and implement procedures which provide for the reconciliation and analysis of all general ledger accounts for CCC's domestic accounting operations. Consistent with timeframes established for interim financial statements, ensure these procedures provide for comprehensive reconciliations, accurate research and correction of exception items and analysis of all possible budgetary and proprietary accounting relationships.

RECOMMENDATION NO. 7

Instruct responsible FSA/CCC accounting personnel to reconcile the CCC's general ledger accounts for property and equipment to its property subsidiary system and to resolve

any differences found. Revise procedures to ensure that all non-accountable sensitive property is identified, accounted for and entered in the agency's property system. Periodically perform a physical inventory and reconcile to property system subsidiary records.

RECOMMENDATION NO. 8

Develop and implement procedures to provide that CCC reconciliations of its FBWT general ledger account and Treasury accounts be prepared in a manner to facilitate the clear identification of differences occurring due to timing or error. Ensure these procedures require that differences occurring due to errors are all corrected prior to preparing financial reports, including financial statements in the future. Strengthen supervisory review over CCC's reconciliations of its FBWT general ledger account and Treasury accounts.

RECOMMENDATION NO. 9

Ensure departmental requirements for capitalizing property and equipment are followed in the future.

RECOMMENDATION NO. 10

Develop a comprehensive training program and obtain additional credit reform, SGL, and budgetary accounting training for CCC supervisory, accounting, and other critical personnel.

RECOMMENDATION NO. 11

Evaluate the accounting processes used among the three operational locations for CCC general ledger accounts and take appropriate action to ensure they are consistently applied in the future.

II. IMPROVED INTERNAL CONTROL AND SYSTEMS DOCUMENTATION NEEDED FOR CCC CORPORATE ACCOUNTING AND OTHER KEY SYSTEMS

Incomplete and inadequate documentation for CCC's internal control and financial systems continues to compromise the quality of assurances for the effectiveness and efficiency of operations, the reliability of financial systems, and compliance with laws and regulations. We reported the absence of documented control objectives and techniques in six consecutive audit reports without obtaining appropriate corrective action. Our audit also disclosed significant deficiencies in the documentation for CCC financial systems, including viable systems overviews and use of naming conventions for certain CORE Accounting System applications. As a result, CCC's ability to provide reasonable assurance that its financial systems operate as intended or are properly managed and controlled, is reduced.

FINDING NO. 3

Documented Control Objectives and Techniques are Needed to Improve System Assurances

During our audit of CCC's FY 2000 Financial Statements (Audit Report No. 06401-14-FM), we reported that FSA/CCC did not document the internal control structure for the new CORE Accounting System. FSA officials agreed to develop control objectives and techniques for the CORE Accounting System by October 31, 2001. However, the agency

has not yet developed or implemented this action. Our audit disclosed that the agency also has not developed similar documentation for its other supporting financial and program (feeder) systems that are key to CCC's mission. As a result, FSA/CCC's ability to provide reasonable assurance that CCC financial systems operate as intended, with clear and compatible control objectives and techniques in the fragmented structure currently employed to manage, control, and report on CCC financial operations is reduced.

The Committee of Sponsoring Organizations of the Treadway Commission³ recommended sponsoring a project to provide practical, broadly accepted criteria for establishing internal control and evaluating its effectiveness. As a result of this study, the sponsoring organizations issued the "Internal Control – Integrated Framework" in September 1992. The "framework" provides a comprehensive basis for developing and assessing internal controls in any organization. In November 1999, the

³ The National commission on Fraudulent Financial Reporting – A joint sponsorship of the AICPA, American Accounting Association, Financial Executives Institute, Institute of Internal Auditors, and the Institute of Management Accountants.

General Accounting Office (GAO) updated its “Standards for Internal Control in the Federal Government”.⁴ The GAO noted in this revision “rapid advances in information technology have highlighted the need for updated internal control guidance related to modern computer systems”.

We have reported the absence of a documented internal control structure to CCC since 1994 in prior financial statement audit reports. In our Audit Report No. 03600-16-FM, dated January 31, 1994, we recommended that CCC develop and document high and intermediate control objectives and techniques in an integrated, top down, risk-oriented framework. Our next six financial statement audit reports, including our FY 2000 financial statement audit report, also reported this problem. In response to our FY 1998 financial statement audit report, FSA officials stated that the agency had completed documentation of its control objectives and techniques. However, during our FY 2000 audit, we found that with the implementation of the new CORE Accounting System, the controls needed to be revised to reflect significant changes in the new system.

CCC agreed that control objectives and techniques would be established and documented for the CORE Accounting System by October 31, 2001, but it has not yet implemented this action.

RECOMMENDATION NO. 12

Perform an overall risk assessment of CCC financial accounting and management systems, including the CORE Accounting System, its feeder systems, and other financial and program systems supporting the CCC general ledger and financial statements. Conduct the assessment under a single corporate level approach as though the CORE Accounting System and all its supporting systems operated as a single integrated central system. Based on this more corporate approach, develop and document high and intermediate control objectives and techniques for an integrated, top down, risk-oriented framework for CCC financial accounting management systems as a whole.

⁴ The FMFIA requires GAO to issue standards for internal controls in Government. OMB Circular A-123 provides specific requirements for assessing and reporting on controls. Recently, other laws have renewed focus on internal controls, such as the Government Performance and Results Act of 1993 (GPRA), the CFO Act of 1990, and the FFMA of 1996.

FINDING NO. 4

Improved Financial Systems Documentation Would Enhance the Reliability of Operations

User documentation for CCC financial systems was not adequate to ensure efficient and effective financial operations or to facilitate independent evaluation of management controls over system operations. FSA/CCC financial managers did not sufficiently develop user documentation when integrating the CORE Accounting System into

CCC financial operations. Staff resources were primarily focused on ensuring efficient system implementation, with the expectation that necessary documentation would be developed as time permitted. As a result, FSA/CCC ability to provide assurance that financial operations are properly described and controlled is reduced. In addition, fundamental systems information was not available to facilitate internal and external reviews.

