



U.S. Department of Agriculture
Office of Inspector General
Financial and IT Operations
Audit Report

WORKING CAPITAL FUND FINANCIAL
STATEMENT AUDIT FOR
FISCAL YEAR 2001



Report No.
50401-45-FM
NOVEMBER 2002



UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington D.C. 20250



DATE: NOV 19 2002

REPLY TO

ATTN OF: 50401-45-FM

SUBJECT: U.S. Department of Agriculture's Working Capital Fund Financial Statement Audit for Fiscal Year 2001

TO: Edward R. McPherson
Chief Financial Officer
Office of the Chief Financial Officer

This report presents the auditor's opinion on the Working Capital Fund's (WCF) balance sheet as of September 30, 2001. Reports on WCF's internal controls and compliance with laws and regulations are also provided.

Williams, Adley & Company, LLP, an independent certified public accounting firm, conducted the audit. We monitored the progress of the audit at all key points, reviewed the work papers, and performed other procedures, as we deemed necessary. We determined that the audit was conducted in accordance with auditing standards generally accepted in the United States of America, Government Auditing Standards (issued by the Comptroller General of the United States), and the Office of Management and Budget Bulletin 01-02, "Audit Requirements for Federal Financial Statements," except as noted in the audit opinion.

Williams, Adley & Company issued a qualified opinion on WCF's balance sheet as of September 30, 2001. We agree with the opinion. The auditor's report on internal controls contains five material weaknesses and four reportable conditions that are not classified as material.

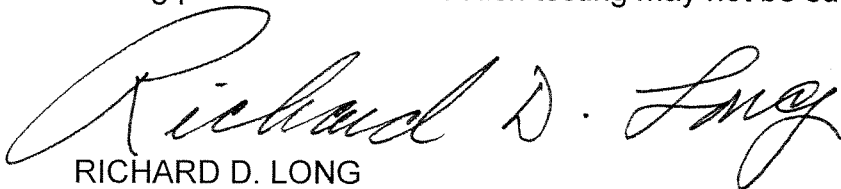
In order to provide full disclosure, it is important to note that the audit was encumbered by the significantly deficient system of internal controls and incompatibility with generally accepted accounting principles. The initial statement of work was to render an opinion of the WCF's fiscal year (FY) 2000 financial statements; in June 2001 WCF requested that the statement of work be revised to reflect that the audit be performed on the fiscal year 2001 financial statements. In addition, during September 2001, WCF management decided to forego an audit of four of its financial statements by requesting a balance

sheet only audit as of September 30, 2001. WCF management's decision was based on a self-evaluation of its audit readiness. Even with this limitation in scope, the audit could not be completed without expanding substantive audit testing far beyond what is contemplated by the Government Auditing Standards.

The WCF's FY 2001 financial statements were produced using data maintained in the Department's Central Accounting System. Although this system has now been replaced by the Foundation Financial Information System, which should significantly enhance the likelihood of improved opinions in future periods, a sustainable system of internal accounting controls for the WCF has not yet been established. In fact, many of the material internal control weaknesses disclosed in this report have been reported in prior audits dating back to 1995.

While Williams, Adley & Company concurred with the proposed corrective actions noted in the report, we do not believe the actions are sufficient to meet departmental regulations for the recommendations associated with Finding Nos. 01-03, 01-04, 01-05, 01-06, 01-07, 01-08, and 01-09. The actions proposed in your response to the draft report are sufficient to achieve management decision for the recommendations associated with Finding Nos. 01-01 and 01-02. Please provide a detailed, time-phased corrective action plan with specifics for rectifying the conditions noted. Departmental Regulation 1720-1 requires a response within 60 days of report issuance.

This report is intended solely for the information and use of the management of WCF, Office of Management and Budget, and Congress, and is not intended to be and should not be used by anyone other than these specified parties. We caution that misstatements, losses and noncompliance may occur and not be detected by the testing performed and that such testing may not be sufficient for other purposes.



RICHARD D. LONG
Assistant Inspector General
for Audit



United States Department of Agriculture
Working Capital Fund

Financial Statements for the Year Ended
September 30, 2001
With Independent Auditors' Reports Thereon

WILLIAMS, ADLEY & COMPANY
Management Consultants
and
Certified Public Accountants

**United States Department of Agriculture
Working Capital Fund**

FY 2001 Audit Report

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WILLIAMS, ADLEY & COMPANY, LLP

Management Consultants
Certified Public Accountants

Report of Independent Accountants

To the Inspector General and
Chief Financial Officer
United States Department of Agriculture

We have audited the accompanying Balance Sheet of the United States Department of Agriculture Working Capital Fund (WCF) as of September 30, 2001. This financial statement is the responsibility of WCF's management. Our responsibility is to express an opinion on the Balance Sheet based on our audit. We did not audit the Statements of Net Cost, Changes in Net Position, Budgetary Resources, and Financing for the fiscal year then ended based on a USDA management decision. Those statements are included hereto for reference purposes only and we express no opinion on the statements.

Except as discussed below, we conducted our audit in accordance with generally accepted government auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Office of Management and Budget (OMB) Bulletin No. 01-02*, "Audit Requirements for Federal Financial Statements." 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.

We performed an audit of the Balance Sheet only as of September 30, 2001 and did not audit the Statements of Net Cost, Changes in Net Position, Budgetary Resources, and Financing for the fiscal year then ended. This audit scope limitation precluded us from auditing the cumulative results of operations, which is a part of the Balance Sheet. Consequently, we were unable to determine whether the cumulative results of operations is materially misstated.

In our opinion, except for the effect of the cumulative results of operations mentioned above, WCF's fiscal year 2001 Balance Sheet presents fairly, in all material respects, the financial position of WCF as of September 30, 2001 in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our reports dated April 26, 2002 on our tests of the WCF's compliance with certain provisions of laws and regulations and our consideration of its internal control over financial reporting. These reports are an integral part of an audit

performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Williams, Adley & Company, LLP
April 26, 2002
Washington, DC

U.S. Department of Agriculture Working Capital Fund
Balance Sheet
As of September 30, 2001
(In Thousands)

ASSETS

Assets for Use by Entity:

Federal

Fund Balance with Treasury (Note 2)	\$ 14,115
Accounts Receivable, Net (Note 3)	58,699
Total Federal	72,814

Non-Federal

Inventory and Related Property, Net (Note 4)	1,383
General Property, Plant and Equipment, Net (Note 5)	49,559
Other Assets	12
Total Assets	\$ 123,768

LIABILITIES

Federal

Accounts Payable	\$ 927
Accrued Federal Employees Compensation Acts	1,237
Other Liabilities (Note 6)	3,113
Total Federal	5,277

Non-Federal

Federal Employees Compensation Act Bills	8,204
Other Liabilities (Note 6)	53,923
Total Liabilities	67,404

NET POSITION

Cumulative Results of Operations	56,364
Total Net Position	56,364
Total Liabilities and Net Position	\$ 123,768

The accompanying notes are an integral part of these statements.

U.S. Department of Agriculture Working Capital Fund
Statement of Net Cost
For the Year Ended September 30, 2001
(In Thousands)

	Unaudited
Program Cost	
Federal	\$ 74,094
Non-Federal	
Other Program Costs	<u>219,732</u>
Total Program Production Costs	293,826
Less Earned Revenue (Note 8)	<u>284,872</u>
Excess Production Costs Over Revenue	<u>8,954</u>
Net Production Costs	<u>8,954</u>
Net Cost of Operations	<u><u>\$ 8,954</u></u>

The accompanying notes are an integral part of these statements.

U.S. Department of Agriculture Working Capital Fund
Statement of Changes in Net Position
For the Year Ended September 30, 2001
(In Thousands)

	Unaudited
Net Cost of Operations	\$ 8,954
Financing Sources (other than exchange revenues):	
Donations (non-exchange revenue)	438
Imputed Financing	6,866
Transfers-In	166
Transfers-Out	(165)
Net Results of Operations	(1,649)
Prior Period Adjustments	2,293
Net Change in Cumulative Results of Operations	644
Net Position – Beginning of Period	55,720
Net Position – End of Period (Note 9)	\$ 56,364

The accompanying notes are an integral part of these statements.

U.S. Department of Agriculture Working Capital Fund
Statement of Budgetary Resources
For the Year Ended September 30, 2001
(In Thousands)

	Unaudited
Budgetary Resources:	
Unobligated balances – beginning of period	\$ 13,923
Spending authority from offsetting collections (Note 10)	288,930
Total budgetary resources	302,853
 Status of Budgetary Resources:	
Obligations incurred	278,280
Unobligated balances – available	28,106
Unobligated balances – not available	(3,533)
Total status of budgetary resources	302,853
 Outlays:	
Obligations incurred	278,280
Less: spending authority from offsetting collections and adjustments	284,872
Obligated balance, net – beginning of period	26,863
Less: obligated balance, net – end of period	(9,006)
Total outlays	\$ 29,277

The accompanying notes are an integral part of these statements.

U.S. Department of Agriculture Working Capital Fund
Statement of Financing
As of September 30, 2001

(In Thousands)

	Unaudited
Resources Used to Finance Operations:	
Budget	
Budgetary Resources Obligated for Items to Be Received or Provided to Others	\$ 278,280
Less: Offsetting Collections, Recoveries of Prior-Year Authority, and Changes in Unfilled Customer Orders	284,872
Net Budgetary Resources Used to Finance Operations	<u>(6,592)</u>
Non-Budgetary	
Property Received from Others Without Reimbursement	166
Less: Property Given to Others Without Reimbursement	165
Costs Incurred by Others Without Reimbursement	6,866
Net Non-Budgetary Resources	<u>6,867</u>
Total Resources Used to Finance Operations	<u>275</u>
Resources Used to Fund Items Not Part of the net Cost of Operations	
Decrease in Budgetary Resources Obligated to Order Goods or Services Not Yet Received or Benefits Not Yet Provided	(10,283)
Resources Funding Expense Recognized in Prior Periods	2,750
Resources Financing the Acquisition of Assets of Liquidation of Liabilities	16,423
Total Resources Used to Fund Items Not Part of the Net Cost of Operations	<u>8,890</u>
Resources Used to Finance the Net Cost of Operations	<u>(8,615)</u>
Components of Net Cost of Operations Requiring or Generating Resources During the Reporting Period	
Expenses or Earned Revenue Related to the Disposition of Assets or Liabilities, or Allocation of Their Cost Over Time	17,227
Expenses Which Will be Financed with Budgetary Resources Recognized in Future Periods	342
Total Components of Net Cost of Operations Not Requiring or Generating Resources During the Reporting Period	<u>17,569</u>
Net Cost of Operations	<u>\$ 8,954</u>

The accompanying notes are an integral part of these statements.

