



U.S. Department of Agriculture



Office of Inspector General
Financial & IT Operations

Audit Report

Working Capital Fund's Financial Statements for Fiscal Years 2003 and 2002

Report No. 50401-52-FM
September 2004



UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington D.C. 20250



DATE: SEP 21 2004

REPLY TO
ATTN OF: 50401-52-FM

SUBJECT: U.S. Department of Agriculture Working Capital Fund's Financial Statements for
Fiscal Years 2003 and 2002

TO: Patricia E. Healy
Acting Chief Financial Officer
Office of the Chief Financial Officer

ATTN: Kathy Donaldson
Audit Liaison
Office of the Chief Financial Officer

This report presents the auditors' opinion on the Working Capital Fund's (WCF) principal financial statements for fiscal years ending September 30, 2003, and 2002. Reports on WCF's internal control structure and its compliance with laws and regulations are also provided.

Clifton Gunderson LLP (CG), an independent certified public accounting firm, conducted the audit. We monitored the progress of the audit at all key points, reviewed the workpapers, and performed other procedures, as we deemed necessary. We determined that the audit was conducted in accordance with generally accepted auditing standards, Government Auditing Standards (issued by the Comptroller General of the United States), and the Office of Management and Budget's Bulletin No. 01-02, "Audit Requirements for Federal Financial Statements."

It is the opinion of CG that the financial statements present fairly, in all material respects, WCF's financial position as of September 30, 2003, and 2002, and its net costs, changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations for the years then ended, in conformity with generally accepted accounting principles. CG's report on WCF's internal control structure over financial reporting identified two reportable conditions that it also considered material weaknesses. Specifically, CG identified material weaknesses in WCF's:

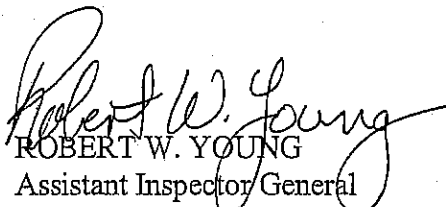
- Financial reporting, analysis, reconciliations and adjustments; and
- Information technology security controls.

The results of CG's test of compliance with laws and regulations disclosed instances of noncompliance with Federal financial management systems requirements.

These weaknesses in controls over the financial reporting process resulted in WCF not (1) being able to prepare timely and reliable financial statements and (2) having current and reliable ongoing information to support management decisions. Also, the weaknesses in computer security controls resulted in an increased risk of unauthorized individuals being allowed to access, alter, or abuse proprietary and electronic data. These material weaknesses in internal controls may adversely affect any decision by WCF's management and other decision makers that is based, in whole or in part, on information that is inaccurate because of these weaknesses.

WCF attempted to correct internal control deficiencies noted during the audit of its fiscal year 2001 financial statements by implementing the Foundation Financial Information System, but failed to address fundamental flaws in its business processes. For the WCF to make meaningful progress in correcting its weaknesses, changes are needed in its financial management infrastructure. These changes include (1) developing WCF-wide financial policies, (2) ensuring that sufficient resources are available to monitor compliance with the policies and that responsible individuals are held accountable for noncompliance, and (3) providing training to WCF personnel to ensure they understand and effectively implement the WCF's financial management policies and procedures.

In accordance with Departmental Regulation 1720-1, please furnish a reply within 60 days describing the corrective actions taken or planned, including the timeframes to address the report's recommendations. Please note the regulation requires a management decision to be reached on all findings and recommendations within a maximum of 6 months from report issuance.


ROBERT W. YOUNG
Assistant Inspector General
for Audit

Department of Agriculture
Working Capital Fund

Fiscal 2003 and 2002 Audit Report

Table of Contents

Independent Auditor's Report.....	1
Independent Auditor's Report on Internal Control.....	3
Independent Auditor's Report on Compliance with Laws and Regulations.....	11
Management Discussion and Analysis.....	13
Financial Statements	19

Independent Auditor's Report

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

We have audited the accompanying balance sheets of the United States Department of Agriculture Working Capital Fund (WCF) as of September 30, 2003 and 2002, and the related statements of net cost, changes in net position, budgetary resources and financing for the years then ended (collectively the financial statements). These financial statements are the responsibility of the WCF's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; 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*. 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 principal statements' presentation. We believe our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to in the first paragraph, present fairly, in all material respects, the financial position of the WCF as of September 30, 2003 and 2002, its net cost, changes in net position, budgetary resources, and reconciliation of net cost to budgetary resources for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 13 to the financial statements, certain errors resulting in understatement of previously reported unexpended appropriations and overstatement of cumulative results of operations as of September 30, 2001, were discovered by management of the WCF during the current year. Accordingly, an adjustment has been made as of October 1, 2001, to correct the error.

In accordance with *Government Auditing Standards*, we have also issued our reports dated June 4, 2004 on our consideration of the WCF's internal control over financial reporting, and on our tests of the WCF's compliance with certain provisions of laws and regulations. Those reports are an integral part of our audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Management Discussion and Analysis and Required Supplemental Information are not a required part of the basic financial statements, but are supplementary information required by OMB Bulletin No. 01-09, *Form and Content of Agency Financial Statements*. We have applied certain limited procedures to such information, which consisted principally of inquiries of WCF management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Clifton Henderson LLP

Calverton, Maryland
June 4, 2004

Independent Auditor's Report on Internal Control

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

We have audited the financial statements of the United States Department of Agriculture (USDA) Working Capital Fund (WCF) as of and for the year ended September 30, 2003, and have issued our report thereon dated June 4, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; 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*.

In planning and performing our audit, we considered the WCF's internal control over financial reporting by obtaining an understanding of the WCF's internal control, determined whether internal controls had been placed in operation, assessed control risk, and performed tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 01-02. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act (FMFIA) (31 U.S.C. 3512), such as those controls relevant to ensuring efficient operations. The objective of our audit was not to provide assurance on internal control. Consequently, we do not provide an opinion on internal control.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the agency's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in internal controls, misstatements, losses, or noncompliance may nevertheless occur and not be detected. However, we noted certain matters discussed in the following paragraphs involving the internal control and its operation that we consider to be material weaknesses.

MATERIAL WEAKNESSES

I. Improvements are Needed in Financial Reporting, Analysis, Reconciliation, and Adjustments

The combination of the following reportable conditions made financial reporting, analysis, reconciliation, and adjustment a material weakness. These conditions occurred due to weaknesses in WCF's business processes.

A. Financial Reporting and Analysis

OMB Circular No. A-123, *Management Accountability and Control*, states that transactions should be promptly recorded, properly classified and accounted for in order to prepare timely accounts and reliable financial and other reports. The documentation for transactions, management controls, and other significant events must be clear and readily available for examination.

The following was noted:

- The fiscal year (FY) 2001 year-end adjustments posted for financial statement preparation purposes were not fully researched to determine corrections needed to subsequent year's general ledger balances resulting in misstatement of cumulative results of operations and related activity;
- The WCF was unable to readily provide complete explanations for fluctuations in account balances and activity, abnormal account balances, accounting relationships, and other requests for documentation and information; and
- Significant adjustments were required as a result of the audit process.

