



U.S. Department of Agriculture
Office of Inspector General
Southwest Region

Fiscal Year 2001 Rural Development
Financial Statement Audit
Texas



Report No.
85401-1-Te
February 2002



UNITED STATES DEPARTMENT OF AGRICULTURE
OFFICE OF INSPECTOR GENERAL

Southwest Region - Audit
101 South Main Street, Suite 324
Temple, Texas 76501
TEL: 254-743-6565 FAX: 254-298-1373



DATE: February 25, 2002

REPLY TO
ATTN OF: 85401-1-Te

SUBJECT: Fiscal Year 2001 Rural Development Financial Statement Audit

TO: Bryan Daniel
State Director
Rural Development
Temple, TX

We audited the operations of the Texas Rural Development State Office (SO) and four field offices: Cleburne, Henderson, Mount Pleasant, and Seguin. The audit was performed in conjunction with the Office of Inspector General's (OIG) audit of Rural Development's fiscal year (FY) 2001 Financial Statements. In general, controls were operating satisfactorily and transactions tested were in compliance with applicable laws and regulations; however, we noted that all personal property was not properly recorded in the agencies inventory records. We have also noted in the General Comments section of the report that duties over the processing and reconciliation of the convenience check account were not adequately segregated.

BACKGROUND

Rural Development is the credit agency for rural development in the United States, Puerto Rico, Virgin Islands, and trust territories. Rural Development provides loans and grants and extends loan guarantees for housing, community development, and electric and telecommunication programs. The Rural Development mission area consists of three program agencies: the Rural Housing Service, the Rural Utilities Service, and the Rural Business-Cooperative Service.

The management of these agencies is responsible for establishing internal controls and for ensuring compliance with laws and regulations applicable to its programs. During the course of the fieldwork, we tested compliance with laws and regulations related to these Rural Development agencies.

The State of Texas was selected for review for the financial statement audit because of the number and amount of loans/grants processed in the State. The SO, located in Temple, Texas, administers United States Department of Agriculture (USDA) Rural Development programs from 30 local field offices across the State.

OBJECTIVES

The audit objectives were to determine if Rural Development's system of internal controls provided reasonable assurance that control objectives were met, and that Rural Development complied with laws and regulations for transactions and events that might have a material effect on its financial statements.

SCOPE AND METHODOLOGY

We performed audit work at the Texas SO, and at the Cleburne, Henderson, Mount Pleasant, and Seguin local field offices. At these offices, we reviewed controls over the borrower eligibility determinations and the loan approval functions for the direct single-family housing, community programs, water and waste borrowers, and multi-family housing loan programs. We also reviewed similar controls over the guaranteed single-family housing loan and business and industry guaranteed loan programs. In addition, we reviewed Rural Development's internal controls over accounting for personal property, use of the government purchase cards, computer security, graduation of direct single-family borrowers to outside credit, collection of payments and fees, and disbursements of grant funds. We performed fieldwork from June 2001 through November 2001.

Near the end of FY 2001, Texas' Rural Development loan portfolio consisted of 24,469 single-family housing borrowers with outstanding unpaid principal balances of over \$724 million; 1,139 multi-family housing borrowers with outstanding balances of over \$588 million; 3,918 single-family housing borrowers with loan guarantees of over \$261 million; 99 borrowers with guaranteed business and industry loan balances of over \$179 million; 122 community facilities borrowers with outstanding unpaid principal balances of over \$47 million; and 538 water and waste loan borrowers with outstanding principal balances of over \$361 million.

We reviewed loans closed in FY 2001. In the 4 local offices visited, we reviewed 33 of 973 direct and guaranteed single-family housing loans totaling \$2,965,091 (out of \$59,739,276), 5 of 6 guaranteed business and industry loans totaling \$10,192,000 (out of \$10,967,000), 4 of 10 multi-family housing loans totaling \$2,800,709 (out of \$5,683,027), 5 of 14 community facility loans totaling \$2,013,100 (out of \$3,762,750), and 4 of 25 water and waste loans totaling \$958,000 (out of \$18,151,100). We conducted this audit in accordance with generally accepted government auditing standards.

To accomplish the audit objectives we:

- reviewed applicable regulations,
- examined case file documents,
- reviewed online history screens from Rural Development's accounting systems,
- conducted interviews with applicable Rural Development personnel at the offices visited,
- confirmed the existence of borrowers, and

- performed a physical inventory of accountable inventoried personal property at the offices visited.

We judgmentally selected the loans, grants, and transactions related to loan collections, graduations, and purchase cards included in our review. We generally selected transactions with larger dollar values for review.

FINDING

Additions and deletions of personal property at the field offices we visited were not correctly recorded in the Property Management Information System/Personal Property System (PMIS/PROP). This condition developed because the SO had not established adequate procedures for maintaining the integrity of the PMIS/PROP system. As a result, the Personal Property Physical Inventory Report (PROP302), generated by PMIS/PROP, did not agree with the actual physical inventory at three of the four local offices we visited; however, we concluded that no property was missing.

We obtained a copy of the PROP302 report dated July 2, 2001, for each office in the State of Texas. Each of the four local offices we reviewed had three items listed on the PROP302 report: a copy machine, a digital camera, and a laptop computer. At each office, we asked the personnel to identify the property listed on the PROP302 for their location. We then compared the description and serial number of the physical property with the PROP302 report data. We found discrepancies at three of the four offices. Mt. Pleasant was the only office where the physical inventory of property agreed with the PROP302 report.