U.S. Department of Agriculture Working Capital Fund
Notes to Financial Statements
For the Year Ended September 30, 2001

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES:

A. Basis of Presentation

The financial statements report the financial position and results of operations of the Working Capital Fund (WCF), a revolving fund within the U.S. Department of Agriculture, as required by the Chief Financial Officers Act of 1990. They have been prepared from the books and records of the WCF in accordance with generally accepted accounting principles and include presentations and disclosures required for federal entities under the Office of Management and Budget (OMB) Bulletin 97-01, *Form and Content of Agency Financial Statements*, as revised, and the USDA Financial and Accounting Standards Manual, as applicable. The statements are therefore different from the WCF Operating Statements that are used internally for funds management purposes. The Balance Sheet, Statements of Net Cost, Changes in Net Position, Budgetary Resources, and Financing are presented on a consolidated basis. All the amounts in the statements and accompanying notes are presented in thousands of dollars.

B. Reporting Entity

Authority

The WCF was authorized in 1943 and later codified under 7 U.S.C. 2235. Under law, only activities approved by the Secretary and the Director of OMB may be carried out under the WCF authority. Candidates for WCF support are considered by the Department and OMB when the following criteria can be met: centralization would result in cost savings through economies of scale, reduced overhead costs, central cost-based management and avoidance of duplication among those who might provide the service. Centralization would also offer improved service quality, availability of service to those users who could not afford them except on a centralized basis, and the ability to replace equipment on a long-term basis through the use of depreciation charges to users as a means of recovering the costs of large-scale assets over the useful life of those assets.

Funding

The WCF received an initial appropriation of \$400,000 in FY 1944. Additional capital has been made available through transfers into the WCF of activities meeting the established criteria. In 1985, Congress and the USDA embarked on a recapitalization effort, which over a five-year period infused the WCF with approximately \$31.8 million in appropriated support. An additional \$20.7 million was collected through contributions by users to grow capital.

Organization

Currently, the WCF has twenty-two activity centers operating within its authority. These activities are advanced operating funds and investment capital through the WCF. The activities then sell their goods and services to customer agencies, both USDA and Non-USDA, who in-turn reimburse the WCF activities for their costs. The WCF activities then reimburse the WCF for the advances.

C. Basis of Accounting

The accounting structure of federal government agencies is designed to reflect both accrual and budgetary accounting transactions. The accompanying financial statements have been prepared on an accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. The budgetary accounting principles, on the other hand, are designed to recognize the obligation of funds according to legal requirements, which in many cases is prior to occurrence of an accrual-based transaction. The recognition of budgetary accounting transactions is essential for compliance with legal constraints and controls.

D. Exchange Revenue

The WCF activities sell their goods and services to customer agencies, both USDA and Non-USDA, who in-turn reimburse the WCF activities for their costs. The WCF activities then reimburse the WCF for the advanced capital. The WCF activities rely entirely on reimbursement from customer agencies for operating income. No appropriations are used to subsidize the operating costs of the WCF activities.

E. Full Cost

In accordance with federal government accounting guidance, WCF measures and reports the full costs of products and services generated from the consumption of resources. Full cost is the total amount of resources used to produce a product or provide a service.

F. Imputed Pension and other Retirement Benefits

In accordance with federal government accounting guidance, WCF recognizes the liability and associated expense for employee pensions and other retirement benefits (including health care and other post-employment benefits) at the time the employee's services are rendered. Pension expense, retirement health benefits, and related liabilities are recorded at estimated actuarial present value of future benefits, less the estimated actuarial present value of normal cost contributions made by and for covered employees. Other post-employment benefits expense and related liability are recognized when the future outflow of resources is probable and measurable on the basis of events occurring on or before the reporting date.

G. Accounts Receivable

Current WCF procedures allow for the write-off of accounts receivables that have been determined to be uncollectible. As of September 30, 2001, the WCF had not written off any accounts receivable. In FY 2001 the WCF established an allowance for doubtful accounts. The following criteria apply: 25% for accounts one year old, 50% for accounts two years old, 75% for accounts three years old.

H. Operating Inventories

Operating inventories are maintained by six activities: Central Supply Store, CEPO, the Duplicating Unit, Copier Service, Mail Distribution, and DMLS. The inventory held for sale by the Central Supply Store, the Duplicating Unit, Copier Service, Mail Distribution and DMLS is valued at current market cost plus inbound transportation costs. The rehabilitated furniture inventory held by CEPO is valued at the cost of rehabilitation.

I. Property, Plant and Equipment

General Criteria

All capitalized investments within the WCF must meet two specific criteria. First, the total cost of the property, including computer software, must equal or exceed \$5,000. The cost of the property will include all amounts paid to acquire the property less any discount, all transportation costs and installation costs. Second, the useful life of the property must equal or exceed two years. This capitalization policy is consistent with both the GAO Guidance to Federal Agencies Manual and USDA's Financial and Accounting Standards Manual.

Software

Licensed software is capitalized only when initial one-time costs (\$5,000 or more) are paid. These initial costs are amortized over the life of the license period (which must be greater than two years but not exceed five years). Software is also capitalized when the capitalization criteria has been met. However, the cost of installation may or may not be included in the total cost of the software depending upon the following criteria: (1) if the software requires modification by the contractor, those costs are added to the total cost of the software, (2) if in-house software modifications are made, those costs are not added to the total software cost, and (3) if the contractor provides the basic training necessary to make the software operational, those costs are included in the total cost of the software. Any training provided after the software is operational is not included in the total cost. Major system software development costs are capitalized and depreciated over ten years.

Capital Investment Fund Availability

Capital investment fund availability for a specific fiscal year is composed of the projected depreciation to be recovered in that year, and the unused capital investment funding availability from previous years.

Leasing

Capital investment requests that cannot be funded for purchase are approved for leasing as operating leases and include such items as ADP software, ADP equipment, and office equipment such as copiers. The WCF does not enter into capital leases. The operating leases are for one-year terms, are renewable annually, and can be canceled. Therefore, no lease liability is created beyond the current year. The lease payments are recorded as operating expenses.

Amortization of Capital Investments

Property, plant and equipment are stated at cost and are depreciated using the straight-line method over the estimated useful lives of the assets. The standard estimated useful lives are as follows:

Equipment - 5 years

ADP Software - 5 years & 10 years

Structures, Facilities and Leasehold Improvements - 7 years & 8 years

The standard life for an asset, as shown above, may be modified if the useful life of that asset is determined to be greater or less than the standard.

J. Liabilities

Liabilities represent the amount of monies or other resources that are likely to be paid by WCF as a result of a transaction or event that has already occurred.

K. Annual, Compensatory, Sick and Other Leave

Accrual of Annual Leave

The accrued annual leave liability represents the dollar value of accumulated annual leave owed to employees. The WCF recognizes the expense and related liability for annual leave as it is earned. The WCF estimates and records the accrued liability in the general ledger as a percentage of direct labor costs on a monthly basis. The FY 2001 percentage rate for funding the accrued annual leave liability is 9.5%. The balances in the general ledger annual leave liability accounts are compared with the annual leave liability actually owed to employees as determined through the use of National Finance Center (NFC) reports. Any required adjustments are made at year-end.

Compensatory Leave Costs

For all WCF activities an accrual was made at year-end to ensure that compensatory leave liability in the general ledger agreed with the actual balance. This adjustment was made because the current payroll accounting system utilized by the WCF does not allow for the accrual of compensatory leave as it is earned. Due to this limitation, all WCF activity centers, with the exception of the NFC, directly expense compensatory leave as taken. Due to the complexity of the NFC rate structure and the cost accounting and billing data requirements, NFC expenses the compensatory leave costs on an estimated basis rather than directly expensing them. The NFC estimates are based on the historical cost and usage of compensatory leave. This cost estimate is converted to a percentage that is applied to the cost of each direct labor hour worked. This procedure allows the compensatory leave costs to be recovered as a part of direct labor that is allocated to systems and agency specific applications.

Expensing Sick and Other Leave Costs

Sick and other leave are not accrued by the WCF. Instead, these costs are expensed when these types of leave are taken. All WCF activity centers, with the exception of the NFC, directly expense sick and other leave. Due to the complexity of the NFC rate structure and the cost accounting and billing data requirements, NFC expenses the costs of sick and other leave on an estimated basis rather than directly expensing these costs. The NFC estimates the cost of the sick and other leave that will be taken during the fiscal year, based on the historical cost and usage of sick and other leave at the NFC. This cost estimate is converted to a percentage that is applied to the cost of each direct labor hour worked. This procedure allows the cost of sick and other leave to be recovered as a part of direct labor and can be billed as a direct cost to systems and agency specific applications.

L. Retirement Benefits

WCF employees participate in either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS) that became effective on January 1, 1987. Most employees hired after December 31, 1983, are automatically covered by FERS and Social Security. Employees hired prior to January 1, 1984 could elect to either join FERS and Social Security or remain in CSRS.

WCF makes matching contributions to CSRS on behalf of CSRS employees. Employees covered by CSRS are not subject to Social Security taxes, nor are they entitled to accrue Social Security benefits for wages subject to CSRS.