The Joint Financial Management Improvement Program (JFMIP) "*Framework for Federal Management Systems*," provides guidance for developing user documentation for Federal financial systems. According to the JFMIP, user documentation should describe the total system as a functionary entity, including policies, processes, and procedures. It should include a general system overview, with integrated text and graphics, to describe how each application integrates with other applications, and with the overall operational process. User documentation should also be developed to assist all levels of users and provide short, easy-to-use detailed operating instructions and reference materials related to the system.

The documentation provided by CCC for the CORE Accounting System and its supporting feeder systems was not consistent with JFMIP guidance and did not include key elements of necessary documentation. Foremost, the CCC staff had not yet developed a general systems overview to describe how each application integrated with the other applications or within the overall operational process. The overview flowcharts that were developed to, in part, illustrate how feeder systems interfaced with the CORE Accounting System were out of date, inaccurate, and incomplete, and were not accompanied by descriptions of the overall system operations to facilitate reviews. FSA/CCC accountants revised the systems user requirements to reflect changes to the system in place of developing documentation specifically designed to afford a general overview of the system as a whole. Although the user requirements may have included all elements of the system, it was difficult to interpret or to use for locating descriptions of specific processes and activities. In our opinion, these documents did not provide clear

descriptions of the system as a whole or the relationships between various functions within the system.

Examples of the weaknesses identified in the general system overview documentation included the following:

- CCC did not develop a summary narrative overview that provided a simple overall explanation of the major components of the CORE Accounting System. We found no documentation that described, in user-friendly terms, how the overall system functioned or interfaced with various feeder and other subordinate systems so that less informed managers, users, and auditors could grasp the overall systems objectives, scope of functions, or chronology of system events.
- CCC presented a user requirements document in place of a systems overview. However, the user requirements were not cross-referenced to overview flowcharts or visa versa, preventing us from locating descriptions of key system activities in the user requirements, and from identifying functions described in the user requirements in the overview flowcharts.
- Overview flowcharts were developed without regard to conventional diagramming symbols and data-flow directional indicators. For example, the flowchart represented the custom voucher of “CV” function as a document, rather than a multi-faceted function that processed and stored data, prepared reports, and initiated certain accounting entries.
- The flowchart was not updated to reflect revisions to the system during FY 2001. The CORE Accounting System feeder systems listed in the user requirements differed significantly from those on the flowchart. The systems overview flowchart also did not include key data validations and other major controls.

CCC recognized the need for a documented systems overview, but the higher priority of implementing the system delayed the development of such documentation. However, CCC/FSA began to develop a users manual for the system in August 2001 with an anticipated completion date of March 2002.

RECOMMENDATION NO. 13

Prepare, issue, and maintain up-to-date appropriate systems documentation, including overview, descriptions, and flowcharts describing key functions and interrelationships

with all subordinate systems, as provided by the JFMIP for the CORE Accounting System.

FINDING NO. 5

Improvement in CORE Accounting System Posting Models Needed

CCC did not use meaningful and efficient formats (naming conventions) for establishing all account posting models for its CORE Accounting System application for domestic program operations. In addition, CCC's documentation was not prepared to support the current CORE Accounting System posting

models (nine feeder systems) or was incomplete (two feeder systems). This occurred because CCC developed its CORE Accounting System transaction structure around the existing accounting feeder systems from its former financial management system. Furthermore, CCC did not emphasize documentation of the CORE Accounting System posting models during system development and implementation. As a result, the risk of incorrect posting of transactions is increased, continuation of CORE Accounting System operations in the absence of key personnel is at risk, and efficient and effective management and external review of the posting models is precluded. Also, the consistent recording and reporting of common accounting events is not ensured.

OMB Circular No. A-127, Financial Management Systems, dated July 23, 1993, requires common processes to be used for processing similar kinds of transactions throughout an integrated financial management system to enable transactions to be reported in a consistent manner. It also requires financial events to be recorded by applying the requirements of the SGL at the transaction level. The JFMIP Core Financial System Requirements, dated November 2001, requires that financial management systems be designed with effective and efficient interrelationships between software, hardware, personnel, procedures, controls and data contained with the systems. It also provides, as a minimum, a financial management system must have standard data classifications (definition and format) established and used for recording financial events.

CCC records transactions to its CORE Accounting System application using automated interfaces from 11 different accounting feeder systems. In addition, CCC records transactions using accounting entries that are manually prepared and entered by CCC accounting personnel. CCC uses program codes (posting models) to define the general ledger accounts the transactions are recorded to. CCC accounting personnel are responsible for selecting the correct program code for those transactions that are manually recorded.

Because of CCC's unique reporting requirements, it uses a combination of program codes, crop codes and program years to define postings to the general ledger. We determined that there were approximately 360,000 of

these code combinations in CCC's CORE Accounting System. However, of these, approximately 15,000 represent unique program codes that define the CORE Accounting System transaction codes and transaction type codes used for posting transactions to the specific general ledger accounts.

We determined that CCC did not establish uniform and efficient formats for the 15,000 CORE Accounting System program codes. According to CORE Accounting System personnel, individuals responsible for the 11 accounting feeder systems defined the program codes. However, 9 of 11 accounting feeder systems defined their CORE Accounting System program codes without standard data definitions and formats to clearly define the accounting events being recorded. We also determined that the program codes used to record manual accounting entries were not established using standard data definitions and formats.

For the two accounting feeder systems with some type of uniform program code formats, we determined that the formats were not always followed. For example, according to documentation being drafted during our review for these two feeder systems, program codes used to record commodity inventory activity contain a seven character format; however, we identified at least five commodity inventory program codes with eight characters. In addition, existing documentation of the program code formats and the CORE Accounting System transaction codes and transaction types for these two systems was incomplete or not current. For example, CCC's program codes for its State and County Office Automation Project accounting feeder system had not been updated and documented in a CCC handbook.

Defining a standard transaction(s) for each accounting event ensures that transactions are recorded and reported in a consistent manner and in accordance with the SGL. The CORE Accounting System must ensure that transactions are handled consistently, regardless of their point of origin. It also must ensure that transactions are controlled properly to provide reasonable assurance that the recording, processing, and reporting of financial data are properly performed and that the completeness and accuracy of authorized transactions are ensured.