Not recording or delayed recording of transactions diminishes the value of financial management reports for decision-making purposes. *Standards for Internal Control in the Federal Government* issued by the General Accounting Office (GAO) states, "Transactions should be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions."

B. Reconciliation and Adjustments

Reconciliation consists of comparing two or more sets of records, researching and resolving any differences, and recording adjustments, if necessary. Reconciliations are to be performed routinely so that any problems are detected and corrected promptly and differences are not allowed to age, thereby becoming increasingly difficult to research. The National Finance Center (NFC), with the help from the USDA agencies, reconciles such differences for the WCF.

Fund Balance With Treasury (FBWT) – During our review of the FBWT Financial Management Service 6653/6654/6655 reports reconciliation process, we noted that the WCF had reconciling items as of September 30, 2003 amounting to \$(5,672) thousand which resulted in a “cash adjustment” to bring the general ledger balance in agreement with the balance reported by the Department of Treasury. This difference was primarily comprised of \$2,518 thousand relating to systemic problems that arose during FY 2002 that remained unresolved as of the end of our audit field work and \$(8,649) thousand related to an error reported on the SF 224. It was further noted that the “cash adjustment” relating to these differences was improperly classified causing misstatement of the general ledger balances for FBWT, other liabilities, and program costs.

Property – Differences identified during the reconciliation of the subsidiary property accounts with the general ledger were not researched and resolved in a timely manner. The WCF could not readily provide an explanation or analysis for these differences and was unable to provide an aging of these amounts. Significant time and effort was required to more fully analyze the subsidiary and general ledger data resulting in adjustment of the general ledger balances.

The WCF’s property reconciliation policy lacks requirements for timely resolution of, and adequate audit trail for, identified differences. It was also noted that the corresponding depreciation accounts were not reconciled.

The WCF’s policy for recording internal use software in development is inconsistent with United States Standard General Ledger (USSGL) guidelines. Consequently, the potential for misstatement is increased as evidenced by the \$(8,649) thousand error discussed above within the FBWT section. This error was a result of attempts by the WCF to correct the posting of internal use software in development.

Recommendations:

1. Develop and implement financial reporting procedures specific to the WCF. Establish training programs for key personnel involved within the financial reporting process to ensure their understanding of the policies and procedures.
2. Ensure year-end adjustments are researched to determine required corrective actions to current general ledger balances and the prompt posting of these corrections to the general ledger. Sufficient documentation should be maintained to support subsequent year-end adjustments.
3. Ensure the accounts and activity are reviewed at the WCF level and that such reviews are documented and include the following:
 - Determine whether the effect of unresolved differences arising during the reconciliation processes indicate a misstatement of the general ledger balances. Thresholds for acceptable errors should be established at the

WCF level and any unresolved differences above these thresholds should be fully researched and corrected;

- Review general ledger activity and composition of balances for unusual and potentially improper transactions warranting further research and analysis; and
 - Perform analytical procedures at the WCF level including fluctuation analysis, review for abnormal account balances, and reconciliation/agreement of account relationships. Unexpected results, abnormal balances, and unusual relationships should be fully researched and corrected as needed.
4. Identify the underlying cause of systemic problems noted on the reconciliations of property and FBWT and design a corrective action plan to prevent their reoccurrence.
 5. Review the effectiveness of the WCF's current operating procedures and institute a process to enable the NFC to achieve a more timely response to reconciliation issues (specifically for FBWT and property) and to effect resolution of all differences within a maximum three-month period.
 6. Enforce the USDA policy for full documentation of all reconciling variances identified during the monthly reconciliation processes.
 7. Establish written policies to specifically address the use of "cash adjustments" at year-end to ensure that such transactions are only recorded after clearly establishing the causes of errors and properly documenting those errors. Policies should also ensure that adequate documentation is maintained in support of the adjustment to allow correct interpretation of the error and its corresponding adjustment.
 8. Reconcile depreciation accounts on a monthly basis.
 9. Revise policies for recording internal use software in development so that they are consistent with USSGL guidelines.
 10. Perform a periodic or quarterly update of financial system setup and posting model definitions to ensure timely correction of outdated models and compliance with the latest transaction posting models consistent with USSGL guidance and policies for recording and classifying transactions. Also, ensure changes made to the financial system are tested and accepted before entering production.
 11. Provide additional training for personnel responsible for posting accounting entries in accordance with the USSGL. Accountants need to improve their knowledge of financial system and process operations.

II. The National Information Technology Center and the National Finance Center (NITC/NFC) Details Deficiencies of General Controls in Security Planning, Risk Assessments, Access Controls, Change Controls, Segregation of Duties and Service Continuity

The United States Department of Agriculture Office of Inspector General (OIG) auditors identified weaknesses in the controls structure of the NITC/NFC, including some of the WCF's systems. Hence, some of the deficiencies found are applicable to the WCF. The OIG determined that the NITC/NFC still needed to make progress in securing its computer systems; specifically the OIG auditors continue to find that the USDA and its agencies are not in compliance with OMB Circular No. A-130, Appendix III, "Security of Federal Automated Information Resources", and Presidential Decision Directive 63, including preparation of security plans for all major systems conducting risk assessments, establishing executable disaster recovery plans, and implementing a system certification and accreditation process.

Additionally, the USDA's systems are vulnerable to both internal and external threats, including Internet hackers that could jeopardize the integrity and confidentiality of the USDA's critical programs. Further, the OIG continues to disclose that most agencies do not have adequate physical and logical access controls in place over information technology (IT) resources. Reviews also identified weaknesses in agencies' ability to properly manage the development of their applications as a result of not having formal change control procedures in place, or in some cases, not operating as intended. Because of the security weaknesses that still need to be corrected, the OIG states that the USDA's information security program remains a material weakness and requires continued senior management attention.

The OIG recommends that the USDA improve the oversight of its IT investments, further enhance network security, secure systems from attacks, enforce background checks of contractor employees, and enhance contingency planning to ensure business continuity in case key computer system operations are disrupted for a prolonged period. These weaknesses are explained in more detail in separate reports: "FY 2002 National Finance Center (NFC) – Review of Internal Controls" Report No. 11401-15-FM, the "FY 2003 National Information Technology Center (NITC) General Controls Review – Report No. 88099-5-FM" and "FY 2003 Federal Information Security Management Act Report", USDA Report No. 50099-52-FM, issued September 24, 2003.

The recommendations to correct these deficiencies are detailed in the before-mentioned OIG reports. Therefore, we are not making additional recommendations relating to those conditions in this report.

STATUS OF PRIOR YEAR COMMENTS

As required by *Government Auditing Standards* and OMB Bulletin No. 01-02, we have reviewed the status of WCF's corrective actions with respect to the findings and recommendations from the previous year's report on internal controls. For those items not addressed in various sections of our Independent Auditor's Report on Internal Control, summarized above, the following discusses the current status of resolutions for matters raised:

- **Condition – Significant Improvements Are Needed in WCF Internal Control Environment**

In FY 2001, it was reported that the WCF lacked an adequate control structure over the accounting operations and financial management activities.

Corrective action relating to this condition was completed; however, problems were noted during the current audit, which have been addressed in the material weakness section of this report.