Under the FERS plan, WCF contributes an amount equal to one percent of the employees basic pay to the tax deferred Thrift Savings Plan and matches employee contributions up to an additional four percent of pay. FERS employees can contribute 12 percent of their gross earnings to the plan. CSRS employees are limited to a contribution of seven percent of their gross earnings and receive no matching contribution from WCF.

The Office of Personnel Management is responsible for reporting the assets, accumulated plan benefits, and unfunded liabilities applicable to CSRS participants and FERS employees government-wide, including WCF employees.

M. Workers' Compensation Liability

The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to federal civilian employees injured on the job, employees who have incurred a work-related occupational disease, and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. Consequently, WCF recognizes a liability for this compensation that is comprised of two components: (1) an accrued liability which represents money owed for claims paid through the current fiscal year, and (2) an actuarial liability which represents the expected liability for approved compensation cases beyond the current fiscal year. Claims incurred for benefits for WCF's employees under FECA are administered by the Department of Labor and are ultimately paid by WCF.

N. Cumulative Results of Operations

Annual Profits/Losses

Departmental Working Capital Fund activities are operated to recover the full costs of the goods and services provided to users. However, in the course of normal operations, profits and losses can occur. Most of the WCF activities are operated on a usage based cost recovery. The operating costs of these activities are billed to their customer based on a predetermined usage percentage. Since only the actual costs are recovered, no profits or losses are incurred. The WCF activity centers operating on an usage-based cost recovery include: OES, Mail Distribution Unit, Central Imprest Fund, CFPDC, AGCAS, Central Shipping and Receiving, Telecommunications Customer Service Center, Computer Services, and NFC (with the exception of Non-USDA customers and agency specific agreements).

There are four WCF activities in which costs are billed based on an allocation basis, which means that a distribution method rather than actual usage is used to recover costs. These activities are Network Services, Network Engineering, Computer Services Agency Support and Central Excess Property Operations. The costs for these four activities are distributed based on a percentage of full-time equivalents (FTE's). This method of billing does not result in profit or losses since only actual costs are recovered.

The remaining activity centers bill their customers on a fee-for-service basis, which can include a rate schedule for units of production, an hourly rate for services provided, or direct cost plus overhead. The "rate centers" set their rates to recover costs for a projected level of production or service. If there are

changes in anticipated expenses or changes in projected workloads, profits or losses can occur. The activity centers operating on a rate basis include: Video and Teleconferencing, Design Center, NITC/Mainframe, Telecommunications Business Services (agency specific agreements), Applications Services, Central Supply Stores, CEPO (rehabilitated furniture and other services only), Central Mail Unit (mail preparation), DMLS, Copier Service, Duplication Unit and NFC (Non-USDA customers and agency specific agreements).

During the fiscal year, the rate centers' operating statements are monitored for potential profits or losses. If it appears that a rate center is making a profit/loss, the rate center will rebate/surcharge their customers during the current fiscal year to avoid a profit/loss. However, in the last quarter of the fiscal year, profits that cannot be returned through rebates will be closed to cumulative results of operations. The same rule applies to unanticipated losses as long as cumulative results of operations are sufficient to cover such losses.

Generally, any profits or losses which are less than three percent of a rate center's total operating costs would not be rebated or surcharged to their customers in the last quarter of the fiscal year. The only exception to the general rule is NFC's profits or losses, which will be limited to 1.5 percent. The cumulative results of operations balance of the WCF will be limited to ten percent of total annual revenue.

Use of Cumulative Results of Operations

It is the policy of the WCF to limit the use of the Cumulative Results of Operations to the following purposes:

- Losses from current operations that cannot be offset by billing surcharges or rate changes due to activity termination, timing, insufficient workload, or because of the adverse impact on the WCF customer(s).
- Corrections of an error in the WCF Combined Financial Statements of a prior period.
- Extraordinary items which would distort the results of current year operations.

The following table summarizes the activities operating within the authority of the WCF:

WCF Activities - FY 2001	
USDA Organization	WCF Activity
Office of the Executive Secretariat Agency ES	Office of the Executive Secretariat (OES)
Office of Communications Agency 13	Video and Teleconferencing Center
	Design Center
Office of the Chief Information Officer Agency IT	National Information Technology Center (NITC)/Mainframe
	Telecommunications Business Services
	Applications Services
	Computer Services Unit
	Telecommunications Customer Service Center
	Network Engineering Division
	Network Services
	Universal Telecom Network
	Central Supply Stores
Departmental Administration Agency DA	Consolidated Forms and Publications Distribution Center (CFPDC)
	Central Excess Property Operations (CEPO)
	Central Shipping & Receiving (CSR)
	Procurement Systems
	Mail Distribution Unit
	Duplication Unit
	Copier Service
	Departmental Mailing List Service (DMLS)
	National Finance Center (NFC)
Office of the Chief Financial Officer Agency 90	FFIS Project Office

Note 2. Fund Balance with Treasury

	<u>Assets for Use by Entity</u>
Revolving Funds	
Obligated	\$ 0
Unobligated - Available	<u>14,115</u>
Total	<u>\$ 14,115</u>

The Treasury performs cash management activities for WCF. The fund balance with Treasury represents the revolving funds that are obligated and unobligated - available to pay allowable expenditures. All funds represent assets for use by the entity and are unrestricted.

Note 3. Accounts Receivable

	<u>Accounts Receivable</u>
Federal	
Accounts Receivable - Revenue	\$ 48,329
Accounts Receivable - General Funds	10,622
Allowance for Loss	<u>(252)</u>
Total	<u>\$58,699</u>

Revenue represents the balance of amounts due from others for reimbursable services rendered whether billed or unbilled.

The WCF has recorded an allowance for loss on uncollectible accounts for accounts receivable older than one year. The allowance calculation is as follows: balances older than 1 year but less than 2 years, 25%; for balances older than 2 years but less than 3 years, 50%; for balances older than 3 years, 75%. The WCF staff is in the process of reviewing collectibility of outstanding accounts receivable. When the review is complete, uncollectible accounts will be written off and the allowance for doubtful accounts adjusted accordingly.

Note 4. Inventory and Related Property

	<u>Inventory Amount</u>	<u>Valuation Method</u>
Inventory held for current sale	\$ 1,383	Current Cost Rehab Cost

The inventory is primarily composed of used office equipment and furniture for resale, office supplies for resale, and raw materials for use in printing and copying. The Central Supply Store, the Duplicating Unit, Copier Service, Mail Distribution and DMLS value their inventory at current market cost plus inbound transportation costs. The furniture held by CEPO is valued at the cost of rehabilitation.

Note 5. General Property, Plant and Equipment

<u>Classes</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Book Value</u>	<u>Estimated Useful Life</u>	<u>Method of Depreciation</u>
Equipment	\$ 77,747	\$ 55,032	\$ 22,715	5	SL
ADP Software	65,312	39,609	25,703	5 & 10	SL
Leasehold Improvement	4,685	4,685	0	7	SL
Furniture	<u>2,767</u>	<u>1,626</u>	<u>1,141</u>	8	SL
Total	<u>\$ 150,511</u>	<u>\$ 100,952</u>	<u>\$ 49,559</u>		

All capitalized investments within the WCF must meet two specific criteria. First, the total cost of the property, including computer software, must equal or exceed \$5,000. The cost of the property will include all amounts paid to acquire the property less any discount, all transportation costs and installation costs. Second, the useful life of the property must equal or exceed two years. This capitalization policy is consistent with both the GAO Guidance to Federal Agencies Manual and USDA’s Financial and Accounting Standards Manual. The straight-line method of depreciation is used.

Note 6. Other Liabilities

Other Liabilities Covered by Budgetary Resources:

	<u>Current</u>
Federal	
Other Accrued Liabilities	\$ 2,329
Employer Contributions & Payroll Tax Payable	784
Total	<u>\$ 3,113</u>

Non-Federal

Other Accrued Liabilities	\$ 34,507
Accrued Funded Payroll and Leave	16,218
Advances from Others	<u>3,198</u>
Total	<u>\$ 53,923</u>

Other accrued liabilities represents the estimated liabilities to government agencies and others for goods and services at the end of an accounting period.

Other Liabilities Not Covered by Budgetary Resources

Federal

Accrued Funded Payroll and Benefits (FECA)	<u>\$ 1,237</u>
--------------------------------------------	-----------------

Note 7. Supporting Schedules for the Statement of Net Cost

	AGENCY DA	AGENCY ES	AGENCY IT	AGENCY 13	AGENCY 90	TOTAL
Program Cost						
Federal	\$ 9,953	\$ 402	\$ 13,485	\$ 233	\$ 50,165	\$ 74,094
Non-Federal						
Other Program Costs	20,930	1,028	54,524	5,423	137,971	219,732
Total Program Costs	<u>30,883</u>	<u>1,430</u>	<u>68,009</u>	<u>5,656</u>	<u>188,136</u>	<u>293,826</u>
Less Earned Revenues (Note 8)	<u>26,325</u>	<u>1,272</u>	<u>64,851</u>	<u>5,443</u>	<u>186,981</u>	<u>284,872</u>
Excess Production Costs Over Revenue	<u>4,414</u>	<u>158</u>	<u>3,158</u>	<u>213</u>	<u>1,011</u>	<u>8,954</u>
Net Production Costs	<u>4,414</u>	<u>158</u>	<u>3,158</u>	<u>213</u>	<u>1,011</u>	<u>8,954</u>
Net Cost of Operations	<u>\$ 4,414</u>	<u>\$ 158</u>	<u>\$ 3,158</u>	<u>\$ 213</u>	<u>\$ 1,011</u>	<u>\$ 8,954</u>

