

III. SYSTEMS, CONTROLS AND LEGAL COMPLIANCE

INSPECTOR GENERAL ACT AMENDMENTS OF 1988 REPORT ON AUDIT FOLLOW-UP

BACKGROUND

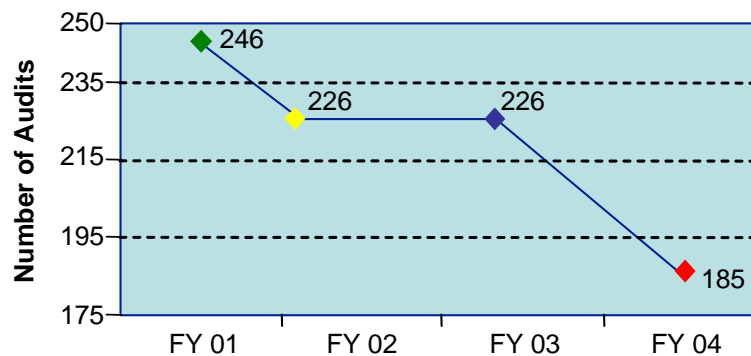
During the course of the fiscal year, OIG audits USDA's programs, systems and operations. OIG then recommends improvements to management based on its findings. USDA management may or may not agree with the audit's findings and/or recommendations. An agreement is reached during the management decision process. If management agrees with a recommendation, a written plan for corrective action with a target completion date is developed and submitted to OIG for its concurrence. If both OIG and management agree that the proposed corrective action will correct the situation, management decision then is achieved for that recommendation. Once management decision is reached for each recommendation in the audit, that audit is considered resolved.

Audit follow-up ensures that prompt and responsive action is taken once management decisions are reached on recommendations contained in final audit reports. USDA's Office of the Chief Financial Officer (OCFO) oversees audit follow-up for the Department. An audit remains open until all corrective actions for each recommendation are completed. As agencies complete planned corrective actions and submit closure documentation, OCFO reviews it for sufficiency and determines if final action is completed.

FY 2004 Results

USDA agencies closed 96 audits in FY 2004 as compared to FY 2003 when only 65 audits were closed; a 48 percent increase in audit closures. This improvement reflects management's commitment to aggressively address deficiencies identified in agency programs and to follow-up with agencies on final action needed to close the audits. USDA's current inventory of audits that have reached management decision and require final action to close the audits includes 55 new audits in FY 2004 for a total of 185 audits. One of these audits is in appeal status. As shown in Exhibit 96, this is an 18 percent decrease from the 226 audits that were open at the end of FY 2003.

Exhibit 96: Decrease in Total Open Audit Inventory



Note: The FY 2003 ending balance was revised from 217 to include 9 audits that reached management decision in September 2003. This adjustment also is reflected in the beginning balances for audits with disallowed costs and funds to be put to better use shown in Exhibits 98 and 100.

Audit Follow-Up Process

The Inspector General Act Amendments of 1988 require an annual report to Congress to provide the status of all resolved audits which remain open. Reports on these resolved audits must include the elements listed in the first three bullets below. Resolved audits that remain open one year or more past the management decision date require an additional reporting element as described in the last bullet below:

- Beginning and ending balances for the number of audit reports and dollar value of disallowed costs and funds to be put to better use (see definitions below);
- The number of new management decisions reached;
- The disposition of audits with final action (see definition below); and
- For each audit report that remains open more than one year past the management decision date, the date issued, dollar value and an explanation of why final action has not been taken. For audits in formal administrative appeal or legislative solution, reporting may be limited to the number of affected audits.