RECOMMENDATION NO. 14

Obtain outside resources to evaluate CCC's CORE Accounting System posting models in order to streamline the transaction posting structure. Develop and implement consistent and efficient posting model structures and appropriate system enhancements based upon the recommendations of this evaluation.

III. IMPROVEMENTS NEEDED IN SECURITY AND CONTROL OVER INFORMATION TECHNOLOGY (IT) RESOURCES

FINDING NO. 6

We reported in our prior audit report that security over FSA/CCC information technology (IT) resources needed strengthening. We found that CCC's CORE Accounting System did not meet OMB and Departmental security requirements, and that physical and logical security controls were weak. Also, we reviewed controls at the Office of the Chief Information Officer/National Information Technology Center (OCIO/NITC) for FY 2000 and identified internal control problems, which impact FSA/CCC operations. As a result, FSA/CCC could be susceptible to internal and external intrusions and to unauthorized access and manipulation of its critical systems, programs, and data files.

We reported on our examination of OCIO/NITC's internal control structure in Audit Report 88099-3-FM, dated September 21, 2001. Our review disclosed material internal control weaknesses that could impact FSA/CCC operations, such as the need for strengthened controls over accesses to their resources from the Internet; improved vulnerability scanning and response to identified weaknesses; and improved controls over access authorities established for authorized users. We recommended actions to be taken to: (1) improve its controls over logical access to its resources; (2) include all appropriate systems in vulnerability scans and establish policies to take prompt action to investigate and mitigate identified vulnerabilities; and (3) require Internet access of NITC mainframes to go through a controlled, secure process and implement a warning banner to ensure that users acknowledge their access to a U.S. Government system. NITC generally agreed with the recommendations in this report, and corrective actions have been completed with regard to the vulnerability scans.

We reported in last year's report, CCC was not able to provide to us a system security certification, an application security plan, or evidence that the CORE Accounting System had been adequately tested as part of its disaster recovery and contingency planning efforts. As a result, CCC could not provide reasonable assurance that a minimum set of internal controls, as required by OMB Circular A-130, Management of Federal Information Resources, and Departmental Manual 3140-1, Management of ADP Security Manual, had been implemented for the CORE Accounting

System. This system processes approximately 20 million transactions annually.

We recommended that CCC prepare security assessments and related documents for the CORE Accounting System as required by OMB Circular A-130 and Departmental security requirements. FSA/CCC officials intend to accomplish planned corrective actions to complete comprehensive system security assessments and related certifications by September 30, 2002, for its 12 major sensitive operational computer applications.

Our audit of security over U.S. Department of Agriculture (USDA) IT resources⁵ included a review of the security of FSA/CCC IT⁶ resources at six locations. Weaknesses identified during our review included:

- FSA systems contained numerous vulnerabilities that, if left uncorrected, could allow unauthorized users access to critical and sensitive FSA/CCC programs and financial data. We found 40 high-risk vulnerabilities⁷, 212 medium-risk vulnerabilities, and 964 low risk vulnerabilities, in the systems reviewed; they ranged from failure to change default settings to a large number of logons or unused logons whose associated passwords were set to never expire. The scan results were shared with FSA officials as the scans were completed. Where feasible, FSA officials took immediate corrective actions. We recommended FSA perform scans on a regular basis and mitigate all weaknesses. FSA is working with the other service center agencies to conduct scans within their joint environment by June 2002.
- Logical and physical access controls needed improvement. For example, we found that removal of access to systems for separated employees was inadequate, and password controls were inadequate for some systems.
- Risk assessments were not completed at required intervals and security plans did not provide a management structure indicating system responsibilities. In addition, contingency plans were not always updated to reflect significant changes, nor were they tested on an annual basis.

⁵ Audit Report 50099-27-FM, "Security over USDA Information Technology Resources Needs Improvement", dated March 2001.

⁶ Audit Report 03099-47-KC, "Farm Service Agency/Commodity Credit Corporation – Security Over Information Technology Resources, dated October 31, 2001.

⁷ High-risk vulnerabilities are those which provide access to the computer and possibly the network, of computers. Medium-risk vulnerabilities are those that provide access to sensitive network data that may lead to the exploitation of higher-risk vulnerabilities. Low-risk vulnerabilities are those that provide access to network data that might be sensitive, but is less likely to lead to a higher-risk exploit.

We recommended actions to be taken to (1) remind FSA personnel of their responsibilities to protect sensitive program data, (2) review and strengthen FSA physical security where feasible, (3) report inappropriate system usage to responsible managers and, (4) provide additional supervisory oversight over locations where segregation of duties is limited by lack of personnel resources. FSA generally agreed with the recommendations in these reports and corrective actions have been completed or are in progress.

Since these weaknesses and recommended corrective actions have been reported separately to the OCIO/NITC and FSA/CCC in other audit reports, we are making no further recommendations on IT security matters noted in this subsection.

IV. COMPUTATION OF CARGO PREFERENCE REIMBURSEMENT CLAIMS IN DISPUTE

FINDING NO. 7

CCC has not taken aggressive action to clarify calculation of cargo preference reimbursement claims in regard to the 20 percent excess freight and ocean freight differential charges that are submitted to the U.S. Department of Transportation's Maritime Administration (MARAD). This occurred because of confusion and questions regarding a 1987 Memorandum of Understanding between the various agencies involved that describes the method of calculation of the amounts authorized for USDA reimbursement. As a result, CCC has not timely billed and received funds owed for transportation of commodities. Accordingly, CCC's account receivables could be materially understated.

In our prior audit of CCC FY 2000 Financial Statements (Report No. 06401-14-FM), we reported that an audit conducted by the OIG, U.S. Agency for International Development (USAID),⁸ found that USDA could be entitled to an additional \$289 million in unclaimed cargo preference reimbursements for cost incurred under P.L. 480 food assistance programs since 1992.⁹ CCC records showed it submitted billings to MARAD's Office of Cargo Preference in August and September 2001 for \$71 and \$54 million for FYs 1994 and 1995, for reimbursement of the 20 percent excess freight. MARAD then reported to CCC on October 17 and 19, 2001, that it had determined that MARAD did not have an excess 20 percent obligation and that CCC was not entitled to any reimbursement for these timeframes. As of January 2002, CCC has computed the 20 percent excess freight amounts for FYs 1996 and 1997 but has not yet computed amounts for FYs 1998, 1999, 2000 and 2001. CCC has not yet processed billings for FYs 1996 and 1997, and will not do so until there is a resolution as to whether it is entitled to the 20 percent excess freight reimbursement calculation. In addition, CCC's action plan shows that it is to calculate and bill for ocean freight differential reimbursement for FYs 1998, 1999, 2000, and 2001 in FY 2002.