Note 8. Earned Revenue

	AGENCY DA	AGENCY ES	AGENCY IT	AGENCY 13	AGENCY 90	TOTAL
Earned Revenues from Non-Federal Entities	\$ 3	\$ 0	\$ 1,007	\$ 2	\$ 3,952	\$ 4,964
Earned Revenues from Federal Entities	<u>26,322</u>	<u>1,272</u>	<u>63,844</u>	<u>5,441</u>	<u>183,029</u>	<u>279,908</u>
Total Earned Revenue Attributed to Programs	<u>\$ 26,325</u>	<u>\$ 1,272</u>	<u>\$ 64,851</u>	<u>\$ 5,443</u>	<u>\$ 186,981</u>	<u>\$ 284,872</u>

Note 9. Disclosures Related to the Statement of Changes in Net Position

	AGENCY DA	AGENCY ES	AGENCY IT	AGENCY 13	AGENCY 90	TOTAL
Net Cost of Operations	\$ (4,270)	\$ (158)	\$ (3,158)	\$ (213)	\$ (1,155)	\$(8,954)
Financing Sources (other than exchange revenues):						
Donations (non-exchange revenue)	--	--	439	--	(1)	438
Imputed Financing	--	101	--	--	6,765	6,866
Transfers-In	26	--	140	--	--	166
Transfers-Out	(26)	--	(139)	--	--	(165)
Net Results of Operations	(4,270)	(57)	(2,718)	(213)	5,609	(1,649)
Prior Period Adjustments	(389)	--	214	3	2,465	2,293
Net Change in Cumulative Results of Operations	(4,659)	(57)	(2,504)	(210)	8,074	644
Change in Net Position	(4,659)	(57)	(2,504)	(210)	8,074	644
Net Position – Beginning of Period	(3,085)	(65)	21,158	(3,100)	40,812	55,720
Net Position – End of Period	\$ (7,744)	\$ (122)	\$ 18,654	\$ (3,310)	\$ 48,886	\$ 56,364

Note 10. Disclosures Related to the Statement of Budgetary Resources

A. Budgetary Resources Obligated for Undelivered Orders, End of Period	\$ 1,504
B. Adjustments to Budgetary Resources Available at the Beginning of the Year	
1. Estimated Appropriation Reimbursement	4,058
2. Reimbursements - Accounts Receivable	23,328
3. Reimbursements - Collected	<u>261,544</u>
Total Adjustments	<u>\$ 288,930</u>



WILLIAMS, ADLEY & COMPANY, LLP

Management Consultants
Certified Public Accountants

REPORT OF INDEPENDENT ACCOUNTANTS ON INTERNAL CONTROLS

To the Inspector General and
The Chief Financial Officer
United States Department of Agriculture

We have audited the Balance Sheet of the United States Department of Agriculture Working Capital Fund (WCF) as of September 30, 2001, and have issued a report thereon dated April 26, 2002. Except as explained in that report, we conducted our audit in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Financial Statements*.

We did not audit the Statements of Net Cost, Changes in Net Position, Budgetary Resources, and Financing for the fiscal year then ended based on a USDA management decision.

Management of the Working Capital Fund is responsible for establishing and maintaining accounting systems and internal control. In fulfilling this responsibility, estimates and judgments are required to assess the expected benefits and related costs of internal control policies and procedures. The objectives of internal controls are to provide management with reasonable, but not absolute assurance that: (1) transactions are properly recorded, processed, and summarized to permit the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America, and to safeguard assets against loss from unauthorized acquisition, use or disposition; (2) transactions are executed in compliance with laws and regulations that could have a direct and material effect on the financial statements, and any other laws, regulations and government-wide policies identified in Appendix C of OMB No. 01-02; and (3) transactions and other data that support reported performance measures are properly recorded, processed, and summarized to management. Because of inherent limitations in any internal control, errors or fraud may nevertheless occur and not be detected. Also, projection of any evaluation of internal control 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.

In planning and performing our audit of WCF, we obtained an understanding of the design of significant internal controls and whether they had been placed in operation, tested certain controls, and assessed control risks in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described above, and we did not test all controls relevant to operating objectives as broadly defined by the Financial Managers' Financial Integrity Act of 1982. Our purpose was not to provide an opinion on WCF's internal controls. Accordingly, we do not express an opinion on such controls.

We noted certain matters in the WCF's internal control that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to the auditors' attention relating to significant deficiencies in the design or operation of internal control that, in their judgment, could adversely affect WCF's ability to meet the internal control objectives described in the third paragraph. Material weaknesses are conditions in which the design or operation of one or more of the internal control elements does not reduce to a relatively low level of risk that errors or fraud in amounts that would be material in relation to the financial statements being audited or material to a performance measure or aggregation of related performance measures may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. The auditors' consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses defined above.

OVERVIEW OF MATERIAL WEAKNESSES AND REPORTABLE CONDITIONS

The findings that we noted involving the internal control over financial reporting and its operation that we consider to be reportable conditions and our recommendations are discussed below. The WCF management responses to the recommendations are also included. Findings 01 through 05 are considered to be material weaknesses.

Finding 01-01: Significant improvements are needed in WCF internal control environment. (Material Weakness)

The general control environment of an organization establishes expectations and the level of control consciousness. Control environment factors include identifying risks to achievement of objectives, commitment to competence, review of performance by supervisors, management philosophy and operating style, organizational structure, and assignment of authority and responsibility.

We noted a general lack of an adequate control structure over the accounting operations and financial management activities of WCF. Specifically, we found that the underlying causes of some of the findings from prior audits have not been resolved, sufficient staff have not been assigned to accounting operations, current staff needs additional training and supervision, and a structure has not been put in place to provide timely and accurate financial information as part of its normal operations.

As indicated in Attachment 1, Status of Audit Recommendations, WCF has not adequately resolved all of the significant findings and recommendations from prior audit reports. Some of the findings go back to 1995 when the OIG first audited WCF. We found that although WCF has made progress, some issues identified in those audits continue to exist. WCF management representation that corrective actions have been implemented and that issues have been resolved could not be substantiated in all cases based on the result of our audit. We noted that only one WCF employee is dedicated on a full time basis to maintaining the books and records of WCF accounting at the NFC. We believe that some WCF accounting personnel would benefit from additional training and experience in the preparation of financial statements in order to better perform the duties they have been assigned. Additionally, we noted that the current organizational structure does not provide for sufficient supervision and direction by WCF financial management supervisory personnel located at headquarters over the preparation of financial statements and reporting. We found that in some cases information provided to our auditors by field personnel at NFC often differed from information provided by supervisory staff at headquarters.

Without a strong system of internal control, WCF assets may not be adequately safeguarded against waste, fraud, and abuse or unauthorized use. Additionally, management cannot ensure that decision makers have useful, reliable, and accurate information in a timely manner to make informed decisions.

Recommendations:

The WCF should consider revising its organizational structure to ensure that the financial reporting function is properly positioned within the management hierarchy. Further, an experienced professional who has the appropriate level of responsibility and authority within the organization should lead the function. The accounting function should be staffed with professionals who have the training and technical skills commensurate with their responsibilities including ensuring that account reconciliations are performed monthly, reconciling items are investigated, and corrections are made in a timely manner.

Management should establish ongoing methods to evaluate progress toward producing accurate and reliable financial statements and take appropriate corrective action.

OCFO Response

The OCFO concurs with this recommendation.

According to OCFO management, its organizational structure has been revised. Two new manager level accounting positions have been created: Associate CFO for Controller Operations, and Parent Company Controller. The Associate CFO will report directly to the CFO and the Parent Company Controller will report to the Associate CFO. The Associate CFO will have responsibility and authority for all aspects of the financial reporting function for the WCF, while the Parent Company Controller will manage the day-to-day financial reporting operations and will supervise the account reconciliation process.

Also, management has indicated that the newly implemented Foundation Financial Information System (FFIS) is expected to enhance the financial recording keeping and reporting processes. Management believes that the improved information system and the oversight of the financial operations by the newly created Associate CFO for Controller Operations will ensure more accurate, reliable and timely financial statements.

Auditor Position

We concur with management's decision.

Finding 01-02: Accounting transactions should be recorded in accordance with generally accepted accounting principles. (Material Weakness)

During our audit we found general ledger balances lacking supporting documentation and other balances with significant errors. Examples include: accounts receivable, federal employees compensation act liability, other liabilities and accounts payable balances. The following is a listing of significant audit adjustments made to correct the general ledger balances and produce an auditable balance sheet:

- \$505,000 credit to Accounts Receivable due to lack of audit evidence.
- \$3.8 million credit to Federal Receivables due to unconfirmed balances.
- \$2.8 million debit to Other Liabilities due to lack of invalid payables.
- \$3.6 million debit to FECA liability based on actuarial estimates.
- \$295,000 credit to Fund Balance with Treasury due reconciliation differences.
- \$399,000 debit to Accumulated Depreciation due to system error.
- \$144,000 debit to Annual Leave due to lack of audit evidence.

In order to improve its accounting records and prepare for the audit, the WCF hired a CPA firm to assist with the reconciliation of certain accounts and provide other assistance. Adjustments, however, were not made to correct the errors identified as a result of the reconciliation. The WCF should not rely on outside auditors to identify accounts with material errors and no supporting documentation.

Reliance solely on the work of contractors and auditors to identify and report internal control risks for management's attention could result in material misstatements of accounting and budgetary reports or instances of material noncompliance with laws and regulations. Weaknesses in internal control also make WCF vulnerable to the risks of fraud or other irregularities (intentional or unintentional) that may not be detected or corrected in a timely manner by WCF employees.

Recommendation

The WCF should consider preparing financial statements periodically, prior to year-end, in order to identify financial reporting problems or weaknesses and provide management with useful financial information.

OCFO Response

The OCFO does not concur with this finding and does not believe it should be classified as a material weakness.

According to Management, beginning in FY2003, OCFO will issue monthly financial reports. The process for reviewing the statements will include reviews of internal controls and supporting documentation. These reviews are the responsibility of the newly created position of Associated CFO, Controller Operations. Other additionally staff will help ensure that transactions are recorded and reported in accordance with generally accepted accounting principles.