- **Condition – Accounting Transactions Should be Recorded in Accordance with Generally Accepted Accounting Principles**

In FY 2001, it was reported that the general ledger balances lacked supporting documentation and that other errors existed requiring adjustments to produce an auditable balance sheet. It was further reported that the WCF relied solely on the work of contractors and auditors to identify and report internal control risks for management's attention.

Final corrective action relating to this condition was still in process.

- **Condition – Process for Recording and Monitoring General Property, Plant and Equipment Needs Improvement**

In FY 2001, it was reported that the WCF did not perform timely reconciliation of, and make appropriate adjustments to, the detailed personal property records and the general ledger. In addition, it was noted that depreciation expense and related accumulated depreciation were overstated due to a system computation error.

Final corrective action on this condition was still in process.

- **Condition – Improvements Needed in the WCF Billing Process**

In FY 2001, it was reported that the WCF did not bill its customers in an accurate and timely manner.

Corrective action relating to this condition was completed; however, during the current audit we identified instances of untimely invoicing, which we reported in the management letter.

- **Condition – Accounting for Other Liabilities Needs Improvement**

In FY 2001, it was reported that the WCF did not have supporting documentation for the other liabilities account.

Final corrective action on this condition was still in process.

- **Condition – Detailed Records for Accounts Payable Were Not Maintained**

In FY 2001, it was reported that the WCF did not maintain a detailed listing of accounts payable.

Final corrective action on this condition was still in process.

- **Condition – Accounts Receivable Should be Analyzed and Appropriate Allowances for Doubtful Accounts Should be Established**

In FY 2001, it was reported that the WCF had not performed an historical analysis of uncollectible accounts to establish a basis for estimating its allowance for doubtful accounts.

Final corrective action on this condition was still in process.

- **Condition – Accounting for Refunds Should be Reviewed**

In FY 2001, it was reported that the WCF owed refunds to its customers due to a lack of a process to review credit balances and issue refunds when due.

Final corrective action on this condition was still in process.

- **Condition – Purchase Card Transactions Should be Reconciled**

In FY 2001, it was reported that the WCF had not enforced USDA regulations to reconcile purchase card accounts.

Final corrective action on this condition was still in process.

With respect to internal control related to performance measures reported in the WCF's Management Discussion and Analysis, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions, as required by OMB

Bulletin No. 01-02. Our procedures were not designed to provide assurance on internal control over reported performance measures, and, accordingly, we do not provide an opinion on such controls.

In addition to the material weaknesses described above, we noted certain matters involving internal control and its operation that we reported to the management of the WCF in a separate letter dated June 4, 2004.

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

Clifton Henderson LLP

Calverton, Maryland
June 4, 2004

Independent Auditor's Report on Compliance with Laws and Regulations

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

We have audited the financial statements of the United States Department of Agriculture (USDA) Working Capital Fund (WCF) as of and for the year ended September 30, 2003, and have issued our report thereon dated June 4, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; 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*.

The management of the WCF is responsible for complying with laws and regulations applicable to the WCF. As part of obtaining reasonable assurance about whether the WCF's financial statements are free of material misstatements, 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). We limited our tests of compliance to these provisions and we did not test compliance with all laws and regulations applicable to the WCF.

The results of our tests of compliance, exclusive of FFMIA, disclosed no instances of noncompliance with laws and regulations discussed in the preceding paragraph that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 01-02.

Federal Financial Management Improvement Act of 1996 (FFMIA)

Under FFMIA, we are required to report whether the WCF's financial management systems substantially comply with the Federal financial management systems requirements, applicable Federal accounting standards, and the United States Standard General Ledger (USSGL) at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA Section 803(a) requirements.

The results of our tests disclosed instances described below, where the WCF's financial management systems did not substantially comply with Federal financial management systems requirements.

Several Information Technology weaknesses were identified that indicate noncompliance with OMB Circular A-130, Appendix III, "Security of Federal Automated Information Resources". These weaknesses are collectively considered a material weakness and are described in more detail in our report on internal control.

The results of our tests disclosed no instances in which the WCF's financial management systems did not substantially comply with Federal accounting standards and the USSGL at the transaction level.

The USDA Office of Chief Information Officer and senior management have been assigned the responsibility of ensuring the substantial compliance with the FFMIA, as it pertains to IT security, and have initiatives in process or planned to address the weaknesses.

Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit, and, accordingly, we do not express such an opinion.