⁸ Audit Report No. 9-000-01-003-P, Audit of USAID's Cargo Preference Reimbursements Under Section 901d of the Merchant Marine Act of 1936, dated March 30, 2001.

⁹ Section 901d of the Merchant Marine Act of 1936, as amended, authorized USDA to claim reimbursement for excess ocean freight costs associated with the transport of commodities under the food assistance programs administered by USDA and USAID. A 1987 Memorandum of Understanding between the Department of Transportation, USDA Commodity Credit Corporation, and USAID, describes the procedures regarding the calculation, request, and payment of cargo preference reimbursements.

The USAID audit also reported that CCC had not reconciled differences totaling \$187 million between its requested reimbursements and the amounts approved. CCC had concurred with these MARAD determinations.

CCC/FSA reported these conditions as a material weakness in its FMFIA report for FY 2001. CCC had developed and implemented a plan to clear the backlog of these claims by the end of FY 2002 and established a task force with representatives from USAID, USDA, and OMB to develop a new Memorandum of Understanding. However, the task force has only developed and forwarded questions to the attorneys at the various agencies to be answered before an agreement can be reached.

RECOMMENDATION NO. 15

Accelerate completion of the Memorandum of Understanding at the corporate level of the various Federal agencies involved and when signed, establish a USDA task force that reports to the Controller to facilitate the computation, preparation, and submission of the appropriate amount of unclaimed cargo preference reimbursements until completed.

V. MEANINGFUL PERFORMANCE MEASURES ARE NEEDED

FINDING NO. 8

During our audit of the Implementation of the Government Performance and Results Act (GPRA) in the FSA/CCC, Audit No. 50601-4-CH, we determined that the Management Discussion and Analysis (MD&A) section of the CCC's FY 2001 financial statements generally did not contain meaningful performance measures which demonstrated progress towards meeting its long-term goals and mission.

SFFAS No. 15, provides that the MD&A should include vital, significant program measures, consistent with measures included in budget documents and other materials related to the implementation of GPRA, and that would affect the judgments and decisions of people who rely on the financial statements as a source of information. The program results should be expressed in terms of objective, relevant measures that disclose the extent to which agency programs are achieving their intended objectives and should be significant to the managing, budgeting, and oversight functions of Congress and the Administration.

CCC selected 15 performance measures from the FSA/CCC's annual performance report, part of its GPRA implementation efforts, to be included in the MD&A section of the financial statements as an expression of CCC's program performance. However, 14 of these measures were output oriented measures that would not provide the reader a clear understanding of performance nor act as a gauge of the CCC's performance in accomplishing its mission. For example, four output measures were included in the MD&A regarding acreages reported under various practices of the Conservation Reserve Program. However, it is not clear what impact these measures and the reported acreages would have on the accomplishment of the strategic goal of assisting producers and landowners to achieve a high level of stewardship of soil, water, air and wildlife while protecting the human and natural environment. The FSA/CCC needs to develop outcome oriented performance measures for vital programs that would complement or replace existing output measures and would better exhibit progress in achieving the mission of the Corporation. This would have enabled CCC to include performance measures in the MD&A that were significant and that would better demonstrate progress in achieving goals and objectives.

Because OIG is performing additional GPRA work in the FSA (Audit No. 50601-4-CH), we are making no further recommendation herein.

Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements, in amounts that would be material to the financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in internal controls, misstatements, losses, or noncompliance may nevertheless occur and not be detected. We believe the reportable conditions described in Finding Nos. 1 through 7 are material weaknesses.

This report is intended solely for the information and use of the management of CCC, OMB, and Congress and is not intended to be and should not be used by anyone other than these specified parties.

JOYCE N. FLEISCHMAN
Acting Inspector General

February 26, 2002



REPORT OF THE OFFICE OF INSPECTOR GENERAL ON COMPLIANCE WITH LAWS AND REGULATIONS

**TO: Board of Directors
Commodity Credit Corporation**

We have audited the accompanying Balance Sheet of the Commodity Credit Corporation (CCC) and the related Consolidating Statements of Net Cost and Changes in Net Position and Required Supplementary Stewardship Information as of September 30, 2001, for the fiscal year (FY) then ended. We attempted to audit the accompanying Combining Statements of Budgetary Resources and Financing and have issued our report thereon, dated February 26, 2002. Except as provided in our opinion, we conducted our audit in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; Office of Management and Budget (OMB) Bulletin 01-02, "Audit Requirements for Federal Financial Statements"; and other OMB bulletins applicable to the period under audit.

The management of CCC is responsible for compliance with laws and regulations applicable to it. As part of obtaining reasonable assurance about whether CCC's principal financial statements are free of material misstatements, we performed tests of CCC's compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain other laws and regulations specified in OMB Bulletin 01-02, or designated significant by CCC. We limited our tests of compliance and did not test compliance with all laws and regulations applicable to CCC. We tested compliance with:

- Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act of 1997;
- Agricultural Act of 1938;
- Agricultural Act of 1949;
- Anti-Deficiency Acts of 1906 and 1950;

- Budget and Accounting Procedures of Act of 1950;
- CCC Charter Act of 1948;
- Chief Financial Officers Act of 1990;
- Corporation Control Act of 1945;
- Debt Collection Improvement Act (DCIA) of 1996;
- Federal Agriculture Improvement and Reform Act of 1996;
- Federal Credit Reform Act of 1990;
- Federal Crop Insurance Reform and Department of Agriculture Reorganization Act of 1994;
- Federal Manager's Financial Integrity Act of 1982 (FMFIA);
- Federal Financial Management Improvement Act of 1996 (FFMIA);
- Food, Agriculture, Conservation, and Trade Act of 1990;
- Food Security Act of 1985;
- Food Security Improvements Act of 1986;
- Government Performance and Results Act of 1993; and
- Government Management Reform Act of 1994.