Auditor Position

We disagree with management's position regarding the classification of this finding. We believe that the classification as a material finding is appropriate based on our audit. However, we concur with management's decision to implement our recommendation.

Finding 01-03: Process for recording and monitoring General Property, Plant and Equipment needs improvement. (Material Weakness)

WCF does not perform timely reconciliation of, and make appropriate adjustments to, the detailed personal property records and the general ledger. As a result, we encountered significant difficulties during our audit in identifying and locating many of the items listed on the detailed property record. This occurred because WCF did not perform a physical inventory of its PPE and reconcile any differences as required. As a result of this failure, WCF asset may be stolen or used for unauthorized purposes and not be detected in the normal course of operation. Also, during our audit we noted that the depreciation expense and related accumulated depreciation were overstated by \$576,394 due to a system computation error. An adjustment was made to correct the general ledger balances.

Recommendation

WCF should perform timely reconciliation of detailed personal property records with the general ledger, and make the appropriate adjustments to the general ledger and corrections to the personal property records.

OCFO Response

The OCFO concurs with this recommendation.

According to management, the OCFO has exerted an extensive effort to analyze, review and reconcile all property records to the general ledger maintained on FFIS. It is the responsibility of the Associate CFO for Controller Operations to ensure that the reconciliations are performed monthly and corrective actions taken in a timely manner.

Auditor Position

We concur with management's decision.

Finding No. 01-04: Improvements needed in WCF billing process. (Material Weakness)

WCF did not bill its customers in an accurate and timely manner. As of September 30, 2001, WCF had not billed \$44 million of the \$52 million balance of the accounts receivable recorded in the general ledger. WCF has not developed adequate billing procedures to ensure that the bills are sent out timely and accurately.

Among other procedures performed during our audit, we selected certain accounts receivable balances for confirmation. The responses to the confirmations indicated that the general ledger balance was overstated by \$3.8 million or 7% percent of the receivable balance. An audit adjustment was made to correct the general ledger balance.

Recommendation

WCF should develop adequate billing procedures to ensure that customers are invoiced accurately and timely. These procedures should be documented and included in the accounting procedures manual. Management should enforce compliance with these procedures. All exceptions should be reviewed and properly investigated.

OCFO Response

The OCFO concurs with this recommendation.

According to management, effective October 1, 2002, the WCF will issue bills on a monthly basis. It is the responsibility of the Associate CFO for Controller Operations to: develop, issue and enforce billing procedures; and ensure that the bills are done timely.

Auditor Position

We concur with management's decision.

Finding No. 01-05: Accounting for other liabilities needs improvement. (Material Weakness)

The WCF did not have supporting documentation for the other liabilities account totaling \$2,808,810. Consequently, the validity and nature of this liability account could not be confirmed. This occurred because WCF did not reconcile its account balance and investigate differences. An adjustment was posted to correct the general ledger balance.

Recommendation

The WCF should establish adequate procedures to ensure that all entries to the accounting records are supported by proper documentation and retained for audit purposes.

OCFO Response

The OCFO concurs with this recommendation. However, it does not agree with the classification of this finding as a material weakness.

According to management, the Associate CFO for Controller Operations has responsibility for establishing procedures to ensure that all transactions and records are supported by documentation that is maintained in the appropriate files for audit purposes.

The OCFO believes that the amounts involved should not raise the finding to the level of a material weakness.

Auditor Position

We disagree with management's position regarding the classification of this finding. We believe that the classification as a material finding is appropriate based on our audit. However, we concur with management's decision to implement our recommendation.

Finding 01-06: Detailed records for accounts payable were not maintained.

WCF does not maintain a detailed listing of accounts payable. We requested a list of accounts that comprised the accounts payable balance included in the general ledger and were informed that the accounting system did not provide a detailed listing of vendors and the amounts owed. Without the detailed list, the WCF has no assurance that the general ledger balance is correct nor who is owed and how much is owed to them. An audit adjustment for \$280,000 was made to correct the general ledger to balance with amounts that can be substantiated through our audit procedures. This amount is immaterial to the balance sheet taken as a whole and below the threshold for individual significant item.

We were informed that the new accounting system, Foundation Financial Information System, does have the functionality to provide a detailed listing of accounts payable.

Recommendation

The WCF should ensure that the functionality that provides for maintaining a subsidiary accounting of accounts payable is properly implemented and that the accounts payable detail is reconciled to the general ledger balance on a recurring basis.

OCFO Response

The OCFO concurs with this recommendation.

According to management, the Associate CFO for Controller Operations is responsible for reviewing WCF accounts payable records and documentation as well as the reconciliation of WCF accounts payable records with the FFIS general ledger. The new accounting system includes functionality to account for accounts payable at the level of detail that the system used in fiscal year 2001 did not have. The OCFO believes that the new system coupled with the additional staff oversight will ensure that the accounts payable detail is reconciled to the general ledger on a recurring basis.

Auditor Position

We concur with management's decision.

Finding No. 01-07: Accounts receivable should be analyzed and appropriate allowances for doubtful accounts should be established.

WCF has not performed an historical analysis of uncollectible accounts to establish a basis for estimating its allowance for doubtful accounts. In response to a prior OIG finding and recommendation, WCF currently estimates un-collectible accounts receivable based on the age of the receivable and an arbitrary percentage deemed un-collectible. There is no evidence, however, to support the basis for the percentages used for estimating these allowances. Consequently, the allowance could be significantly misstated. As a result of this condition, we took a substantive approach to audit the receivable balance resulting an audit adjustment of \$2.8 million due to unconfirmed receivables. The recorded allowance of \$252,000 is immaterial to the balance sheet taken as a whole and to the total recorded receivable balance.

Recommendation

WCF should perform an historical analysis of collections on past due accounts in order to form a basis for estimating the allowance for uncollectible accounts. Data should be collected on an ongoing basis and the allowance should be adjusted periodically to reflect the collections history and current circumstances.

OCFO Response

The OCFO does not concur with this recommendation.

According to management, almost all of the outstanding accounts receivable are due from USDA and other federal agencies and therefore none are uncollectible. Consequently, WCF management does not agree that an allowance for uncollectible accounts is deemed necessary (although an allowance for uncollectible accounts was maintained in its general ledger.)

Essentially, WCF management intends to change its method of accounting for uncollectible accounts from the allowance method to the direct write-off method. Management also indicated that it will review past due accounts on an ongoing basis.

Auditor Position

We concur with management's decision.

Finding No. 01-08: Accounting for refunds should be reviewed.

At the end of the fiscal year, the WCF owed \$823,000 in refunds to its customers. Refunds appear not to have been issued due to lack of a process to review credit balances and issue refunds when due. This condition occurred because WCF did not perform timely reconciliation of its revenue and billing accounts. As a result, WCF customer agencies may have been denied opportunities to use the refund for other mission critical activities.

A similar finding was cited as a result of a previous audit performed by the Office of the Inspector General.

Recommendation

Management should implement procedures to ensure that refunds are processed and issued to customers in a timely manner.

OCFO Response

The OCFO concurs with this recommendation.

According to management, the Associate CFO for Controller Operations is responsible for developing, issuing, and enforcing accounting procedures and guidelines related to the processing and issuance of WCF customer refunds. Those procedures will include ensuring that refunds are issued in a timely manner.

Auditor Position

We concur with management's decision.

Finding No. 01-09: Purchase card transactions should be reconciled.

Reconciliation had not been performed by any of the fifteen government purchase cardholders selected in our audit sample. According to the USDA Departmental Regulation regarding the use of a purchase card and a convenience check, "cardholders shall reconcile their accounts no later than 30 calendar days after a transaction appears in the Purchase Card Management System (PCMS), absent extenuating circumstances. This condition occurred because WCF has not enforced USDA regulations. Failure to timely and accurately reconcile may cause inaccuracies in agency status of funds information. In addition, failure to cite correct budget object classification codes and, for convenience check recipients, Employer Identification Numbers (EINs) or Social Security Numbers (SSN) may cause 1099s to erroneously be issued to USDA employees and vendors." Proper reconciliation will determine whether cardholders are spending beyond their authorized credit limits.

Recommendation

WCF management should enforce the USDA regulation requiring timely and accurate reconciliation of purchase card accounts no later than 30 days after a transaction appears in the PCMS. Any exceptions should be documented and properly investigated.

OCFO Response

The OCFO concurs with this recommendation.

According to management, the Associate CFO for Controller Operations is responsible for enforcing procedures related to the purchase card. OCFO management has indicated that as of August 31 2002 all reconciliations will have been completed. Effective October 1, 2002, a new policy provides that purchasing card authority will be suspended if reconciliations are not performed within 60 days of purchases.

Auditor Position

We concur with management's decision.

STATUS OF PRIOR YEAR'S FINDINGS AND RECOMMENDATIONS

OCFO has prepared a status report reflecting their progress on implementing the recommendations included in Office of the Inspector General Financial and IT Operations Audit Report for Fiscal Year 1999 (Report No. 50401-36-FM, dated November 2000), the most recent audit report. As required by *Government Auditing Standards* and OMB Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*, we have reviewed and have added our evaluation of their status to the report. The status report along with our evaluation comments, are provided as Attachment 1.

We also identified other issues that we considered not to be reportable conditions in relation to WCF financial statements. These issues have been addressed to WCF management in a separate management letter.

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

Williams, Adley & Company, LLP
April 26, 2002
Washington, DC



WILLIAMS, ADLEY & COMPANY, LLP

Management Consultants
Certified Public Accountants

REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE WITH LAWS AND REGULATIONS

To the Inspector General and
The Chief Financial Officer
United States Department of Agriculture

We have audited the Balance Sheet of the United States Department of Agriculture Working Capital Fund (WCF) as of September 30, 2001, and have issued on report thereon dated April 26, 2002. Except as explained in that report, we conducted our audit in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

We did not audit the Statements of Net Cost, Changes in Net Position, Budgetary Resources, and Financing for the fiscal year then ended based on a USDA management decision.