Exhibit 97: Audit Follow-Up Definitions

Disallowed Cost	An incurred cost questioned by OIG that management has agreed should not be chargeable to the Government.
Final Action	The completion of all actions that management has concluded is necessary in its management decision with respect to the findings and recommendations included in an audit report. In the event that management concludes no action is necessary, final action occurs when a management decision is made.
Funds To Be Put to Better Use (FTBU)	A recommendation by OIG that funds could be used more efficiently if management took actions to implement and complete the recommendation, including: <ul style="list-style-type: none"> ▪ Reductions in outlays; ▪ Deobligation of funds from programs or operations; ▪ Withdrawal of interest subsidy costs on loans or loan guarantees, insurance or bonds; ▪ Costs not incurred by implementing recommended improvements related to the operations of the establishment, a contractor or grantee; ▪ Avoidance of unnecessary expenditures noted in pre-award reviews of contract or grant agreements; or ▪ Any other savings which are specifically identified.
Management Decision	Management's evaluation of the audit findings and recommendations, and the issuance of a final decision on corrective action agreed to by management and OIG concerning its response to the findings and recommendations.

OCFO works with component agencies and OIG to identify and resolve issues that affect the timely completion of corrective actions. USDA agencies are required to prepare combined, time-phased implementation plans and interim progress reports for all audits that remain open more than one year beyond the management decision date. Time-phased implementation plans are updated and submitted at the end of each quarter. They are updated to include newly reported audits that meet the one year past management decision criterion. These plans contain corrective action milestones for each recommendation and corresponding estimated completion dates.

Quarterly interim progress reports are provided to OCFO on the status of corrective action milestones listed in the time-phased implementation plan. These reports show incremental progress toward completion of planned actions, changes in planned actions, actual or revised completion dates, and explanations for any revised dates.

Beginning and Ending Inventory for Audits with Disallowed Costs (DC) and Funds to Be Put to Better Use (FTBU)¹

Of the 96 audits that achieved final action during the fiscal year, 44 contained disallowed costs (DC). The number of DC audits remaining in the inventory at the end of the fiscal year is 76 with a monetary value of \$81,073,719.

For audits with disallowed costs that achieved final action in FY 2004, OIG and management agreed to collect \$26,097,820. Adjustments were made totaling \$21,765,160 (83 percent of the total) because of: 1) changes in management decision; 2) legal decisions; 3) write-offs; 4) USDA agencies' ability to provide sufficient documentation to substantiate disallowed costs; 5) agency discovery; and 6) appeals. Management recovered the remaining \$4,332,660.

Exhibit 98: Inventory of Open Audits With Disallowed Costs

Audits with Disallowed Costs	# of Audits	Amount (\$)
Beginning of the Period	101	\$102,666,949
Plus: New Management Decisions	19	\$4,504,590
Total Audits Pending Collection of Disallowed Costs	120	\$107,171,539
Adjustments		(21,765,160)
Revised Subtotal		\$85,406,379
Less: Final Actions (Recoveries)	44	(4,332,660) ¹
Audits with DC Requiring Final Action at the End of the Period	76	81,073,719
¹ This amount does not include \$319,624 of interest collected.		

Exhibit 99: Distribution of Adjustments to Disallowed Costs

Category	Amount (\$)
Changes in Management Decision	647,413
Legal Decisions	4,167,004
Write-Offs	1,210,868
Agency Documentation	15,671,774
Agency Discovery	(21,210)
Appeals	89,311
Total	\$21,765,160

Final action occurred on 18 audits that involved FTBU amounts. USDA projects more efficient use for 94 percent of the amount identified, based on the corrective actions implemented. The number of FTBU audits remaining in the inventory to date is 37 with a monetary value of \$1,308,465,874.

¹ Exhibits 98 and 100 include only those open audits with disallowed costs and funds to be put to better use, respectively. Additionally, some audits contain both DC and FTBU amounts. For these reasons, the number of audits shown as the ending balances in Exhibits 98 and 100 will not equal the total resolved audit inventory balance in Exhibit 96.