At the Henderson field office, it appears that the serial number of the laptop computer in the office was incorrectly entered into the PROP302 report. The error appears to be typographical since the serial number in the PROP302 was only one digit off the serial number of the laptop computer located in the field office.

At the Cleburne field office, the serial number on the laptop computer was different than the serial number listed for the laptop in the property report. Also, the digital camera in the office was not the camera listed in the PROP302. Field office personnel said FedEx shipped the camera listed in the report to the field office, but they never received the shipment. The serial number of the replacement camera was not recorded in PROP 302.

In Seguin, the serial number for the digital camera in the PROP302 report was not the same serial number as the digital camera located in the field office. Field office personnel said the original camera listed in the report had been replaced.

Prior to FY 2001, property management was the responsibility of the Rural Development Headquarters Financial Management Division rather than individual SO's. However, on July 11, 2000, the Rural Development Operations and Management Division in Washington, D.C., sent memorandums to the State Directors advising them that property management officer (PMO) responsibilities were being delegated to the States and asked

that they conduct personal property inventories. The delegations were effective beginning in FY 2001.

Rural Development Instruction 2024-H, Property and Space, provides general policies, routines, and responsibilities for the custody, control, utilization, and disposal of accountable personal property. However, the SO did not provide additional procedures to ensure all additions and deletions of accountable personal property throughout the State were recorded in the PROP system.

Our examination of the SO's process for controlling accountable personal property determined that the Information Management Services (IMS) staff and the Contracting/Procurement staff have overlapping responsibilities. The State's IMS staff installs new computer equipment at offices around the State, and facilitates repair or replacement of broken equipment. They maintain an inventory of information technology (IT) equipment and sensitive property, such as laptop computers and cameras through the Common Computing Environment Automation Equipment Inventory Report.

The State's Contracting/Procurement staff is responsible for controlling in the PMIS/PROP system the inventory of all furniture and equipment with an acquisition cost of \$5,000 or more, including IT equipment as well as all sensitive property regardless of cost. Thus, both staffs have a responsibility for controlling the inventory of some of the same equipment. However, the IMS staff has not been directed to inform the Contracting/Procurement staff regarding additions or deletions of equipment, and the Contracting/Procurement staff has not established a process for obtaining the information. As a result, the PROP302 inventory report does not provide an accurate record of accountable personal property in the State. At the time of the audit, the Texas SO was conducting a physical inventory of accountable personal property.

RECOMMENDATION

Implement procedures that will ensure additions and deletions of accountable personal property are updated in the PMIS/PROP system. Also, review the results of the physical inventories in progress at the time of the audit, and post changes to the PMIS/PROP system.

GENERAL COMMENTS

Purchase Card - Separation of Duties

The Texas SO has one USDA Governmentwide commercial purchase card. The cardholder is authorized to use the purchase card for making authorized purchases of \$2,500 or less. Convenience checks have also been issued to the cardholder. Our review determined the cardholder was responsible for both initiating transactions by credit card or check as well as reconciling the purchase card bank account. Although the cardholder was following the Purchase Card Management System/Micro-Purchase Guide, the practice violates the generally accepted internal control practice of

separation of duties. Any recommendation related to this matter will be addressed in the OIG national report.

We included your response to the audit dated February 22, 2002, as Attachment 1. Based on your response, we have accepted management decisions for all the recommendations. Please follow your internal agency procedures in forwarding final action correspondence to the Office of the Chief Financial Officer.

We appreciate the courtesies and cooperation extended to our staff during this review.

/s/
ROBERT E. GRAY
Regional Inspector General
for Audit

Attachment



UNITED STATES
DEPARTMENT OF
AGRICULTURE

RURAL
DEVELOPMENT

101 SOUTH MAIN STREET
SUITE 102, FEDERAL BUILDING
TEMPLE, TEXAS 76501

Voice: (254) 742-9750
Fax: (254) 742-9709
TDD: (254) 742-9712

FEB 22 2002

SUBJECT: Fiscal Year 2001 Rural Development Financial Statement Audit, 85401-1-Te,
February 8, 2002

TO: Robert E. Gray
Regional Inspector General for Audit
Office of Inspector General (OIG)
101 South Main, Suite 324
Temple, TX 76501

ATTN: 85401-1-Te

This is in response to your memorandum dated February 8, 2002, regarding the subject audit.

Texas USDA Rural Development acknowledges the finding outlined in subject draft report and has taken actions to implement procedures that will insure additions and deletions of accountable personal property are updated in the PMIS/PROP system. In order to ensure the inventory remains correct, we will obtain physical inventories from each of the 30 local offices and the State Office, and reconciliation will be completed quarterly. Physical inventories have already been performed in each local office in Texas, as well as the State Office. The inventories have been reconciled with the Personal Property Physical Inventory report (PROP302).

Your general comments relating to the purchase card – separation of duties are noted. The cardholder of the USDA government-wide commercial purchase card will continue to initiate transactions by credit card or check, and she will continue to reconcile the “purchase card” bank account as outlined in current procedures. However, we will initiate accepted internal control practices and separation of duties by appointing a State Office staff member to review all future transactions and the reconciliation on a monthly basis.

If you have any questions, please contact the Management Control Staff at 254-742-9707 or 254-742-9704.

A handwritten signature in black ink that reads "Bryan Daniel". The signature is written in a cursive, flowing style.

BRYAN DANIEL
State Director

USDA Rural Development is an Equal Opportunity Lender,
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sent to: USDA, Director, Office of Civil Rights, Washington, DC 20250-9410

Attachment