Compliance with laws and regulations applicable to WCF is the responsibility of management. As part of reasonable assurance about whether the WCF's financial statements are free of material misstatement, we performed tests of its 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 No. 01-02, including the requirements referred to in the Federal Financial Management Improvement Act of 1996 (FFMIA). However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 01-02.

The scope of our audit did not include work related to the Federal Financial Management Improvement Act (FFMIA). The United States Department of Agriculture, Office of the Inspector General performed an audit of the department-wide, of which WCF is a component, compliance with FFMIA and have issued their report thereon.

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

Williams, Adley & Company, LLP
April 26, 2002
Washington, DC

Attachment 1
Status of Audit Recommendations

Attachment 1

U.S. Department of Agriculture Working Capital Fund



Status of Audit
Recommendations
For 50401-36-FM

Finding No 1: WCF Financial Management must improve its Financial Operations

Recommendation No.	Recommendation	Description of Action	Responsible Office	Planned Completion Date	Status	Auditor's Follow-Up Evaluation
R1	Develop and implement sound financial management policies and procedures in compliance with generally accepted accounting principles for the Federal Government.	The Working Capital Fund was implemented into USDA's FFIS Accounting System effective October 1, 2001. The new accounting system provides a standard ledger Compliant Accounting System and eliminated the deficiency of the previous accounting system. The WCF worked closely with the NFC Accounting Report Branch on the conversion of the WCF into the FFIS accounting system. OCFO has established a Financial Management Unit to assist in the post implementation of FFIS and to provide technical support for the new accounting system.	WCF		Completed 10/1/2001	Unresolved. See Finding 01-01.

Recommendation No.	Recommendation	Description of Action	Responsible Office	Planned Completion Date	Status	Auditors' Follow-up Evaluation
R2	Establish a management structure within the WCF that will assure the problems noted in this report are corrected in a timely manner.	The OCFO, WCF posted a vacancy for a GS-14 Accounting Leader during FY 2000 and again in FY 2001, however no selection was made. A personnel action to re-advertise this position has been forwarded to the USDA Personnel Office March 26, 2002. In order to assist WCF Staff with a review of WCF accounting operations and procedures and in the preparation of the annual financial statements, contract support from a CPA firm was employed to assist in the preparation of accounting reconciliation to support financial statement balances. As part of a reorganization a new structure was established within OCFO to support the implementation and operations of the new FFIS Accounting System. The Financial Management Unit (FMU) has been established to provide day-to-day support of the FFIS Accounting System. This unit is staffed by full-time personnel and contract support staff.	WCF	9/30/02	Request for Personnel Action (SF-52) submitted to Personnel for recruitment of Accounting Team Leader position	Unresolved. See Finding 01-01.
R3	Immediately discontinue adjusting revenues to equal expenses. Research within the next 90 days and prepare appropriate adjusting entries to reflect the reconciliation of past inappropriate revenue adjustments and/or correct the conditions noted.	The WCF discontinued adjusting revenues to equal expenses effective October 15, 2000. Prior year adjustments were processed as part of the FY 2000 year-end close. Only those income adjustments that were fully supported were processed for FY 2000. This practice was also followed for FY 2001.	WCF		Completed 10/15/2000	Implementation of recommendation was not evaluated as revenues and expenses were not within the scope of the balance sheet audit.
R4	Release and ensure each activity center adheres to the WCF accounting manual, as well as established accounting standards.	The Budget and Accounting Manual was issued on October 19, 2000. The WCF Staff, in preparation for the implementation of FFIS, met with WCF activities to develop requirements and report formats for the new accounting system. Meetings are held with the Staff and Management of the WCF activities on a variety accounting issues.			Completed 10/19/2000	Partially resolved. Although a Budget and Accounting Manual has been issued, compliance with policies is still lacking.

Finding No 1: WCF Financial Management must improve its Financial Operations

Recommendation No.	Recommendation	Description of Action	Responsible Office	Planned Completion Date	Status	Auditors' Follow-up Evaluation
R5	Establish operating procedures to require appropriate reconciliations and other accounting relationship tests are performed throughout the fiscal year and at fiscal year end.	The Year-end closing instructions provided annually to all WCF activities address the year-end close. The WCF Staff employed a CPA firm to develop the reconciliation to be performed throughout the fiscal year and at fiscal year-end. The reconciliation work was completed in November 2001. The requirements will be updated to reflect operations under FFIS.	WCF		Completed 11-15-2001	Partially resolved. See Finding 01-01.
R6	Perform an analysis within the next 90 days to age the accounts receivable and payable. Make necessary adjustments to reflect write-offs and/or allowance for doubtful accounts.	The accounts receivables were reviewed during FY 2001 as part of the conversion from the Central Accounting System (CAS) to FFIS. (An allowance for Doubtful Accounts was developed for the FY 2000 and FY 2001 financial statements).	WCF		Completed 11-15-2000	Partially resolved. See Findings 01-03 and 01-06.

Finding No 1: WCF Financial Management must improve its Financial Operations

Recommendation No.	Recommendation	Description of Action	Responsible Office	Planned Completion Date	Status	Auditors' Follow-up Evaluation
R7	Develop and implement appropriate compensating and complementary internal controls to assure the control weaknesses noted in this report are corrected to the extent possible.	<p>The WCF Implementation of FFIS occurred on October 1, 2001. The FFIS System provided an SGL compliant Accounting System. Security has been established to provide for the separation of duties (paying and approving.) The new accounting system established controls over funding limits for WCF Activities. The FFIS accounting system is general ledger based and provides the capability for activities to be rolled up to meet accounting reporting standards.</p> <p>The DPRS receivables were excluded from the WCF account receivables for financial statements purposes for FY 2000 and FY 2001. With the implementation of FFIS, account receivables for DPRS are no longer reported under the WCF. This change was made to correct the accounting for DPRS. The DPRS program is operated for OPM and the WCF only receives revenue on actual collections. Since the billings for DPRS are not part of WCF income the account receivables should not have been reported under the WCF.</p>	WCF		Completed 10/1/2001	Partially resolved. See Findings 01-01 through 01-04.

Recommendation No.	Recommendation	Description of Action	Responsible Office	Planned Completion Date	Status	Auditors' Follow-up Evaluation
R8	Ensure the material weaknesses identified throughout this report are included in the OCFO's FMFIA report, OMB Circular A-130 reviews or other internal control reviews, as applicable.	The weaknesses identified in this report were included in the FY 2000 (December 2000). Final FMFIA Report and quarterly thereafter as the weaknesses were addressed	WCF		Completed 12/31/2001	Resolved.

Finding No 2: Financial Management systems needs improvement

Recommendation No.	Recommendation	Description of Action	Responsible Office	Planned Completion Date	Status	Auditors' Follow-up Evaluation
R9	Ensure supporting records and necessary documentation is maintained for accounting transactions posted to the general ledger for DPRS activity.	The new accounting system has been structured to correctly report the revenue NFC earns for DPRS billings. The DPRS program is operated for OPM and the NFC only receives revenue on actual collections. Account receivables for DPRS are no longer reflected on the WCF accounts since NFC's revenue for DPRS is only recognized when a DPRS collection is received. The FY 2000 and FY 2000 financial statements were adjusted to eliminate DPRS receivables. Since the billings for DPRS are not part of WCF income the account receivables should not have been reported under the WCF. Program participants pay using coupons, if payment is not received by bill date, then based on program requirements the coverage is cancelled and no further payments are required.	WCF-NFC	3/31/2002	Change in Management Decision Requested	Unresolved.
R10	Research and correct the error in classification of Federal and non-Federal accounts receivable. It is anticipated that these actions will be done by October 1, 2001.	This problem was researched and adjustments were made for the FY 2000 financial statements.	WCF		Completed 11/30/2000	Unresolved.

Finding No 3: Billing process needs substantial improvement

Recommendation No.	Recommendation	Description of Action	Responsible Office	Planned Completion Date	Status	Auditors' Follow-up Evaluation
R11	Develop a process that will enable timely and accurate billings of WCF users.	<p>The Working Capital Fund Activities have established billing procedures to enable timely and accurate billing of WCF users. In order to improve the processing of WCF billings, the WCF Staff established a dedicated position to process the billings previously processed by the NFC Mis-Payment Unit. The Working Capital Fund has implemented the use of advances for WCF Corporate Services (use-based or distributed cost actuals). This eliminates the need for monthly billings. Income will be recognized by the WCF as earned and by customers when the services are provided. Fee for Services Activities – rate based will continue to process billings on a monthly basis. As part of the requirement for the FFIS Accounting System, the WCF implemented an automated interface to the FFIS System to process billings for the Agency IT billings. The remainder of the billings will be processed using the NFC internet based IBIL Interface to the ABCO System or the FFIS IV documents. These new systems will speed the processing time for billing.</p>	WCF		Completed 12/14/2001	Unresolved.

Recommendation No.	Recommendation	Description of Action	Responsible Office	Planned Completion Date	Status	Auditors' Follow-up Evaluation
R12	Ensure reconciliations of all WCF billings and collections to the WCF revenue and FBWT are performed monthly and take prompt action to resolve all problems.	The NFC Accounting Unit has implemented a cash reconciliation process to assure the general ledger balance and FBWT are kept in balance. Discrepancies are researched as they occur and the appropriate corrective action taken.	WCF		Completed 10-15-2001	Partially resolved.
R13	Perform a risk assessment of the billing process and establish controls and procedures. Strengthen the oversight so that errors noted in this report do not recur.	New billing procedure including the implementation of advance billings have been implemented as part of the FFIS System. The NFC IBIL System was operational in October, FY 2001. These procedures were developed December 14, 2001.	WCF		Completed 12-14-2001	Unresolved.
R14	Develop procedures to ensure that agencies entitled to refunds are notified and actually receive the refund in a timely manner.	The processing of refunds for CAS was developed during FY 2001. The processing of refunds for FFIS were developed during FY 2002 and are addressed in the WCF Procedures for Advances and bulletins on refund procedures.	WCF		Completed 3-1-2002	Partially resolved.