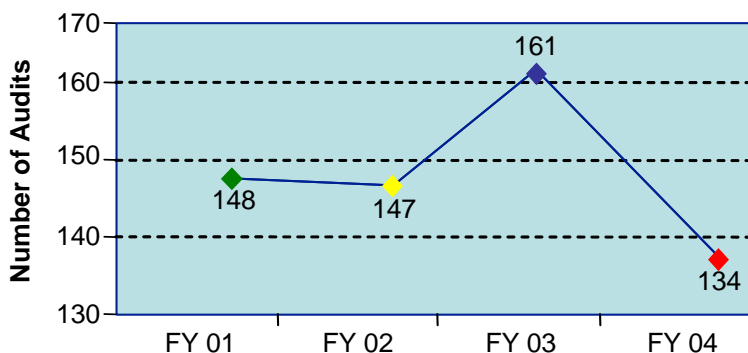
Exhibit 100: Inventory of Open Audits with Funds to be Put to Better Use

Audits with Funds to be Put to Better Use	# of Audits	Amount (\$)
Beginning of the Period	45	\$641,411,712
Plus: New Management Decisions	10	\$747,645,264
Total Audits Pending	55	\$1,389,056,976
Less: Final Actions	18	\$80,591,102
Audits with FTBU Requiring Final Action at the End of the Period	37	\$1,308,465,874
Disposition of Funds to Be Put to Better Use:		
FTBU Implemented		\$75,716,304
FTBU Not Implemented		\$4,874,798
Total FTBU Amounts for Final Action Audits		\$80,591,102

Audits Open One or More Years Past the Management Decision Date

The number of audits outstanding one or more years without final action has decreased 17 percent in FY 2004 from 161 to 134. Two audits are proceeding as scheduled, 87 are behind schedule and agencies have completed corrective actions on 45 audits that only are pending collection of associated disallowed costs.

Exhibit 101: Decrease In Audits Outstanding One or More Years Past Management Decision Date



While an additional 28 audits are scheduled for completion by September 30, 2004, final action documentation will not be evaluated this reporting period.

Exhibit 102: Distribution of Audits Outstanding One or More Years Past the Management Decision Date, Disallowed Costs and FTBU

Agency	No.	Audits On Schedule		Audits Behind Schedule			Audits Under Collection		
		DC(\$)	FTBU (\$)	No.	DC (\$)	FTBU (\$)	No.	DC (\$)	FTBU (\$)
Totals	2	0	0	87	6,788,272	544,032,516	45	61,933,670	16,788,094

Audits that are without final action one or more years past the management decision date and behind schedule are listed individually in the table that follows and are categorized by the reason final action has not occurred. More detailed information on audits on schedule and audits under collection is available from OCFO. The categories are pending the following actions:

- Issuance of policy/guidance;
- Conclusion of investigation, negotiation or administrative appeal;
- Receipt and/or processing of final action documentation;

- Systems development, implementation, reconciliation or enhancement;
- Results of internal monitoring or program review;
- Results of agency request for change in management decision;
- OGC or OIG advice;
- Conclusion of external action; and
- Administrative action.

MANAGEMENT'S REPORT ON FINAL ACTION (AUDIT FOLLOW-UP)

Exhibit 103: Audits One Year or More Past the Management Decision Date and Behind Schedule