As part of the audit, we reviewed management's process for evaluating and reporting on internal control and accounting systems as required by the FMFIA and compared the agency's most recent FMFIA reports with the evaluation we conducted of the CCC's internal control structure. We also reviewed and tested the CCC's policies, procedures, and systems for documenting and supporting financial, statistical, and other information presented in the Management Discussion and Analysis section and Required Supplemental Information sections. However, providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit. Accordingly, we do not express such an opinion.

Under FFMIA, we are required to report whether CCC's financial management systems substantially comply with (1) the Federal financial management systems requirements, (2) Federal accounting standards, and (3) the SGL at the transaction level. The results

of our tests disclosed instances, described in our “Findings and Recommendations” section, where the CCC’s financial management systems did not substantially comply with the above requirements.

Material instances of noncompliance are failures to follow requirements, or violations of prohibitions, contained in law or regulation that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the financial statements, or the sensitivity of the matter would cause it to be perceived as significant by others. Material instances of noncompliance noted during our audit are presented in the “Findings and Recommendations” section of this report.

FINDINGS AND RECOMMENDATIONS

VI. NONCOMPLIANCE WITH FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT (FFMIA) AND FEDERAL MANAGER'S FINANCIAL INTEGRITY ACT (FMFIA)
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FINDING NO. 9

CCC's financial management systems do not substantially comply with the requirements of the FFMIA or the FMFIA. This lack of compliance is due to nonconformances in CCC's CORE Accounting System, weaknesses in credit reform accounting, and inability to prepare financial statements that meet accounting standards in a timely manner. As a result, Department and agency oversight officials do not have the critical financial management information to manage CCC's assets of over \$15.7 billion, net costs of \$25.3 billion, and reported budget authority of \$65.4 billion.

The FFMIA provides that an agency of the Federal Government will be considered to be in substantial compliance with financial management system requirements if among other issues:

- Agency financial management systems meet the OMB Circular A-127 requirements.
- The agency can prepare audited financial statements in accordance with applicable accounting standards.
- The agency can comply with the SGL.

According to the FFMIA, substantial noncompliance with the requirements in any one or more of the three areas included in FFMIA would result in substantial noncompliance with FFMIA.

Beginning with our FY 1993 audit report, (Audit Report No. 03600-16-FM, dated March 1, 1994) and for nine consecutive FYs, OIG has reported on CCC's problems with its financial management systems. Although progress was achieved with the implementation of the CORE Accounting

System for CCC's domestic program operations, further improvements are needed. CCC's foreign financial systems still do not meet FFMA requirements and its CORE Accounting System for its domestic program operations needs additional improvements to enable it to fully meet FFMA requirements. CCC's financial management systems also do not follow requirements published in JFMIP Federal Financial Management System Requirements series, which prescribe the functions that must be performed by systems to capture information for preparation of financial statements and other financial reports.

To support the financial reporting process, an agency's financial system must provide complete, reliable, consistent, timely, and useful financial management information on operations to enable central management agencies, individual operating agencies, divisions, bureaus, and other subunits to carry out their fiduciary responsibilities; deter fraud, waste, and abuse of resources; and facilitate efficient and effective delivery of programs by relating financial consequences to program performance.

The problems we have noted with CCC financial systems follow:

- We found significant differences between the amounts in CCC's FY 2001 Combining Statement of Budgetary Resources (SBR) and those reported to the OMB's MAX Budget Information System (MAX)¹⁰ in preparation of the Program and Financing (P&F) Schedules in the President's Budget.¹¹ CCC's fund accounts had significant undisclosed differences resulting from its use of different sources of data input information into the President's Budget and the SBR and from adjustments made to the SBR that were made too late to be reported into OMB's MAX system. According to SFFAS No. 7, Paragraph 79, agencies are required to reconcile amounts shown in the SBR and the P&F Schedules and disclose the reasons for any significant differences in the notes to the financial statements. However, CCC could not adequately explain the significant differences found between the amounts in its SBR and those reported to the OMB to prepare the "actual" column of the President's Budget for CCC fund accounts in time for audit.

¹⁰ The MAX Budget Information System is OMB's computer system used to collect and process most of the information required for preparing the budget.

¹¹ FACTS II is a Treasury-run system that agencies use to submit one set of financial data that fulfills the need of the Form SF-133, Report on Budget Execution, the FMS 2108, Year End Closing Statement, and much of the initial set of data that will appear in the "prior year" column of the P&F Schedule of the President's Budget. OMB Circular No. A-11, Preparation and Submission of Budget Estimates, is the guidance used by agencies to report information in the President's Budget. Agencies input information into the President's Budget Schedules using OMB MAX System as required by OMB Circular A-11.

The GAO had previously reported¹² that CCC's fund account had significant undisclosed differences resulting from the agency's use of different sources of data to input information into the President's Budget and the CCC's FY 1999 SBR, and from adjustments made to the SBR that were received too late to be reflected in the President's Budget. GAO also found that data quality problems also existed for this account and it was unable to reconcile CCC's SBR to the P&F Schedule. According to CCC budget officials, they used proprietary accounts to submit budget execution information because their budget accounting system did not provide the level of detail necessary to input information into the President's Budget. CCC officials also told GAO that for FY 2000, CCC was implementing a new accounting system that would provide the level of detail necessary to input budgetary account information into the President's Budget. However, CCC budget officials advised that the reports used to input FY 2001 Budget Actuals into the President's Budget were still based on proprietary accounts, not budgetary accounts, in the CORE Accounting System. CCC budget officials further advised they plan to convert the existing budget Actual reports to budgetary accounts beginning with the FY 2004 (FY 2002 Actuals) Federal Budget Process.