Finding No 4: Material year-end income adjustments are unsupported

See Section I for recommendation

Finding No 5: Period-end estimates

Recommendation No.	Recommendation	Description of Action	Responsible Office	Planned Completion Date	Status	Auditors' Follow-up Evaluation
R15	Provide additional guidance to WCF activity centers regarding period-end estimates to assure conditions noted above do not recur.	The action was completed in September 2000 for FY 2000 and additional requirements were established in September 2001 for FY 2001.	WCF		Completed 9-10-2001	Partially resolved.
R16	Require a review, by the WCF staff, of supporting documentation for all significant period-end estimates before submission.	This requirement was established for FY 2000 as part of the year-end closing instructions	WCF		Completed 9-14-2000	Partially resolved.

Finding No 6: Operational and systematic problems exist in accounting for personal property

Recommendation No.	Recommendation	Description of Action	Responsible Office	Planned Completion Date	Status	Auditors' Follow-up Evaluation
R17	Require each accountable officer who has failed to perform/record the required biennial inventory, to perform a complete inventory within 90 days, and assure necessary accounting adjustments are made to correct errors noted during this inventory.	OPPM and the OCFO-WCF have been working with WCF accountable offices to implement this recommendation, which is required by the existing property management regulations. All of the WCF Activities are current with their inventory, with the exception of one of activity. The Office of Communications, Design Center has recently reassigned the accountable property officers' functions and they are in the process of updating their inventory.	WCF	6-30-2002	Partially Completed	Unresolved.

Finding No 6: Operational and systematic problems exist in accounting for personal property

Recommendation No.	Recommendation	Description of Action	Responsible Office	Planned Completion Date	Status	Auditors' Follow-up Evaluation
R18	Require accountable officers to validate the recorded value of property in the system to supporting documentation and assure necessary accounting adjustments are made to correct errors noted during this validation.	See Description of Action for R17.		6-30-2002		Unresolved.
R19	Reconcile the personal property asset and depreciation general ledger accounts to balances in PROP, research all differences, and assure all necessary adjustments are processed in a timely manner.	The NFC Accounting Staff has the responsible for reconciling the Property Feeder System with the Property General Ledger. The property reconciliation is an on-going process, which requires that differences are researched and that adjustments be made when required.	WCF-NFC		Completed 10-31-2001	Unresolved.

Finding No 7: Significant problems reported in prior years remained uncorrected and resulted in material misstatements to the financial statements

Recommendation No.	Recommendation	Description of Action	Responsible Office	Planned Completion Date	Status	Auditors' Follow-up Evaluation
R20	Reopen the recommendations cited in this finding and ensure corrective action is actually completed in a timely manner.	Review prior year findings and recommendations and determine if duplicate recommendations exist.	WCF		Completed for this action plan.	Unresolved.
R20.1	Reconciliations	The final income adjustments for FY 1998 were completed as part of the FY 2000 year-end closing. Only those adjustments that could be supported were established as part of the year-end close.			Completed 10/30/2000	Implementation was not evaluated, as audit scope was limited to balance sheet.
R20.2	Allowance for doubtful accounts	The Working Capital Fund prepared an Allowance for Doubtful Accounts for the FY 2000 Financial Statements. See Description of Action for R6 above.			Completed 11/30/2000	Unresolved.
R20.3	Accounting for funding of leave liability	The leave accruals are processed on a monthly basis for the NFC. The other Working Capital Fund activities accrue annual leave on a monthly basis and due to the unpredictable nature of compensatory time the unpaid compensatory leave earned during the year is recorded as an accrual only at year-end.	WCF		Completed 11/30/2000	Partially resolved.

Finding No 7: Significant problems reported in prior years remained uncorrected and resulted in material misstatements to the financial statements

Recommendation No.	Recommendation	Description of Action	Responsible Office	Planned Completion Date	Status	Auditors' Follow-up Evaluation
R20.4	Network Services Division cost recovery method	The Network Services Activity award a contract to ITS Services Inc. on November 13,2001 for LAN Management Support which includes the requirements Task 11 to Prepare a Cost Recovery Proposal to Track usage and cost data. The cost recovery model is expected to be completed in July 2002 and the charge-back system will be reflected in the FY 2004 income recovery plan.	WCF	1/31/03	Open	Unresolved.
R20.5	WCF budget and accounting manual	See Description of Action for R4 above.	WCF		Completed 10-14-2000	Resolved.

Finding No 8: Federal Financial Management Improvement Act requirements

Recommendation No.	Recommendation	Description of Action	Responsible Office	Planned Completion Date	Status	Auditors' Follow-up Evaluation
R21	Establish procedures to present the Statement of Net Cost by agency with appropriate supporting schedules by activity center.	The FY 2000 and FY 2001 the Statements of Net Cost (SNC) were prepared for the financial statements using data from Central Accounting System (CAS) General Ledger Data. FFIS was implemented on October 1, 2001. FY 2002 SNC will be prepared from the FFIS general ledger accounting data. The FFIS system will allow for the preparation of the SNC at the Responsible Segment Level.	WCF		Completed 11-30-2000	Recommendation was not evaluated, as audit scope was limited to balance sheet.
R22	Ensure GPRA performance measures are included in the overview.	FY 2003/2004 The Working Capital Fund Operating Budget instructions prepared in the January, 2002, included the requirement that WCF activity centers develop performance measures that are in line with GPRA requirements as part of their budget submissions. A copy of the Budget Instruction is provided as support for the closure of the recommendation.	WCF		Completed 1-15-2002	Resolved.

Attachment 2
USDA/OCFO Management Response



**United States
Department of
Agriculture**

**Office of the Chief
Financial Officer**

**1400 Independence
Avenue, SW**

**Washington, DC
20250**

September 6, 2002

Mr. Kola A. Isiaq
Partner
Williams, Adley & Company, LLP
1212 New York Avenue, N.W., Suite 475
Washington, D.C. 20005

Dear Mr. Isiaq:

This responds to your July 31, 2002, memorandum requesting comments on USDA Working Capital Fund Fiscal Year 2001 Audit - Draft Report. Enclosed are the Department of Agriculture's comments on the findings and recommendations contained in the report.

Should you have any questions, please contact me on (202) 690-0291.

Sincerely,

A handwritten signature in cursive script that reads "Jesse L. King".

Jesse L. King
Confidential Assistant
to the Chief Financial Officer

Enclosure

Office of the Chief Financial Officer, ACFO, Controller Operations Responses
“USDA Working Capital Fund FY 2001 Audit - Draft Report”

AUDIT FINDING 01-01 (MATERIAL WEAKNESS), RECOMMENDATION #1:

The WCF should consider revising its organizational structure to ensure that the financial reporting function is properly positioned within the management hierarchy. Further, the function should be led by an experienced professional who has the appropriate level of responsibility and authority within the organization. The accounting function should be staffed with professionals who have the training and technical skills commensurate with their responsibilities including ensuring that account reconciliations are performed monthly, reconciling items are investigated, and corrections are made in a timely manner.

OCFO Response:

We concur with this recommendation.

The Office of the Chief Financial Officer (OCFO) was reorganized in July 2002. The reorganization established an Associate CFO position for Controller Operations. This position reports directly to the CFO and has full responsibility and authority for all aspects of the financial reporting function for the WCF. As part of this reorganization, financial responsibilities for the budget formulation and review aspects of the WCF have remained with the Associate CFO, Financial Policy & Planning while the accounting, billing, and reporting functions for the WCF have been transferred to the Associate CFO, Controller Operations.

In addition, a Parent Company Controller position has been created to lead and manage the day-to-day financial reporting operations, including those for the WCF. The individual selected for this position will report directly to the Associate CFO for Controller Operations and will lead a full staff of senior operating accountants. This staff will be responsible for ensuring that WCF account reconciliations are performed monthly, all reconciling items for the WCF are investigated, and that all necessary corrections to WCF financial data are made in a timely manner.

This separation of duties for the WCF, combined with the increase in staffing devoted to the WCF financial operations, will enable the USDA to improve overall financial management and internal controls for the WCF.

Date Corrective Action Will Be Completed:

October 1, 2002

Responsible Organization:

Associate Chief Financial Officer, Controller Operations

Point Of Contact:

Jesse King - (202) 690-0291

AUDIT FINDING 01-01 (MATERIAL WEAKNESS), RECOMMENDATION #2:

Management should establish ongoing methods to evaluate progress toward producing accurate and reliable financial statements and take appropriate corrective action.

OCFO Response:

We concur with this recommendation.

As of October 1, 2001, the USDA's Foundation Financial Information System (FFIS) was implemented for all aspects of the OCFO financial reporting and management, including the WCF. A major benefit of the FFIS implementation is an integrated system environment for all financial reporting and control needs of the WCF. A key aspect of this environment is a Financial Systems Data Warehouse (FSDW) for producing auditable financial statements for all of USDA, including the WCF. This enhanced USDA reporting environment also helps to ensure that previous internal control weaknesses (due to the prior WCF automated environment) are addressed.

In addition, a major aspect of the duties and responsibilities of the financial operations under the newly formed Associate CFO, Controller Operations is the ongoing oversight of all aspects of the WCF financial management and reporting. The additional resources and oversight functions of the Associate CFO, Controller Operations, combined with the improved automated controls and reporting features of the FFIS, helps to ensure that more accurate, reliable, and timely financial statements are produced for the WCF.

Date Corrective Action Will Be Completed:

October 1, 2002

Responsible Organization:

Associate Chief Financial Officer, Controller Operations

Point Of Contact:

Jesse King - (202) 690-0291

AUDIT FINDING 01-02 (MATERIAL WEAKNESS), RECOMMENDATION #1:

The WCF should consider preparing financial statements periodically, prior to year-end, in order to identify financial reporting problems or weaknesses and provide management with useful financial information.