Audits	Date Issued	Estimated Completion Date	Audit Title	Monetary Amount	
				DC (U.S. dollars)	FTBU (U.S. dollars)
(45) Pending issuance of policy/guidance					
03006-1-AT	09/19/95	09/30/04	FSA Management of the Dade County, Florida ASCS Office	684,642	-
04099-01-AT	6/1/2001	03/31/05	RHS Guaranteed Multi-Family Housing Loans	-	-
04099-1-HQ	02/01/96	09/30/04	RHS Legislative Proposals to Strengthen the Rural Rental Housing Program	-	-
04099-3-KC	02/25/02	12/31/04	RHS FY 2001 Financial Statement Field Confirmation Review, Nebraska	-	-
04600-5-KC	09/30/93	09/30/04	RHS Rural Rental Housing Program, Servicing of HUD Section 8/515 Projects	-	4,815,119
04600-47-CH	09/30/94	09/30/04	RHS Rural Rental Housing Program, Management Operations	-	-
04601-1-KC	12/16/96	09/30/04	RHS Rural Rental Housing Program, Additional Servicing of Section 8/515 Projects	65,910	33,147,535
04601-2-AT	03/25/99	09/30/05	RHS Guaranteed Rural Housing Loan Program	5,928	139,146,407
04801-4-CH	02/12/99	09/30/04	RHS Evaluation of Rural Rental Housing Tenant Income Verification Process	-	-
05600-4-TE	09/30/93	09/30/04	RMA FCIC Crop Year 1991 Claims	-	-
08001-2-HQ	03/29/02	04/30/05	FS Aviation Security Over Aircraft Facilities	-	-
08002-2-SF	11/28/00	12/31/04	FS Valuation of Lands Acquired in Congressionally Designated Areas Land Adjustment Program	-	-
08003-2-SF	08/05/98	12/31/04	FS Toiyabe/Humboldt National Forest Land Adjustment Program	-	27,900,000
08003-5-SF	12/15/00	12/31/04	FS Land Acquisitions and Urban Lot Management Program	-	10,329,300
08099-6-SF	03/27/01	03/31/05	FS Security Over USDA Information Technology Resources	-	-
08099-42-AT	08/03/93	10/29/04	FS FY 1992 Financial Statements	-	-
08401-4-AT	07/18/96	12/31/04	FS FY 1995 Financial Statements	-	-
08401-7-AT	07/13/98	12/31/04	FS FY 1997 Financial Statements	-	-
08401-12-AT	02/26/02	12/31/04	FS FY 2001 Financial Statements	-	-
08601-1-AT	03/29/96	10/29/04	FS Management of Hazardous Waste at Active or Abandoned Mines	-	1,950,000
08601-27-SF	03/28/02	12/31/04	FS Review of National Land Ownership Adjustment Team Effectiveness	-	-
08601-30-SF	03/31/03	12/31/04	FS Review of FS Security Over Explosives/Munitions Magazines Located Within National Forest System	-	-
08801-3-AT	06/16/00	12/31/04	FS Real and Personal Property Issues	-	-
08801-6-SF	01/19/00	12/31/04	FS Land Adjustment Program San Bernadine National Forest & South Zone	-	-