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

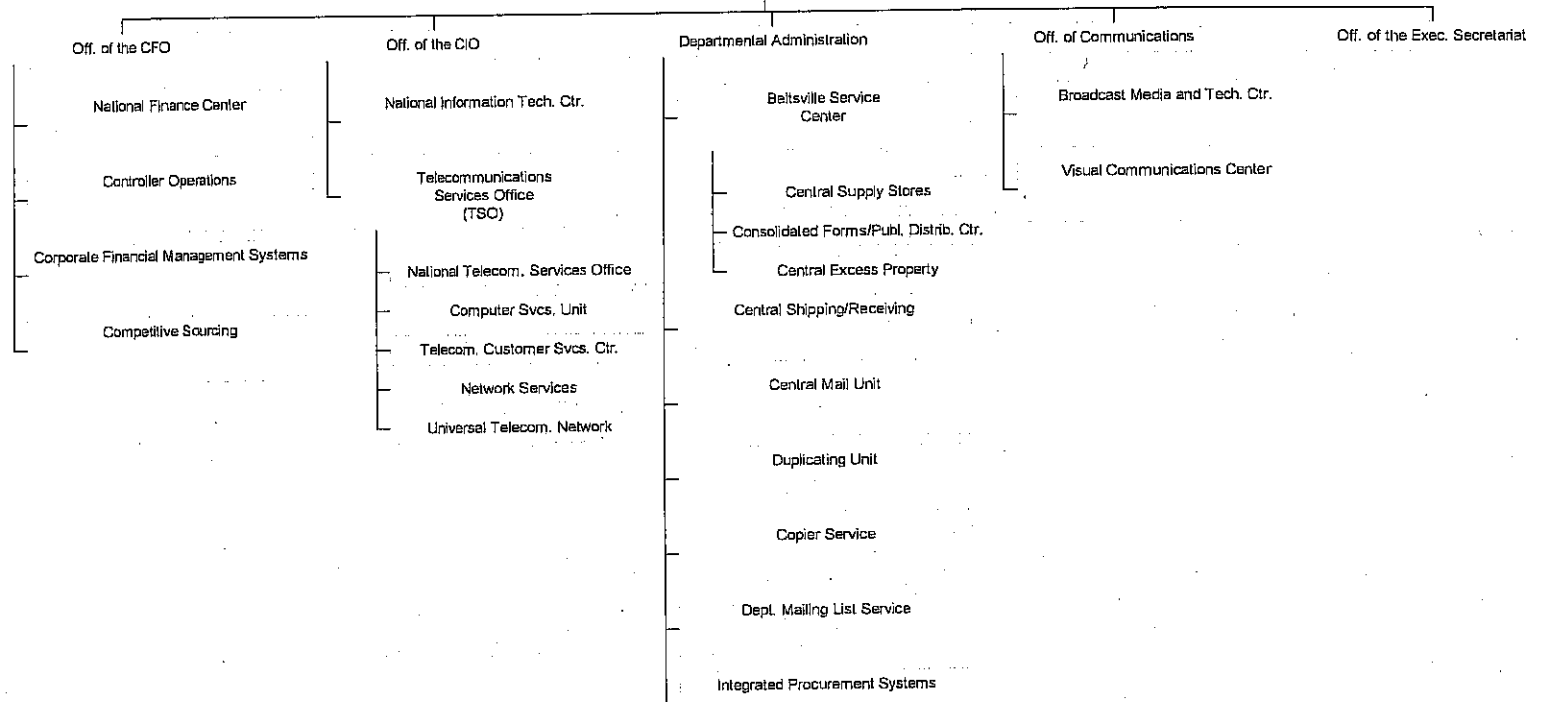
Clifton Gunderson LLP

Calverton, Maryland
June 4, 2004

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW OF THE DEPARTMENT OF AGRICULTURE WORKING CAPITAL FUND

WCF Activity Organization



Mission Statement: To provide an effective financing and operating mechanism to support the services that the Secretary, with the approval of the Director of the Office of Management and Budget (OMB), determines may be performed more advantageously as central services in order to eliminate the maintenance of separate like services in the agencies of the Department of Agriculture (USDA).

Services Provided by the Departmental Working Capital Fund (WCF)

Twenty-two activity centers performed operations and provided the following services;

Office of the Executive Secretariat is responsible for analyzing, managing, and tracking mail in fulfilling its responsibilities to control executive correspondence, ensuring the timely and accurate response to inquiries made to the Department, providing information to Department officials in a timely manner, and establishing Department-wide procedures and policies for handling executive records and documents.

Office of Communications is responsible for managing the activities of two activity centers. The Video and Teleconferencing Center (since renamed: Broadcast Media Technology Center) provides video production services to USDA agencies and studio production facilities for teleconferences in which USDA agencies participate. The Design Center (since renamed: Visual Communications Center) provides USDA agencies with exhibit design and visitor center support services.

Departmental Administration is responsible for managing nine activity centers that provide a wide range of administrative services, including:

- Acquisition, receipt, storage, issuance, packaging, and shipment of supplies;
- Forms warehousing, distribution and transportation services;
- Receipt, rehabilitation, distribution of personal property, mail processing and delivery;
- Maintenance, update, generation services for automated mailing lists;
- Short-order and walk-up reproduction services;
- Custom duplicating, binding, addressing, mailing services;
- Processing services for incoming and outgoing shipments of parcels; and
- Development and implementation of corporate procurement systems.

Office of the Chief Information Officer manages information technology services under six activity centers. Services provided by activity centers include:

- Mainframe computing services, ADP training, and other ADP services to USDA agencies and non-USDA entities;
- Systems and software development services to USDA agencies and non-USDA users;
- Department-wide telecommunications management support services;
- An integrated information system for inventory management, FTS2000 and FTS2001 billing, reporting, and validation;
- Telecommunications network services and administration; research; and development, test and evaluation;
- Engineering and streamlining the Department-wide telecommunications network environment through the identification and facilitation of the implementation of shared opportunities;
- Ensuring agency telecommunications network solutions are compliant with Departmental program goals and objectives;
- Planning, acquisition, implementation, and management of information technology resources for the Office of Secretary and Office of Chief Information Officer;
- Providing economies and efficiencies in the use of information technology through elimination of duplication and consolidation of resource sharing;
- Maintenance and administration of USDA telecommunications equipment and services inventory in the D.C. Buildings Complex;

- Publication of the USDA telephone directory and provision of automated telephone directory employee locator services, management and coordination of the Departmental voice mail system service implementation and operation;
- Technical and operations assistance on data networking telecommunications systems, design, installation, operation, and management of value-added, common shared services provided on Departmental Headquarters networks and platforms;
- Participation in the design, engineering, provisioning, and operations management of the Enterprise Network;
- Responsible for the USDA Telecommunications Security program; and
- Development and implementation of corporate telecommunications systems.

Office of the Chief Financial Officer administers four activities that provide:

- Payroll/personnel related services for agencies, Government-wide applications for the Office of Personnel Management (OPM);
- Thrift Savings Plan (TSP) record keeper services for the Federal Retirement Thrift Investment Board (FRTIB);
- Support services for USDA accounting applications, limited application support, shared services to support Controller Operations and Financial Systems;
- Public Key Infrastructure (PKI) licenses;
- Operation and maintenance support to the corporate integrated administrative payment, real property, and the Foundation Financial Information System (FFIS) that: (1) provide information for decisions on resource allocations and budget priorities, (2) provide administrative payment and financial management services to all USDA agencies, (3) enforce applicable laws and regulations, (4) provide safeguards against fraud, waste, and abuse of government resources, (5) serve the information requirements of internal and external constituencies, and (6) provide financial management reporting and capabilities to meet financial management reporting requirements;
- Basic core financial accounting and reporting services and agency-specific services to our customers/clients;
- Operation of a unified corporate controller organization that integrates accountability for sustained financial management processes and systems throughout the Department of Agriculture; and
- Department-level coordination and guidance to USDA agency efforts to comply with competitive sourcing/OMB Circular A-76 requirements.

The WCF activity centers are located geographically in Washington, D.C. (14 centers); Landover, Maryland (three centers); Fort Collins, Colorado (three centers); Kansas City, Missouri (one center); and New Orleans, Louisiana (one center).

RESOURCES

The primary source of funding for the WCF operations consists of billings to customers for services provided. In additions to billings, the WCF was granted the authority in the Agriculture Appropriation Acts to transfer unobligated funds to the WCF. These funds are to be used for the acquisition of plant and capital equipment necessary for the delivery of financial, administrative, and information technology services of primary benefit to the agencies of the Department of Agriculture. Under this authority the WCF has received transfers of unobligated balances from USDA agencies in the amount of \$27,527 thousand.

Major Customers of the Departmental Working Capital Fund

The WCF had two major customers that comprised more than 15 percent of the fund's revenue. USDA's Forest Service provided revenue in the amount of \$68,000 thousand. The Thrift Investment Board (Thrift Savings Plan) provided revenue in the amount of \$48,000 thousand.

PERFORMANCE GOALS AND RESULTS

The Department of Agriculture WCF is a multi-activity operation, providing the following services:

- Administration and Supply Services;
- Video, Teleconferencing, Graphic and Exhibit Services;
- Financial management, Accounting and Payroll and Thrift Savings Plan Support;
- Application Development, Telecommunication Services and ADP Services;
- Executive correspondence, control and tracking.

Performance goals and results for the operating activities of the WCF are included among the performance plans of the respective departmental offices that are administering those activities.

FUTURE DEMANDS, RISKS, UNCERTAINTIES, EVENTS, CONDITIONS AND TRENDS

The FY 2004 Consolidated Appropriation Act language for the Office of the Chief Financial Officer, directs the Chief Financial Officer to actively market and expand cross servicing activities of the National Finance Center. Office of Personnel Management and the Office of Management and Budget selected the NFC to serve as one of the four Government's payroll providers under the President's e-Payroll initiative, thus positioning NFC to play a key role in consolidating payroll operations Government-wide and helping reduce systems costs over the next seven years.