- As noted in our report on internal controls, CCC did not use meaningful and efficient formats (naming conventions) for establishing all account posting models for its CORE Accounting System application for domestic program operations. We also noted that not all account posting models recorded CCC transactions consistent with SGL posting rules. For example, CCC posting models reduced accounts payable when establishing accounts receivable for program payments made in error and a refund was due back to CCC. However, SGL posting rules provide that accounts payable not be affected when establishing a receivable due to an overpayment. This results in CCC posting additional transactions to correct the out-of-balance condition. We also noted a CCC posting model which incorrectly posted transactions only to budgetary accounts. These transactions should have only been posted to proprietary accounts. The incorrect code was not removed from the system. FSA personnel advised that they emphasized the addition of new codes to the system to implement new legislation rather than removal of inactive codes.

¹² GAO Report No. 01-43, Federal Accounting and Reporting – Framework for Assessing the Reliability of Budget Execution Data, is Not Yet Fully Implemented, dated October 2000.

- We noted one instance where CCC used a SGL account inconsistent with SGL requirements. CCC Account No. 1360, Allowance for Loss on Claims Receivable, is used to record CCC's valuation allowance for CCC claims receivable. However, SGL requirements provide that Account No. 1360, Penalties, Fines, and Administrative Fees Receivable, is used to record amounts of penalties, fines, and administrative fees on accounts and loans receivable due to the delinquency of a debt. Because of this error, CCC originally misstated but then corrected its footnote for its accounts receivable by \$1.5 million. In addition, we identified 13 CCC general ledger accounts with account titles that were inconsistent with the account titles as prescribed by the SGL. For example, CCC Account No. 4222 was entitled "Reim and Other Advances Rec" while the SGL provides that the title of the account should be "Unfilled Customer Orders with Advance." Using general ledger account titles that are inconsistent with the SGL increases the risk that general ledger accounts will not be used for their intended purpose.
- As we reported in our prior report, there was no automated interface between the CORE Accounting System and the financial systems used by the peanut association and tobacco servicing agent banks to account for and report on their commodity loan operations for CCC. These programs are valued at over \$730 million. In order to record peanut and tobacco loan activities, CCC manually inputs monthly summary entries into its CORE Accounting System. In addition, peanut servicing agent banks still account for and report on their commodity loan operations using the accounting structure for CCC's former Financial Management System that was replaced by the CORE Accounting System.
- CCC's FFMIA Remediation Plan, dated August 30, 2001, identified three areas of planned remedial actions, along with planned completion dates, to resolve its financial management problems. One of these areas was to prepare financial statements in accordance with applicable accounting standards and meet established timeframes by December 2001. The plan also showed that CCC, by September 2002, was to complete its implementation of a new General Sales Manager System and replace the former Financial Management System accounting structure in the APLUS system with the CORE Accounting Structure by December 2001. These actions were not achieved or are still pending.

We will continue to monitor CCC's detailed actions to accomplish its remediation plan. We plan to include our assessment of the progress

achieved in our future Semiannual Report to Congress as required by the FFMIA.

RECOMMENDATION NO. 16

Report in FSA/CCC's FMFIA report that direct and guaranteed foreign credit program accounting and financial management systems' contain nonconformances and material weaknesses. Also, report that CCC's CORE Accounting System contains system nonconformances and material weaknesses.

VII. POTENTIAL NONCOMPLIANCE WITH THE ANTI-DEFICIENCY ACT REQUIREMENTS

In its management representation letter to OIG, CCC officials did not report any instances of noncompliance with laws and regulations pertaining to the Anti-Deficiency Act. However, our audit disclosed excessive disbursement of funds for the Market Loss Assistance Program and questionable contracting activities for accounting services performed at the request of OCFO where funds were over-obligated and/or over-expended, indicating potential Anti-Deficiency Act violations.

FINDING NO. 10

Market Loss Assistance Payments Exceed Limit

CCC/FSA did not effectively utilize available funds control data to timely suspend the disbursement of 2001 Market Loss Assistance (MLA) payments prior to exceeding the \$4.6 billion limitation. This occurred, in part because CCC does not have an automated process to prohibit disbursements when funds

reach the administrative limitations established by the legislation or the agency. In addition, CCC/FSA personnel did not act swiftly enough to disable computer program software to prohibit MLA payments after they had become aware of the potential problem. CCC disbursed \$4,761,238 more than was administratively established before additional funds were provided through an interchange authority.¹³ Consequently, an Anti-Deficiency Act violation may have occurred.

The Anti-Deficiency Act¹⁴ provides, in part, that an officer or employee of the United States Government may not (a) make or authorize an expenditure or obligation exceeding an amount available in an appropriation or fund for the expenditure or obligation; (b) involve the government in a contract or obligation for the payment of money before an appropriation is made unless authorized by law. Section 1517 a 2, of this act further provides that an agency may not exceed the available amount of an administrative subdivision officially directed by the agency.

The Agricultural Economic Assistance Act,¹⁵ enacted on August 13, 2001, directed that the Secretary shall, to the maximum extent practicable, use \$4,622,240,000 in CCC funds to make market loss assistance payments to owners and producers on farms that are eligible for a final payment for FY 2001 under production flexibility contracts. CCC generated an

¹³ Transfers of funds can be made under provisions of the Secretary of Agriculture's interchange authority (7 U.S.C. 2257)

¹⁴ 31 USC 1341.

¹⁵ Public Law 107-25

accounting memorandum,¹⁶ which provided a limitation of \$4,622,240,000 for these payments.

CCC/FSA initiated daily tracking of the MLA payments on August 16, 2001, and directed the Kansas City Finance Office (KCFO) to begin tracking the payments on September 14, 2001. However, over 99 percent of the available funds had already been disbursed as of September 14, 2001. CCC records showed that the cumulative amount of payments did not exceed the authorized limitation until September 20, 2001. CCC/FSA personnel acted to seek additional funding through the use of the Secretary's interchange authority, which was approved on September 25, 2001. However, MLA payments made on September 20 through September 24, 2001, had already exceeded the limitation by \$4,761,238. CCC did transmit a software modification that disabled the MLA payment option to State offices on September 21, 2001.

Our prior audit of CCC FY 2000 Financial Statements (Report No. 06401-14-FM, dated June 27, 2001) also disclosed a similar condition where CCC disbursed funds in excess of that appropriated for the Livestock Indemnity Programs. A September 20, 2001, response showed, in part, that OMB determined that the \$46,350 in overpayments described in that report represented a "technical" violation of the Anti-Deficiency Act provisions.