Audits	Date Issued	Estimated Completion Date	Audit Title	Monetary Amount	
				DC (U.S. dollars)	FTBU (U.S. dollars)
10099-8-KC	09/10/02	09/30/04	NRCS Compliance with Highly Erodible Land Provisions	-	-
10601-6-TE	09/24/02	09/30/04	NRCS Controls Over Funds Congressionally Earmarked for Conservation Projects	-	-
23099-1-FM	03/30/00	10/31/04	OCIO Security Over Data Transmission in the Department Needs Improvement	-	-
24099-4-HY	02/25/04	09/30/04	FSIS Imported Meat and Poultry Inspection Process, Phase II	-	-
24601-1-CH	06/21/00	09/30/04	FSIS Food Safety and Inspection Service Laboratory Testing of Meat and Poultry Products	-	-
27002-14-CH	01/14/02	09/30/04	FNS State Agencies Oversight of the Child and Adult Care Food Program	-	-
27010-7-KC	04/23/02	12/31/04	FNS Analysis of Large Child and Adult Care Food Program Sponsors, Phase II	-	-
27010-11-CH	08/25/97	09/30/04	FNS National School Lunch Program – Verification of Applications in Illinois	-	31,200,000
27600-6-AT	03/31/95	09/30/04	FNS Day Care Homes Nationwide	-	-
27601-3-CH	03/22/96	12/31/04	FNS Food Stamp Program—Disqualified Recipient System	-	-
27601-7-SF	08/23/99	09/30/04	FNS Presidential Initiative: Operation Kiddie Care	-	34,551,576
27601-27-CH	04/30/02	03/31/06	FNS Food Service Management Companies	-	-
33004-1-AT	03/07/00	TBD	APHIS Plant Protection and Quarantine Activities in Florida	-	-
34001-1-HQ	12/17/96	12/30/04	RBS Minority Enterprise Financial Acquisition Corp., Cooperative Agreement, Kansas City, KS	150,000	100,000
34099-2-AT	09/14/01	03/25/05	RBS Business and Industry Loan Program, Fort Gaines, GA	4,052,351	-
34601-1-HY	07/22/98	09/30/06	RBS Business and Industry Loan Program—Morgantown, West Virginia	-	-
34601-3-CH	03/11/03	09/30/04	RBS Processing of Loan Guarantees to Members of the Western Sugar Cooperative	-	-
34601-7-SF	12/04/02	09/30/04	RBS B&I Liquidation of Loans to the Pacific Northwest Sugar Company in Washington State	-	14,000,000
50401-28-FM	02/01/99	02/28/05	RHS Fiscal Year 1998 Rural Development Financial Statements	-	-
50401-45-FM	11/19/02	09/30/04	OCFO Working Capital Fund Financial Statement Audit for FY 2001	-	-
85099-1-HQ	09/10/01	12/31/04	RD Cooperative Agreement with the Washington State Department of Community, Trade, and Economic Development	-	-
(4) Pending conclusion of investigation, negotiation or administrative appeal					
04801-3-KC	03/31/99	TBD	RHS Bosley Management, Inc. – Sheridan Wyoming	146,690	85,516
04801-6-HY	03/17/99	09/30/04	RHS Rural Rental Housing Program, Lewiston Properties, Fayetteville, NY	-	-
08017-11-KC	07/17/02	06/30/05	FS OMNI Development Corporation Contract	-	2,049,653
34004-5-HY	02/18/00	12/31/04	RBS Audit of Procurement Operations, Virginia State Office, Richmond, Virginia	-	-
(14) Pending receipt and/or processing of final action documentation					
03099-32-KC	12/22/99	09/30/04	FSA Controls Over Administrative Payment Operations	-	-
03601-15-KC	03/31/00	09/30/04	FSA Emergency Conservation Program	12,583	2,794,586
04601-2-HY	07/22/03	10/31/04	RHS Review of Project Funds for Progressive Property Management Inc.	72,511	-
04601-5-KC	08/08/02	TBD	RHS Rural Rental Housing Program Insurance Expenses, Phase III	418,321	15,500,000