Earnings for the WCF are kept at a low level through adjustments in rates charged for services to maintain as nearly as possible the nonprofit nature of the fund.

FINANCIAL STATEMENT HIGHLIGHTS

The following information summarizes the WCF financial condition and results of operations as of and for the FY ending September 30, 2003.

Budgetary Resources and Outlays

Appropriations, combined with other budgetary resources made available, and adjustments totaled \$425,453 thousand while net outlays totaled \$1,929 thousand.

Assets and Liabilities

Assets and liabilities totaled \$162,673 thousand and \$61,429 thousand respectively. Fund Balance with Treasury of \$94,577 thousand is the single largest asset followed by General Property, Plant, and Equipment of \$47,965 thousand. Accruals for payroll and benefits amounted to \$32,024 thousand, or 52 percent of total liabilities, with the remaining balances related to rents, leases, and other contractual obligations.

Net Cost of Operations

Net cost of operations totaled \$(7,763) thousand.

Limitations of the Financial Statements

- (1) The financial statements of the WCF, presented here, have been prepared to report the financial position and results of operations of the entity, pursuant to the requirements of 31 U.S.C. 3515(b);
- (2) While the statements have been prepared from the books and records of the entity in accordance with generally accepted accounting principles and formats prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same records and books;
- (3) The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity. One implication of this is that liabilities cannot be liquidated without legislation that provides resources to do so.

SYSTEMS, CONTROLS AND LEGAL COMPLIANCE

Federal Managers' Financial Integrity Act (FMFIA)

The WCF is committed to operating its programs efficiently and effectively in accordance with the FMFIA. FMFIA requires reasonable assurance that (1) obligations and costs comply with applicable laws and regulations; (2) Federal assets are safeguarded against fraud, waste and mismanagement; and (3) transactions are accounted for and properly recorded. Additionally, FMFIA requires a separate statement as to whether financial management systems conform to standards, principles and other requirements to ensure that Federal managers have timely, relevant and consistent financial information for decision-making purposes. No material internal control weaknesses and financial system non-conformances are reported.

Federal Financial Management Improvement Act (FFMIA)

Under FFMIA, agencies must implement and maintain financial management systems that comply substantially with Federal financial management systems requirements, applicable Federal accounting standards, and the U. S. Government Standard General Ledger at the transaction level. FFMIA also requires that remediation plans be developed for any agency that is unable to report substantial compliance with these requirements. The WCF is not in substantial compliance with these requirements due to financial system weaknesses at the National Information Technology Center and the National Finance Center. These weaknesses are scheduled to be corrected by the end of fiscal 2004.

Actions on Audit Recommendations

The WCF completed corrective actions on 3 of 5 audit recommendations. Final action on the two remaining audit recommendations is expected to be completed by the end of fiscal 2004.

Corrective Action Completed
Revised organizational structure to ensure that the financial reporting function is properly positioned within the management hierarchy.
Developed adequate billing procedures to ensure that customers are invoiced accurately and timely.
Established procedures to ensure that all entries to the accounting records are supported by proper documentation and retained for audit purposes.

Corrective Action Remaining
Periodically prepare financial statements, prior to year-end, in order to identify financial reporting problems or weaknesses and provide management with useful financial information.
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.

Department of Agriculture
Working Capital Fund
BALANCE SHEET
As of September 30, 2003 and 2002
(in thousands)

	<u>2003</u>	<u>2002</u>
Assets :		
Intragovernmental:		
Fund Balance with Treasury (Note 2)	\$ 94,577	\$ 78,750
Accounts Receivable, Net (Note 3)	16,342	20,359
Other (Note 6)	1,541	
Total Intragovernmental	<u>112,460</u>	<u>99,109</u>
Non-Federal:		
Accounts Receivable, Net (Note 3)	1,203	1,210
Inventory and Related Property, Net (Note 4)	1,031	1,802
General Property, Plant, and Equipment, Net (Note 5)	47,965	46,278
Other (Note 6)	14	14
Total Assets	<u><u>\$ 162,673</u></u>	<u><u>\$ 148,413</u></u>
Liabilities :		
Intragovernmental		
Other (Note 8)	\$ 17,285	\$ 13,864
Total Intragovernmental	<u>17,285</u>	<u>13,864</u>
Non-Federal:		
Accounts Payable	2,109	4,414
Other (Note 8)	42,035	39,812
Total Liabilities (Note 7)	<u>61,429</u>	<u>58,090</u>
Commitment and Contingencies (Note 1)		
Net Position:		
Unexpended Appropriations	86,218	74,634
Cumulative Results of Operations	15,026	15,689
Total Net Position	<u><u>101,244</u></u>	<u><u>90,323</u></u>
Total Liabilities and Net Position	<u><u>\$ 162,673</u></u>	<u><u>\$ 148,413</u></u>

The accompanying notes are an integral part of the financial statements.

Department of Agriculture
Working Capital Fund
STATEMENT OF NET COST
For the Years Ended September 30, 2003 and 2002
(in thousands)

	2003	2002
Program Costs :		
Intragovernmental Gross Costs	\$ 80,816	\$ 68,981
Less: Intragovernmental Earned Revenues	326,443	314,446
Intragovernmental Net Costs	(245,627)	(245,465)
 Gross Costs with the Public:		
Indemnities	32	33
Other	258,284	235,625
Total Gross Costs with the Public	258,316	235,658
Less: Earned Revenues from the Public	4,926	3,985
Net Costs with the Public	253,390	231,673
 Net Cost of Operations (Note 12)	 \$ 7,763	 \$ (13,792)

The accompanying notes are an integral part of the financial statements.

Department of Agriculture
Working Capital Fund
STATEMENT OF CHANGES IN NET POSITION
For the Years Ended September 30, 2003 and 2002
(in thousands)

	2003		2002	
	Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations
Beginning Balances	\$ 15,689	\$ 74,634	\$ 56,364	\$
Prior Period Adjustments (Note 13)			(54,286)	52,941
Beginning Balances, as adjusted	<u>15,689</u>	<u>74,634</u>	<u>2,078</u>	<u>52,941</u>
Budgetary Financing Sources				
Appropriations Received		12,000		
Appropriations Transfer In (Out)		5,834		21,693
Other Adjustments		(78)		
Appropriations Used	6,172	(6,172)	(400)	
Other Financing Sources				
Donations and Forfeitures of Property			131	
Transfers without Reimbursement	(108)			
Imputed Financing from Costs Absorbed by Others	1,036		88	
Total Financing Sources	<u>7,100</u>	<u>11,584</u>	<u>(181)</u>	<u>21,693</u>
Net Cost of Operations	<u>(7,763)</u>		<u>13,792</u>	
Ending Balances	<u>\$ 15,026</u>	<u>\$ 86,218</u>	<u>\$ 15,689</u>	<u>\$ 74,634</u>

The accompanying notes are an integral part of the financial statements.