RECOMMENDATION NO. 17

Provide the facts and circumstances for the cited condition including the agency administrative limitation information (sub-division) to the Office of the General

Counsel (OGC) and request a written legal opinion on whether violations of the Anti-Deficiency Act have occurred. Also, report to Congress, as required, if it is determined by OGC that an Anti-Deficiency Act violation has occurred.

RECOMMENDATION NO. 18

Develop and utilize an automated funds control process that prohibits disbursement of funds before the agency and legislative limitation is exhausted.

¹⁶ Control No. 01-053, dated August 28, 2001.

FINDING NO. 11

CCC Funds Used Before Appropriate Reimbursement Requested

CCC revolving funds were inappropriately used in FYs 2001 and 2002 to pay for contracted accounting services performed at the request of the OCFO without following the required funds control process. FSA/CCC did not assess whether budgetary resources were available prior to disbursing funds from CCC's revolving fund to pay a contractor in FYs 2001 and 2002. As a result, CCC expended \$687,865 in FY 2001 and \$113,866 in FY 2002 for payments related to questionable contracting activities it had conducted and unnecessarily incurred interest expense of about \$19,500 because CCC borrowing authority was used to finance the contract. Consequently, an Anti-Deficiency Act violation may have occurred.

The Anti-Deficiency Act states, in part, that an officer or employee of the United States Government may not (a) make or authorize an expenditure or obligation exceeding an amount available in an appropriation or fund for the expenditure or obligation; and (b) involve the government in a contract or obligation for the payment of money before an appropriation is made unless authorized by law.

The OCFO had determined that it needed to contract with an outside accounting firm to ascertain the reliability of its legacy accounting system's general ledger ending balances and assure accurate beginning balances being converted to the Department's Foundation Financial Information System (FFIS). OCFO's planned approach for issuing this contract was to utilize the contracting services of the FSA, since it was one of the agencies being converted into FFIS on October 1, 2000, and was familiar with the requirements. The OCFO was to fund the contract through a reimbursable agreement with FSA and FSA would actually conduct the contracting activities.

CCC entered into a reimbursable agreement, dated September 29, 2000, with OCFO at the end of FY 2000 to contract with an outside accounting firm to accomplish this task for multiple USDA agencies (Animal Plant Health and Inspection Service, Natural Resources Conservation Service, Rural Development Mission Area and FSA). The duration of the agreement was shown as October 1, 1999, through September 30, 2000, and the financing for the contract was shown to be from Fund 12X4336, Commodity Credit Corporation, the Corporation's revolving fund. However, it appears that CCC's use of these funds is limited to only stabilize, support, and protect farm income per legislation (Title 15 U.S.C. Chapter 15-2). On September 29, 2000, CCC recorded budgetary entries of \$950,137 in its accounts showing the unfilled customer order of the

agreement amount. However, no proprietary entries were made at that time. In addition, while CCC required OCFO to verify the invoices submitted by the outside accounting firm for work performed prior to payment, CCC did not request reimbursement from the OCFO before it disbursed the funds. As a result, CCC disbursed its own revolving (borrowed) funds for a contract for performing non-CCC related services without proper authorization. That is, there was no legislation authorizing CCC to credit payments to the revolving fund for the work and CCC could not disburse funds in anticipation of reimbursement from OCFO.

On October 26, 2001, CCC recorded proprietary entries as of September 30, 2001, which showed a receivable amount of \$687,865. During FY 2001 and 2002, prior to requesting reimbursement from OCFO, CCC disbursed funds totaling \$687,865 and \$113,866, respectively, to the outside accounting firm under the reimbursable agreement with OCFO. When we questioned this activity, CCC requested reimbursement from OCFO of \$801,731 in January 2002. The check for reimbursement was dated January 14, 2002, and only covered the actual amounts disbursed by CCC to the accounting firm. The resources of the USDA Working Capital Fund were utilized by OCFO to provide reimbursement to CCC.

RECOMMENDATION NO. 19

Congress, as required, if it is determined by OGC that Anti-Deficiency Act violations have occurred.

Provide the facts and circumstances for the cited condition to OGC and request a written legal opinion on whether violations of the Anti-Deficiency Act have occurred. Report to

RECOMMENDATION NO. 20

Determine the amount of unnecessary interest expense incurred by CCC and recover that amount from OCFO.

VIII. NON-COMPLIANCE WITH DEBT COLLECTION IMPROVEMENT ACT

FINDING NO. 12

In testimony before the Subcommittee on Government Efficiency, Financial Management and Intergovernmental Relations, Committee on Government Reform, House of Representatives on December 5,

2001, the GAO reported that USDA had not yet taken effective actions to ensure that all eligible delinquent debt is promptly referred to Treasury. During FY 2001, FSA/CCC continued to make progress in transferring debt eligible for Treasury Cross Servicing and Offset Programs. However, the Corporation was not in substantial compliance with one provision of the Debt Collection Improvement Act of 1996 (DCIA). In addition, we found that receivables older than 60 days were not always converted by field office personnel to claim status and reported to FSA/CCC's centralized debt servicing system. As a result, some delinquent debts are not being serviced in accordance with DCIA and potential collection opportunities may be lost.

- Additional actions are still needed to enable CCC to fully comply with DCIA requirements for the Treasury Offset Program (TOP). CCC has been unable to implement provisions of the DCIA that allows it to make payment offsets. In order for CCC to implement this provision of the DCIA, it needs to develop an automated interface between its and Treasury systems. During FY 2001, CCC and Treasury made little progress in development of the necessary system requirements to enable CCC to interface with Treasury and begin off-setting payments, where applicable. CCC personnel continue to advise they are dependent on Treasury to revise and/or develop the requirements needed to have full compliance with DCIA for TOP.

In our FY 1999 report, we recommended that CCC coordinate with the Department's CFO to ensure Treasury develops a process for FSA/CCC systems to interface with Treasury. CCC has requested that the TOP manager provide an update of the schedule for providing systems requirements for non-Treasury disbursing agencies and a proposed date for implementation of the interface payment data to TOP. Based on the implementation date provided by Treasury and receipt of their system requirements for the interface, FSA/CCC will begin the design, development, testing and

implementation phases of the necessary software enhancements. The planned timeframe for completing the planned interface with Treasury is 2003.