Audits	Date Issued	Estimated Completion Date	Audit Title	Monetary Amount	
				DC (U.S. dollars)	FTBU (U.S. dollars)
04801-6-KC	12/18/00	TBD	RHS Rural Rental Housing Program Insurance Expenses, Phase I	1,029,999	9,000
06401-11-FM	07/13/00	09/30/04	CCC FY 1999 Financial Statements	-	-
06401-14-FM	06/27/01	09/30/04	CCC FY 2000 Financial Statements	-	-
08401-11-AT	05/04/01	12/31/04	FS FY 2000 FS Financial Statements	-	-
08601-25-SF	06/22/01	06/30/05	FS Working Capital Fund Enterprise Services	-	2,600,000
08801-2-TE	09/24/98	12/31/04	FS Assistance Agreements with Not-for-profit Organizations	140,497	1,173,925
23099-2-FM	05/22/02	TBD	DA Security of Information Technology Resources at USDA Departmental Administration	-	-
34601-14-TE	09/27/02	TBD	RBS Business and Industry Direct Loan Program – Arkansas	-	-
50099-13-AT	03/29/02	TBD	Multi-Agency Audit Oversight and Security of Biological Agents at Laboratories Operated by USDA	-	-
50099-28-FM	07/18/00	10/31/04	OCIO President's Council on Integrity and Efficiency Critical Infrastructure Protection Review	-	-
(13) Pending systems development, implementation, or enhancement					
02099-1-FM	12/04/01	09/30/05	ARS IT Security	-	-
03601-36-TE	06/08/00	09/30/04	FSA Farm Loan Program Guaranteed Loans	-	205,248,800
05401-8-FM	03/30/00	12/31/04	RMA FY 1999 FCIC Financial Statements Report on Management Issues	-	-
08001-1-HQ	06/28/00	03/31/05	FS Implementation of the Government Performance and Results Act	-	-
09600-5-HQ	04/01/92	12/31/04	RUS FY 1991 Management Letter	-	-
10099-1-TE	02/01/02	12/30/04	NRCS Security Over IT Resources	-	-
24099-1-FM	08/11/03	09/30/04	FSIS Security Over Information Technology Resources at FSIS	-	-
26099-2-FM	03/25/02	09/30/05	NASS Information Technology Security	-	-
27004-3-AT	11/09/01	06/30/05	FNS Florida Food Stamp Program, Tallahassee, Florida	-	15,443,610
27099-4-KC	01/31/00	10/31/04	FNS Food Stamp Program Participation by Disqualified Retailers	-	-
27601-8-CH	01/21/97	10/31/04	FNS Food Stamp Program—Retailer Monitoring with Store Tracking and Redemption Subsystem	-	-
50401-42-FM	06/24/02	12/30/04	OCFO Audit of FFIS Operations	-	-
50601-3-CH	07/23/01	09/30/04	APHIS Assessment of APHIS & FSIS Inspection Activities to Prevent the Entry of Foot and Mouth Disease	-	-
(6) Pending results of internal monitoring or program review					
05099-1-TE	09/30/97	12/31/04	RMA Reinsured Companies Actual Production History Self-Reviews	-	-
05099-8-KC	03/31/00	09/30/04	RMA Standard Reinsurance Agreement Reporting Requirements	-	-
05600-1-TE	09/28/89	12/31/04	RMA Crop Year 1988 Insurance Contracts with Claims	-	-
26099-1-FM	05/14/01	12/31/04	NASS Security of Information Technology Resources	-	-
27401-8-HY	06/27/97	09/30/05	FNS FY 1996 Financial Statements	-	-
33099-2-AT	08/08/02	TBD	APHIS Citrus Canker Eradication Program – State of Florida	-	268,950
(1) Pending results of request for change in management decision					
03099-47-KC	10/31/01	TBD	FSA Security Over FSA/CCC IT Resources	-	-

Audits	Date Issued	Estimated Completion Date	Audit Title	Monetary Amount	
				DC (U.S. dollars)	FTBU (U.S. dollars)
(1) External Action Required					
27099-9-HY	12/14/99	09/30/04	FNS State Option Food Stamp Program	-	-
(3) Pending Administrative Action					
04099-1-HY	11/07/95	TBD	RHS Rural Rental Housing Program, Whistleblower Complaint, San Juan, PR	-	-
23801-1-HQ	08/20/98	TBD	OO Review of Office of Operations Contract with B&G Maintenance, Inc.	-	249,866
27099-22-CH	02/22/02	TBD	FNS Opportunities Industrialization Center of Greater Milwaukee	8,840	1,468,673
Total Number Audits (87)			Total \$	6,788,272	544,032,516

FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT REPORT ON MANAGEMENT CONTROLS

BACKGROUND

USDA has made substantial progress in improving internal controls by reducing the number of existing material deficiencies from eight to one. Two new material deficiencies were added this year for a total of three outstanding weaknesses. This result continues the downward trend that began in FY 2002 when material deficiencies dropped from 32 to 19. USDA's recent progress further demonstrates its commitment to operating its programs efficiently and effectively in accordance with the Federal Managers' Financial Integrity Act (FMFIA). FMFIA requires agencies to provide reasonable assurance that:

- Obligations and costs comply with applicable laws and regulations;
- Federal assets are safeguarded against fraud, waste and mismanagement; and
- Transactions are accounted for and properly recorded.