Department of Agriculture
Working Capital Fund
STATEMENT OF BUDGETARY RESOURCES
For the Years Ended September 30, 2003 and 2002
(in thousands)

	2003	2002
Budgetary Resources:		
Budget Authority:		
Appropriations Received	\$ 12,000	\$
Net Transfers	5,834	21,693
	17,834	21,693
Unobligated Balances		
Beginning of Period	43,665	24,573
Spending Authority From Offsetting Collections:		
Earned		
Collected	335,244	344,595
Receivable from Federal Sources	(3,876)	(30,718)
Change in Unfilled Customer Orders		
Without Advance from Federal Sources	32,664	10,517
	364,032	324,394
Permanently not Available	(78)	
Total Budgetary Resources	\$ 425,453	\$ 370,660
Status of Budgetary Resources:		
Obligations Incurred (Note 10)		
Direct		3,852
Reimbursable	347,654	323,143
	347,654	326,995
Unobligated Balance		
Apportioned	29,038	(1,267)
Unobligated Balance not Available	48,761	44,932
	77,799	43,665
Total Status of Budgetary Resources	\$ 425,453	\$ 370,660
Relationship of Obligations to Outlays:		
Obligated Balance, Net, Beginning of Period	35,085	(10,458)
Obligated Balance, Net, End of Period		
Accounts Receivable	(17,080)	(20,957)
Unfilled Customer Orders from Federal Sources	(43,181)	(10,517)
Undelivered Orders	28,338	20,058
Accounts Payable	48,695	46,501
	\$ 16,772	\$ 35,085
Outlays:		
Disbursements	337,173	301,654
Collections	(335,244)	(344,595)
Net Outlays	\$ 1,929	\$ (42,941)

The accompanying notes are an integral part of the financial statements.

Department of Agriculture
Working Capital Fund
STATEMENT OF FINANCING
For the Years Ended September 30, 2003 and 2002
(in thousands)

	2003	2002
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations Incurred (Note 10)	\$ 347,654	\$ 326,995
Less: Spending authority from offsetting collections and recoveries	364,032	324,394
Net Obligations	(16,378)	2,601
 Other Resources		
Donations and forfeitures of property		131
Transfers in (out) without reimbursement	(108)	
Imputed financing from costs absorbed by others	1,036	88
Net other resources used to finance activities	928	219
 Total resources used to finance activities	 (15,450)	 2,820
 Resources Used to Finance Items not Part of the Net Cost of Operations:		
Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided	(22,843)	8,038
Budgetary offsetting collections and receipts that do not affect net cost of operations		
Other		(3,199)
Resources that finance the acquisition of assets	916	(2,862)
Other resources or adjustments to net obligated resources that do not affect net cost of operations		3,994
Total resources used to finance items not part of the net cost of operations	(21,927)	5,971
 Total resources used to finance the net cost of operations	 6,477	 (3,151)
 Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Periods:		
Increase in exchange revenue receivable from the public	5,577	(23,681)
Other	(24,450)	395
Total components of Net Cost of Operations that will require or generate resources in future periods (Note 11)	(18,873)	(23,286)
 Components not Requiring or Generating Resources:		
Depreciation and amortization	19,005	14,907
Other	1,154	(2,262)
Total components of Net Cost of Operations that will not require or generate resources	20,159	12,645
Total components of Net Cost of Operations that will not require or generate resources in the current period	1,286	(10,641)
 Net Cost of Operations	 \$ 7,763	 \$ (13,792)

The accompanying notes are an integral part of the financial statements.

NOTES TO FINANCIAL STATEMENTS

As of September 30, 2003 and 2002
(in thousands)

Note 1. Significant Accounting Policies

Organization

The Working Capital Fund (“WCF”) was authorized in 1943 and later codified under 7 U.S.C 2235. WCF is a revolving fund that operates within the Department of Agriculture as required by the Chief Financial Officers Act of 1990. Under law, only activities approved by the Secretary and the Director of OMB may be carried out under the WCF authority. To qualify, the following are the activities and criteria that must 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. Currently, the WCF includes the following service activity centers (“Centers”) and services provided within its authority:

Office of the Executive Secretariat (ES): Executive Correspondence, Control and Tracking Services

Office of Communications (Agency 13): Video, Teleconferencing, Graphic and Exhibit Services

Office of the Chief Information Officer (IT): ADP Services, Application Development, Network and Telecommunications Services

Office of Departmental Administrations (DA): Administrative and Supply Services

Office of the Chief Financial Officer (Agency 90): Corporate Financial Management, Accounting and Payroll, and Thrift Savings Plan Support.

Funding

The WCF received an initial appropriation of \$400 thousand in Fiscal year 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 \$31,838 thousand in appropriated support. During the period 1981 – 1991 an additional \$20,703 thousand was collected through contributions by users. In Fiscal year 2003, General Provision 704 Appropriation Act, Public Law 108-7 (“the ACT”), authorizes the Secretary of Agriculture to transfer unobligated balances of funds appropriated under the ACT or other available unobligated balances of the USDA, to the WCF for acquisition of plant and capital equipment necessary for the delivery of financial, administrative, and information technology services of primary benefit to the agencies of USDA. The total amount transferred under this authority was \$5,834 and \$21,693 thousand in fiscal years 2003 and 2002, respectively. In addition, the WCF also received a direct appropriation of \$12,000 thousand for the acquisition of remote mirroring back-up technology of the National Finance Center’s data.

NOTES TO FINANCIAL STATEMENTS

Basis of Presentation

The financial statements include the accounts of all of WCF Centers combined activities. The Centers are select service departments that operate within USDA and meet the criteria for WCF established qualification. Therefore, balances in accounts are combined for presentation in the WCF, (no consolidation or eliminations required) and are consolidated in the USDA financial statements where intra-departmental balances and transactions are eliminated in consolidation. Certain items in prior periods have been reclassified to conform to the current presentation.

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 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. Budgetary accounting is essential for compliance with legal constraints and control.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles require management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Revenue and Other Financing Sources

The Centers receive advances for investment capital through the WCF and the WCF is repaid through billings to customers for depreciation.

Major customers of the fund are the Forest Service and the Thrift Investment Board.

Revenue from exchange transactions is recognized when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, sales price is fixed or determinable, and collection is reasonably assured. Prices set for products and services offered through the WCF are billed to customer agencies, both USDA and non-USDA and are intended to recover the full costs incurred by the WCF activities.

During the fiscal year, the operating statements are monitored for potential profits or losses. If it appears that a Center is making a profit/(loss), the Center will rebate/(surcharge) their customers during the current fiscal year to avoid a profit/(loss). If however in the last quarter of the fiscal year, profits that cannot be returned through rebates, will be closed to cumulative results of operations.

An imputed financing source is recognized for costs subsidized by other Government entities.

NOTES TO FINANCIAL STATEMENTS

Cumulative Results of Operations

The policy of the WCF is to limit the use of 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 Financial Statements of a prior period.

Extraordinary items which would distort the results of current year operations.

Accounts Receivable

Accounts receivable are reduced to net realizable value by an allowance for uncollectible accounts. The adequacy of the allowance is determined based on past experience and age of outstanding balances.

Inventories and Related Property

Inventories to be consumed in the production of goods for sale or in the provision of services for a fee are valued on the basis of historical cost using a first-in, first-out method.