- FSA/CCC did not ensure that receivables older than 60 days were always converted by field office personnel to claim status. FSA/CCC personnel stated that a centralized system was not in place to review the details of each receivable in the field offices until September 2001. In addition, many decisions rely on the field personnel; therefore, KCFO does not control the entire debt management process. As a result, over 8,000 receivables totaling about \$18.6 million had not been converted to claim status and, if eligible, referred to Treasury¹⁷ for cross-servicing which includes the Treasury Offset Program.

In the field offices, agency employees are to follow the guidance in the FSA Handbooks¹⁸ which provide that outstanding receivables older than 60 days be transferred to claims status. Guidance¹⁹ also allows field office personnel to decide when to convert a receivable to claim status.

On September 30, 2001, FSA/CCC records showed they had 8,150 receivables nationwide totaling \$18,651,333 that were older than 60 days without payments being made on them since they were established. We also noted that many of these receivables (7,584 totaling \$15,591,624) were over 180 days old and could be subject to immediate referral to Treasury upon conversion to claim status.

FSA/CCC personnel could only review summarized data using the CORE Accounting System because it did not provide detailed information concerning each individual receivable. As of September 2001, KCFO debt collection personnel could utilize the detailed historical data that became available in the "Debt Datamart" to monitor field office actions.

¹⁷ FSA/CCC is subject to the Debt Collection Improvement Act of 1996 and Office of Management and Budget Circular A-129, "Policies for Federal Credit Programs and Non-Tax Receivables." According to the Debt Collection Improvement Act, debts older than 180 days should be referred to the Treasury Offset Program and cross-servicing.

¹⁸ FSA Handbook 67-FI (Rev.1) Amendment 1, page 6-1 and 58-FI (Rev.6) Amendment 12, page 5-3.

¹⁹ FSA Handbook 58-FI (Rev.6) Amendment 12, page 4-14.

RECOMMENDATION NO. 21

of FY 2003.

Continue efforts to coordinate through the Department's CFO with Treasury officials to obtain the needed process for FSA/CCC systems to interface with Treasury by the end

RECOMMENDATION NO. 22

needing review and notifying field offices of actions needed; timely transferred to claim status; and subsequently referred to Treasury, as appropriate.

Develop and implement formal procedures to ensure FSA/CCC receivables are: properly monitored using the "Debt Datamart" which includes creating reports of those receivables

RECOMMENDATION NO. 23

Consolidate KCFO and field office debt collection activities at KCFO to improve timeliness of claim establishment and facilitate referral to Treasury.

IX. ANNUAL REVIEW OF USER FEES NOT PERFORMED FOR ALL PROGRAMS

FINDING NO. 13

As reported, in our FY 1999 and 2000 financial statement audits, CCC has not yet conducted required annual reviews of fees associated with the General Sales Manager (GSM) guarantee program. As a result, the fees CCC charged for its GSM-102 and GSM-103 export credit guarantee programs have not been changed for many years and may not be reflecting current costs.

OMB Circular A-129 dated November 29, 2000. Section II, 3 b states: "Agencies should establish interest and fees structures for direct loans and loan guarantees and should review structures at least annually...Interest and fees should be set at levels that minimize default and other subsidiary costs, of the direct loan or loan guarantee, while supporting the achievement of the program's policy objectives."

We reported previously that CCC's GSM-102 Export Credit Guarantee Program has a legislative requirement that prohibits the charging of a fee in excess of 1 percent of the guarantee. Under CCC regulations, current fees range from 15.3 cents per \$100 guaranteed for a 90-day credit guarantee, to 66.3 cents per \$100 guaranteed on a 36-month credit guarantee. There is no legislative limit on the fees that CCC can charge on the GSM-103 program. We recommended in our 1999 audit that CCC conduct the required review of fees to assure the charges are set at levels that minimize the corporation's cost without unduly impairing these loan program's policy objectives, and ensure that these loan guarantee fees are reviewed annually in the future. In response to our recommendations, CCC stated that the Foreign Agricultural Service would work with the OCFO staff to develop a standard template for an annual review of fees.

Because of the recommendations made in our prior report and CCC's planned corrective actions, we are making no further recommendations at this time.

We considered these reportable instances of noncompliance in forming our opinion on whether CCC's FY 2001 financial statements are presented fairly, in all material respects, and this report does not modify the unqualified and disclaimer of opinions on CCC's financial statements expressed in our report, dated February 26, 2002.

This report is intended solely for the information and use of the management of CCC, OMB and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

JOYCE N. FLEISCHMAN
Acting Inspector General

February 26, 2002

ABBREVIATIONS

Act	Federal Credit Reform Act of 1990
CCC	Commodity Credit Corporation
CFO	Chief Financial Officer
DCIA	Debt Collection Improvement Act
FBWT	Fund Balance with Treasury
FFIS	Foundation Financial Information System
FFMIA	Federal Financial Management Improvement Act of 1996
FMFIA	Federal Manager's Financial Integrity Act of 1982
FSA	Farm Service Agency
FY	Fiscal Year
GAO	General Accounting Office
GPRA	Government Performance and Results Act
GSM	General Sales Manager
ICRAS	Inter-Agency Country Risk Assessment System
JFMIP	Joint Financial Management Improvement Program
IT	Information Technology
KCFO	Kansas City Finance Office
MARAD	U. S. Department of Transportation's Maritime Administration
MD&A	Management Discussion and Analysis
MLA	Market Loss Assistance
NITC	National Information Technology Center

OCFO	Office of the Chief Financial Officer
OCIO	Office of the Chief Information Officer
OGC	Office of the General Counsel
OIG	Office of Inspector General
OMB	Office of Management and Budget
OMB MAX	Office of Management and Budget MAX System
P&F	Program and Financing
PCAT	Program Category
SBR	Combining Statement of Budgetary Resources
SGL	U.S. Standard General Ledger
SFFAS	Statement of Federal Financial Accounting Standards
TOP	Treasury Offset Program
TREASURY	U.S. Department of Treasury
USAID	U.S. Agency for International Development
USDA	U.S. Department of Agriculture