The Federal Information Security Management Act (FISMA) added a new reporting requirement for FMFIA. FISMA requires agencies to report any significant deficiency in information security policy, procedure or practice identified (in agency reporting):

- As a material weakness in reporting under FMFIA; and
- If relating to financial management systems, as an instance of a lack of substantial compliance under the Federal Financial Management Improvement Act. (See the Report on Financial Management Systems Compliance.)

FMFIA requires a separate statement as to whether financial management systems conform to standards, principles and other requirements. This statement ensures that Federal managers have timely, relevant and consistent financial information for decision-making purposes. USDA's goal was to eliminate material internal control weaknesses and financial system nonconformances by the end of FY 2004. While this result was not achieved fully, the Department made significant progress through:

- The continuous evaluation of its programs, operations and financial systems;
- Financial statement and other OIG and GAO audits;
- Management and system reviews; and
- Prompt attention to correcting the causes of identified weaknesses.

USDA's management control program ensures compliance with the requirements of FMFIA and OMB Circulars A-123, "Management Accountability and Control," and A-127, "Financial Management Systems."

Within USDA, Subcabinet officials, agency heads and directors of staff offices are responsible for ensuring that their programs operate efficiently and effectively, and comply with relevant laws. They also must ensure that financial management systems conform to applicable laws, standards, principles and related requirements. In conjunction with OIG, USDA management works aggressively to determine the root causes of its material deficiencies and correct them promptly and efficiently.

FY 2004 Results

The “Message from the Secretary” provides USDA’s assurance statement for FMFIA reporting. This message contains a qualified statement of assurance with the objectives for both FMFIA Sections 2 (internal controls) and 4 (financial management systems), except for the weaknesses described in this section. In cooperation with OIG and the OCFO, agency heads and managers have worked diligently to address and correct existing and any newly discovered weaknesses.

USDA agencies report quarterly on progress in correcting existing material weaknesses and/or financial management system nonconformances. The agencies also provide annual assurance statements. Throughout the year, determinations are made as to whether newly identified weaknesses should be declared agency level material deficiencies. A material deficiency describes both material weaknesses and financial system nonconformances collectively. Once one is declared, OCFO staff reviews each agency level material deficiency to determine whether it meets the criteria to be considered a Departmental material deficiency. The criteria for reportable, corrected and downgraded material deficiencies are outlined below.

During the fiscal year, USDA eliminated seven of the eight existing material deficiencies and added two new ones. The scheduled completion date for the existing material weakness in information technology (IT) security has been delayed until FY 2005. The Forest Service’s financial statement audit activities and internal agency monitoring found a new material weakness in financial management controls. This weakness is related to compliance with accounting standards for revenue recognition and reporting accruals. A new financial system nonconformance was added to acknowledge weaknesses in CCC’s accounting for obligations, funds control, and budgetary accounting and reporting policies. The FY 2005 goal is to eliminate the existing material deficiencies and correct any new material deficiencies within one year.