Property, Plant and Equipment

Property, plant, and equipment ("PP&E") are stated at cost less accumulated depreciation. The cost of the property will include all amounts paid to acquire the property less any discount, all transportation and installation costs. Depreciation is determined using the straight-line method over the estimated useful lives of the assets. Useful lives for PP&E are disclosed in Note 5. Capitalization thresholds for personal property and real property are \$25 and \$100 thousand for internal use software.

The capitalization threshold for personal property and real property was changed from \$5 to \$25 thousand effective October 1, 2002 and October 1, 2001, respectively.

Pension and Other Retirement Benefits

Pension and other retirement benefits (primarily retirement health care benefits) expense is recognized at the time the employees' services are rendered. The expense is equal to the actuarial present value of benefits attributed by the pension plan's benefit formula, less the amount contributed by the employees. An imputed cost is recognized for the difference between the expense and contributions made by and for employees.

Other Post-employment Benefits

Other post-employment benefits expense for former or inactive (but not retired) employees is recognized when a future outflow or other sacrifice of resources is probable and measurable on the basis of events occurring on or before the reporting date. The liability for long-term other post-employment benefits is the present value of future payments.

NOTES TO FINANCIAL STATEMENTS

Commitments and Contingencies

Contingent liabilities are recognized when a past event or exchange transaction has occurred, a future outflow or other sacrifice of resources is probable, and the future outflow or sacrifice of resources is measurable.

Note 2. Fund Balance with Treasury

	FY 2003	FY 2002
Fund Balance with Treasury:		
Revolving Fund	<u>\$ 94,577</u>	<u>\$ 78,750</u>
Status of Fund Balance with Treasury:		
Unobligated Balances:		
Available	\$ 29,038	\$ (1,267)
Unavailable	48,761	44,932
Obligated Balances	<u>16,778</u>	<u>35,085</u>
Total	<u>\$ 94,577</u>	<u>\$ 78,750</u>

The Fund Balance with Treasury represents unrestricted assets for use by the WCF. At the end of FY 2003, a timing difference of \$8,649 thousand existed between Fund Balance with Treasury as reflected in the General Ledger and the balance in the Treasury account.

Note 3. Accounts Receivable

FY 2003

	Accounts Receivable, Gross	Allowance for Uncollectible Accounts	Accounts Receivable, Net
Accounts Receivable			
Intragovernmental	\$ 16,342		\$ 16,342
With the Public	1,306	\$ 103	1,203
Total	<u>\$ 17,648</u>	<u>\$ 103</u>	<u>\$ 17,545</u>

FY 2002

	Accounts Receivable, Gross	Allowance for Uncollectible Accounts	Accounts Receivable, Net
Accounts Receivable			
Intragovernmental	\$ 20,359		\$ 20,359
With the Public	1,410	\$ 200	1,210
Total	<u>\$ 21,769</u>	<u>\$ 200</u>	<u>\$ 21,569</u>

NOTES TO FINANCIAL STATEMENTS

Accounts receivable balances represent the balance of amounts due from others for reimbursable services rendered whether billed or unbilled. The WCF establishes an allowance for non-federal receivables in the amount of 1% for receivables less than one year old and 7% for receivables greater than one year old.

Note 4. Inventory and Related Property

	FY 2003	FY 2002
Inventories	<u>\$ 1,031</u>	<u>\$ 1,802</u>

The WCF recognizes inventory of supplies to be consumed in the production of goods for sale or in the provision of services for a fee. The inventory mainly consists of copier paper, toner, and other office supplies that are purchased in bulk.

Note 5. General Property, Plant and Equipment

FY 2003	Useful Life (Years)	Cost	Accumulated Depreciation	Net Book Value
Other Structures and Facilities	15 - 50	\$ 5	\$	5
Equipment	5 - 20	75,393	\$ 57,052	18,341
Leasehold Improvements	10	4,696	4,687	9
Internal-Use Software	5 - 8	64,025	44,551	19,474
Internal-Use Software in Development		10,136		10,136
Total		<u>\$ 154,255</u>	<u>\$ 106,290</u>	<u>\$ 47,965</u>

FY 2002	Useful Life (Years)	Cost	Accumulated Depreciation	Net Book Value
Other Structures and Facilities	15 - 50	\$ 5	\$	5
Equipment	5 - 20	76,448	\$ 54,589	21,859
Leasehold Improvements	10	4,696	4,685	11
Internal-Use Software	5 - 8	67,200	42,797	24,403
Total		<u>\$ 148,349</u>	<u>\$ 102,071</u>	<u>\$ 46,278</u>

NOTES TO FINANCIAL STATEMENTS

Note 6. Other Assets

	FY 2003	FY2002
Intragovernmental:		
Prepayments	\$ 1,541	
With the Public:		
Advances to Others	14	\$ 14
Total Other Assets	\$ 1,555	\$ 14

Prepayments include postage to cover mailing of employee Earnings and Leave Statements, TSP participant statements and other bulk mailings.

Note 7. Liabilities Not Covered by Budgetary Resources

	FY 2003	FY 2002
Intragovernmental:		
Unfunded FECA Liability	\$ 1,954	\$ 1,815
Total Intragovernmental	1,954	1,815
Actuarial FECA Liability	10,797	9,785
Total liabilities not covered by budgetary resources	12,751	11,600
Total liabilities covered by budgetary resources	48,678	46,490
Total liabilities	\$ 61,429	\$ 58,090

NOTES TO FINANCIAL STATEMENTS

Note 8 Other Liabilities

FY 2003	Current
Intragovernmental	
Other Accrued Liabilities	\$ 15,294
Employer Contributions and Payroll Taxes	5
Unfunded FECA Liability	1,954
Other Liabilities	32
Total Intragovernmental	17,285
With the Public	
Other Accrued Liabilities	20,980
Accrued Funded Payroll and Leave	10,274
Liability for Deposit Funds, Clearing Accounts	(16)
Actuarial FECA Liability	10,797
Total with the Public	42,035
Total Other Liabilities	\$ 59,320

FY 2002	Current
Intragovernmental	
Other Accrued Liabilities	\$ 12,014
Employer Contributions and Payroll Taxes	3
Unfunded FECA Liability	1,815
Other Liabilities	32
Total Intragovernmental	13,864
With the Public	
Other Accrued Liabilities	20,022
Accrued Funded Payroll and Leave	10,015
Liability for Deposit Funds, Clearing Accounts	(10)
Actuarial FECA Liability	9,785
Total with the Public	39,812
Total Other Liabilities	\$ 53,676

Other liabilities represent the estimated liabilities to government agencies and others, for goods and services received but not yet billed.

NOTES TO FINANCIAL STATEMENTS

Note 9 Leases

WCF activities are located in Washington D.C, Beltsville Maryland, New Orleans Louisiana, Kansas City Missouri and Ft. Collins Colorado.

The Washington D.C based activities are located in General Services Administration (GSA) leased facilities, and USDA owned buildings. The USDA Headquarter complex (Whitten Building, South Building and Cotton Annex) is a government owned facility, which is part of the GSA Federal Buildings Inventory. As the result of a 1998 Agreement between GSA and USDA, a moratorium was placed on the rental billings for the Headquarters complex beginning in FY 1999. This agreement is still in effect and as a result WCF activities located in the Headquarter complex are not billed for space costs.