OCFO Response:

We do not concur with this audit finding and take exception to the classification of this finding as a material weakness.

Throughout FY2001, the WCF was actually issuing monthly operating statements for all of its work centers and operations in addition to monthly operational reports for such cost centers and operations.

In addition, beginning in FY2003, the OCFO will issue monthly financial reports for the WCF from the FFIS utilizing the Financial Systems Data Warehouse (FSDW). The process for generating and issuing the statements will include regular, periodic reviews of the internal controls (both manual and automated) and the supporting financial data for the WCF statements. The reviews are the responsibility of the Associate CFO, Controller Operations and will include any necessary reconciliation to ensure the accuracy and validity of all WCF financial data and transactions. The additional staffing provided to the Associate CFO, Controller Operations will also help to ensure that all financial transactions for the WCF are done in accordance with Generally Accepted Accounting Principles (GAAP) and that all appropriate and necessary supporting documentation is maintained for all WCF financial transactions.

Date Corrective Action Will Be Completed:

N/A

Responsible Organization:

Associate Chief Financial Officer, Controller Operations

Point Of Contact:

Jesse King - (202) 690-0291

AUDIT FINDING 01-03 (MATERIAL WEAKNESS), RECOMMENDATION #1:

WCF should perform timely reconciliation of detailed personal property records with the general ledger and make the appropriate adjustments to the general ledger and corrections to the personal property records.

OCFO Response:

We concur with this recommendation.

During FY2002, there has been an extensive effort by the OCFO to analyze, review, and reconcile all property records and transactions to the FFIS general ledger for all of the USDA. This effort includes property records and transactions for the WCF.

In addition, effective with the July 2002 OCFO reorganization, oversight and review of WCF property records has become the responsibility of the Associate CFO, Controller Operations. This responsibility includes any necessary property reconciliations to ensure the accuracy and validity of related WCF financial data and transactions. Such reconciliations will be performed on a monthly basis and will include required supporting schedules. Research and corrective actions will be an integral part of this process.

The additional staffing provided to the Associate CFO, Controller Operations will help to ensure that such property records are reviewed, reconciled, properly authorized, and maintained in a timely manner for all WCF operations.

Date Corrective Action Will Be Completed:

March 31, 2003

Responsible Organization:

Associate Chief Financial Officer, Controller Operations

Point Of Contact:

Jesse King - (202) 690-0291

AUDIT FINDING 01-04 (MATERIAL WEAKNESS), RECOMMENDATION #1:

WCF should develop adequate billing procedures to ensure that customers are invoiced accurately and timely. These procedures should be documented and included in the accounting procedures manual. Management should enforce compliance with those procedures. All exceptions should be reviewed and properly investigated.

OCFO Response:

We concur with this recommendation.

Effective with the July 2002 OCFO reorganization, the responsibility for all WCF billing functions has been transferred to the Associate CFO, Controller Operations. This responsibility includes developing and issuing necessary billing procedures and guidelines as well as enforcing compliance with such procedures and guidelines.

Beginning October 1, 2002, billing for WCF activities will be performed on a monthly basis. The additional staffing provided to the Associate CFO, Controller Operations will be responsible for ensuring that all WCF billing is done in a timely manner and on schedule and that all related accounts receivable are timely reviewed, reconciled, and maintained for all WCF operations. These enhanced billing policies and procedures will be incorporated into the FY2003 version of the WCF Accounting and Budget Manual.

Date Corrective Action Will Be Completed:

September 30, 2002

Responsible Organization:

Associate Chief Financial Officer, Controller Operations

Point Of Contact:

Jesse King - (202) 690-0291

AUDIT FINDING 01-05 (MATERIAL WEAKNESS), RECOMMENDATION #1:

The WCF should establish adequate procedures to ensure that all entries to the accounting records are supported by proper documentation and retained for audit purposes.

OCFO Response:

We concur with this recommendation but do not agree that this finding is a material weakness. The reason we do not agree with the materiality is that, even though some audit adjustments were made to the WCF financial statements for certain items because of inadequate documentation, many other items on these same statements were accepted and certified during the audit.

As far as implementing this recommendation, the responsibility for developing and issuing necessary accounting procedures and guidelines, as well as enforcing compliance with such procedures and guidelines for all WCF accounting functions, has been transferred to the Associate CFO, Controller Operations.

The Associate CFO, Controller Operations is also responsible for all necessary financial reconciliations to ensure the accuracy and validity of all WCF financial data and transactions, including those related to WCF liabilities. The additional staffing provided to the Associate CFO, Controller Operations will help to ensure that all such financial transactions for the WCF are done in accordance with Generally Accepted Accounting Principles (GAAP) and that all appropriate and necessary supporting documentation is maintained for all WCF financial transactions.

Date Corrective Action Will Be Completed:

September 30, 2002

Responsible Organization:

Associate Chief Financial Officer, Controller Operations

Point Of Contact:

Jesse King - (202) 690-0291

AUDIT FINDING 01-06, RECOMMENDATION #1:

The WCF should ensure that the functionality that provides for maintaining a subsidiary accounting of accounts payable is properly implemented and that the accounts payable detail is reconciled to the general ledger balance on a recurring basis.

OCFO Response:

We concur with this recommendation.

The USDA's previous automated accounting system, referred to as CAS, did not have the capability to produce the necessary detail for accounts payable. As of October 1, 2001, the USDA's Foundation Financial Information System (FFIS) was implemented for all aspects of the OCFO financial reporting and management, including the WCF. A major benefit of the FFIS implementation is an integrated system environment for all financial reporting and control needs of the WCF. This environment includes the functionality to produce and maintain accurate and detailed records for WCF accounts payable plus detailed aging reports for the improved tracking and analysis of any outstanding accounts payable.

In addition, a major aspect of the duties and responsibilities of the financial operations under the newly formed Associate CFO, Controller Operations is the ongoing oversight of all aspects of the WCF financial management and reporting. Such oversight responsibilities include the review of WCF accounts payable records and supporting documentation as well as the reconciliation of WCF accounts payable records with the FFIS general ledger.

Date Corrective Action Will Be Completed:

March 31, 2003

Responsible Organization:

Associate Chief Financial Officer, Controller Operations

Point Of Contact:

Jesse King - (202) 690-0291

AUDIT FINDING 01-07, RECOMMENDATION #1:

The WCF should perform an historical analysis of collections on past due accounts in order to form a basis for estimating the allowance for uncollectible accounts. Data should be collected on an ongoing basis and the allowance should be adjusted periodically to reflect collections history and current circumstances.

OCFO Response:

We do not concur with this recommendation.

Almost all of the outstanding accounts receivable for the WCF are from USDA and/or other Federal agency customers. None of these accounts are "uncollectible" in nature. IPAC processing can, and is, utilized to collect all outstanding amounts owed to the WCF for work performed and/or services provided to such customers. Thus, WCF management does not agree that an allowance for uncollectible accounts is deemed necessary for the WCF.

However, in order to ensure that this situation does not change materially in the future, the Associate CFO, Controller Operations will ensure that all past due accounts for the WCF are review on an ongoing basis. Should it be determined that it becomes necessary to establish an allowance for such accounts, the Associate CFO, Controller Operations will perform the necessary analysis to determine the proper approach for handling such an allowance.

Date Corrective Action Will Be Completed:

N/A

Responsible Organization:

Associate Chief Financial Officer, Controller Operations

Point Of Contact:

Jesse King - (202) 690-0291

AUDIT FINDING 01-08, RECOMMENDATION #1:

Management should implement procedures to ensure that refunds are processed and issued to customers in a timely manner.

OCFO Response:

We concur with this recommendation.

Effective with the July 2002 OCFO reorganization, the responsibility for all WCF accounting functions has been transferred to the Associate CFO, Controller Operations. This responsibility includes developing and issuing necessary accounting procedures and guidelines as well as enforcing compliance with such procedures and guidelines. Such procedures and guidelines will include those related to the processing and issuance of any WCF customer refunds that are deemed material in nature.

In addition, the Associate CFO, Controller Operations is responsible for ensuring the accuracy and validity of WCF accounting functions, including the WCF billing function. As part of this responsibility, the Associate CFO, Controller Operations will ensure that, in accordance with established procedures and guidelines, all material refunds due to WCF customers are made in a consistent and timely manner.

Date Corrective Action Will Be Completed:

September 30, 2003

Responsible Organization:

Associate Chief Financial Officer, Controller Operations

Point Of Contact:

Jesse King - (202) 690-0291

AUDIT FINDING 01-09, RECOMMENDATION #1:

WCF management should enforce the USDA regulation requiring timely and accurate reconciliation of purchase card accounts no later than 30 days after a transaction appears in the PCMS. Any exceptions should be documented and properly investigated.

OCFO Response:

We concur with this recommendation.

Effective with the July 2002 OCFO reorganization, the responsibility for enforcing procedures related to the WCF's use of the USDA purchase card has been transferred to the Associate CFO, Controller Operations. Since taking over this responsibility, the Associate CFO, Controller Operations has made a major effort to ensure WCF compliance with USDA purchase card policy, especially in the area of cardholder reconciliations.

As of August 2002, almost all reconciliations for WCF cardholders have been completed, except for some older transactions that are requiring more extensive analysis. All reconciliations are expected to be completed by the end of August 2002.

In addition, a new policy has been issued notifying cardholders that their purchase card authority will be automatically suspended if reconciliations are not performed within 60 days of the purchase. This policy will be effective as of October 1, 2002. The WCF will also develop reconciliation procedures for all its procurement centers so that supervisors can be sure that timely reconciliations are being performed.

Date Corrective Action Will Be Completed:

September 30, 2002

Responsible Organization:

Associate Chief Financial Officer, Controller Operations

Point Of Contact:

Jesse King - (202) 690-0291