The Office of the Chief Financial Officer's WCF operations in New Orleans, Louisiana are housed in a large office facility that is leased from the National Aeronautics and Space Agency (NASA) and in two smaller buildings leased from GSA.

The Office of the Chief Information Officer (OCIO) operation of Information Technology (IT) services are located in Kansas City Missouri and the Telephone and Communication (Telcom) services in Ft. Collins Colorado. Telcom utilizes approximately 28,000 rentable square feet of space, over a 20 year period starting around April 1999. The lease provides for an early termination clause that is subject to certain lease conditions after the 10th year.

The space was rented due to the OCIO's commitment to the NRRC project and is based on mission related reasons to the extent it is authorized by Congress through appropriations.

In general, the WCF does not enter into long term lease arrangements. The operating leases are for one-year term, are renewable annually, and can be cancelled. Therefore, no lease liability is created and lease payments are recorded as operating expenses.

Future minimum lease payments under operating leases with terms in excess of one year that are not cancelable are as follows:

	FY 2003	FY 2002
	Land & Buildings	
2004	\$ 8,985	\$ 6,300
2005	8,985	6,300
2006	8,985	6,300
2007	8,985	6,300
2008	8,985	6,300
After 5 years	99,000	
Total Future Lease Payments	<u>\$ 143,925</u>	<u>\$ 31,500</u>

Rental cost for equipment and software amounted to \$5,989 and \$11,773 in 2003 and \$4,687 and \$12,478 in 2002, respectively.

NOTES TO FINANCIAL STATEMENTS

Note 10 Apportionment Categories of Obligations Incurred

FY 2003	Direct	Reimbursable	Total
Apportionments by fiscal quarters		\$ 299,554	\$ 299,554
Apportionments for special activities		48,100	48,100
Total Obligations Incurred		<u>\$ 347,654</u>	<u>\$ 347,654</u>

FY 2002	Direct	Reimbursable	Total
Apportionments by fiscal quarters	\$ 1,224	\$ 283,740	\$ 284,964
Apportionments for special activities	2,628	39,403	42,031
Total Obligations Incurred	<u>\$ 3,852</u>	<u>\$ 323,143</u>	<u>\$ 326,995</u>

Note 11 Relationship Between Liabilities Not Covered by Budgetary Resources on the Balance Sheet and the Change in Components Requiring or Generating Resources in Future Periods

	FY 2003	FY 2002
Liabilities not covered by budgetary resources, as disclosed in Note 7	\$ 12,751	\$ 11,600
Prior year liabilities not covered by budgetary resources	<u>(11,600)</u>	<u>(9,441)</u>
Increase (Decrease) in liabilities not covered by budgetary resources	1,151	2,159
Decrease (Increase) in Exchange Revenue Receivable from the Public	5,577	(23,681)
Other	<u>(25,601)</u>	<u>(1,764)</u>
Components requiring or generating resources in future periods, as reported on the Statement of Financing	<u>\$ (18,873)</u>	<u>\$ (23,286)</u>

NOTES TO FINANCIAL STATEMENTS

Note 12 Statement of Net Cost

FY 2003	DA	ES	IT	Agency		Total
				13	90	
Intragovernmental Gross Cost	\$ 9,475	\$ 705	\$ 19,392	\$ 854	\$ 50,390	\$ 80,816
Less: Intragovernmental Earned Revenues	31,215	2,691	87,066	6,144	199,327	326,443
Intragovernmental Net Cost	(21,740)	(1,986)	(67,674)	(5,290)	(148,937)	(245,627)
Gross Costs with the Public						
Indemnities	5	1			26	32
Other	23,241	1,689	64,763	5,580	163,011	258,284
Total Gross Costs with the Public	23,246	1,690	64,763	5,580	163,037	258,316
Less: Earned Revenues from the Public	(11)		(219)		5,156	4,926
Net Costs with the Public	23,257	1,690	64,982	5,580	157,881	253,390
Net Cost of Operations	\$ 1,517	\$ (296)	\$ (2,692)	\$ 290	\$ 8,944	\$ 7,763

FY 2002	DA	ES	IT	Agency		Total
				13	90	
Intragovernmental Gross Cost	\$ 4,598	\$ 727	\$ 18,024	\$ 839	\$ 44,793	\$ 68,981
Less: Intragovernmental Earned Revenues	14,650	2,301	78,905	4,496	214,094	314,446
Intragovernmental Net Cost	(10,052)	(1,574)	(60,881)	(3,657)	(169,301)	(245,465)
Gross Costs with the Public						
Indemnities	21				12	33
Other	17,269	1,317	55,538	3,832	157,669	235,625
Total Gross Costs with the Public	17,290	1,317	55,538	3,832	157,681	235,658
Less: Earned Revenues from the Public	225		2,942		818	3,985
Net Costs with the Public	17,065	1,317	52,596	3,832	156,863	231,673
Net Cost of Operations	\$ 7,013	\$ (257)	\$ (8,285)	\$ 175	\$ (12,438)	\$ (13,792)

Note 13 Prior period adjustments

In Fiscal year 2002, adjustments to the Cumulative Results were made due to accounting system conversions and corrections of errors in the amount of \$921 thousand and \$424 thousand, respectively.

Reclassifications

Amounts previously reflected in Cumulative Results were reclassified to Unexpended Appropriation in the amount of \$52,941 thousand in Fiscal year 2002. For the most part the reclassification was made to recognize the original seed money received through appropriations and transfers under certain authority.

NOTES TO FINANCIAL STATEMENTS

Note 14 Differences Between the Statement of Budgetary Resources and the Budget of the United States Government.

Fiscal 2003

	Outlays
Statement of Budgetary Resources	\$ 337,173
Reconciling item:	
Fund Balance with Treasury	<u>8,649</u>
Budget of the United States Government	<u>\$ 345,822</u>

At the end of FY 2003, a timing difference of \$8,649 thousand existed between Fund Balance with Treasury as reflected in the General Ledger and the balance in the Treasury account.

Exhibit A – Managements Response

Exhibit A – Page 1 of 1



JUL 19 2004

United States
Department of
Agriculture

Office of the Chief
Financial Officer

1400 Independence
Avenue, SW

Washington, DC
20250

Clifton Gunderson LLP
Centerpark I
4041 Powder Mill Road, Suite 410
Calverton, Maryland 20705-3106

Gentlemen:

This letter responds to the Clifton Gunderson LLP opinion on the Department of Agriculture Working Capital Fund's fiscal years 2002 and 2003 financial statements, Report on Internal Control, and Report on Compliance with Laws and Regulations. We concur with your findings and recommendations. Corrective action is underway to address the issues you identified.

We are pleased that your report reflects an unqualified, or "clean," audit opinion for the Working Capital Fund.

I would like to thank your firm for its professionalism during the course of the audit. Your staff has been extremely helpful and considerate of the time constraints of our staff.

Please direct any questions on our comments to Pat Wensel at (202) 720-1175.

Sincerely,

A handwritten signature in cursive script that reads "Jon M. Holladay".

Jon Holladay
Working Capital Fund Controller