Also, during the fiscal year, as part of the Department’s FY 2003 financial statement audit, OIG advised GIPSA to request a ruling from OGC to determine whether there was a violation of the Anti-deficiency Act. As part of the USDA FY 2003 financial statement audit, the Office of Inspector General instructed GIPSA to request a ruling from the Office of General Counsel (OGC) to determine whether there was a violation of the Antideficiency Act. In July 2004, the OGC determined that GIPSA violated the Antideficiency Act during FY 2003 by exceeding the amount appropriated by Congress in its FY 2002 S&E Appropriation. During FY 2004 GIPSA identified errors that occurred during the conversion of data to the Foundation Financial Information System (FFIS), charges that belonged to another appropriation, and undelivered orders that were no longer valid. Transactions were processed in September 2004 to correct these problems and resulted in sufficient funds to nullify the antideficiency condition. In consultation with OGC, it was determined that a letter be sent to them describing the action taken and requesting them to render another opinion. GIPSA believes the facts will result in the rescission of the Antideficiency Act violation. Additionally, GIPSA implemented USDA’s new accounting system (FFIS), a standard general ledger compliant, integrated budget and accounting system, on October 1, 2002. GIPSA has strengthened its financial reporting with the implementation of FFIS and its data warehouse that provides daily financial data.

USDA Guidelines for Reporting Material Deficiencies

The criteria for Departmental material weaknesses and financial system nonconformances are described below.

A Departmental material weakness is a deficiency in internal controls (Section 2 of FMFIA) that satisfies one or more of the following criteria:

- Merits the attention of the Executive Office of the President and the relevant congressional oversight committees;
- Violates statutory or regulatory requirements;

- Deprives the public of needed services;
- Significantly weakens safeguards against waste, loss, unauthorized use or misappropriation of funds, property or other assets;
- Significantly impairs fulfillment of the Department's mission;
- Results in a conflict of interest; or
- Is of a nature that omission from the annual *Report on Management Controls* could reflect adversely on USDA's actual or perceived management integrity.

A Departmental material financial system nonconformance (Section 4 of FMFIA) is a deficiency that satisfies one or more of the following criteria:

- Merits the attention of the Executive Office of the President and relevant congressional oversight committees;
- Prevents USDA's primary financial management system from achieving central control over agency financial transactions and resource balances; or
- Prevents compliance of the primary financial management system with standards published by the OMB Circular A-127, which includes the availability of timely, consistent and relevant financial information for decision-making purposes.

Material Weakness and Nonconformance Reported Under FMFIA

IT security continues to be a major issue for USDA. It impacts the Department's ability to deliver its programs efficiently and effectively and provide meaningful and reliable reporting. While further efforts are needed to address serious weaknesses within USDA's information security program, the Department and its agencies continue to improve security over IT resources. USDA, under the direction of the OCIO, has worked diligently to facilitate and assist agencies in complying with security mandates. OCIO created a framework to contract for the certification and accreditation of major application and general support systems during the fiscal year. Certification and accreditation of most of USDA's systems has been completed or currently is in progress and expected to be completed in the near future. Additionally, OCIO has been actively involved in the budget process within USDA. This move is designed to ensure that cyber-security and FISMA requirements are addressed in IT acquisitions.

USDA's component agencies need to implement IT security requirements aggressively to reduce the level of vulnerability. The following exhibit describes and summarizes the corrective actions planned for the remaining material deficiencies.

Historical Data on Material Deficiencies

USDA has reduced the number of existing material deficiencies from a high of 32 in FY 2001 to 1 in FY 2004. Two new material deficiencies were added this year for a total of three outstanding weaknesses. This result is a 91-percent decrease in the number of outstanding material deficiencies reported during the past 4 years. The FY 2004 figure also is a 63-percent decrease from last year.

Exhibit 104: Summary of Outstanding Material Deficiencies and Estimated Completion Dates

Responsible Agency(ies)	Material Deficiency Description	Corrective Actions Remaining To Be Taken	Year Identified	Current Estimated Completion Date
Section 2 Material Weakness				
OCIO/RMA/CCC/RD/APHIS/FS	Multi 00-01: USDA Information Security Weaknesses: Weaknesses have been identified in the Department's ability to protect its assets from fraud, misuse and disruption.	<p>OCIO will:</p> <ul style="list-style-type: none"> ▪ Improve the quality and process for managing USDA information security vulnerabilities and actions. ▪ Complete vulnerability assessments of all mission critical systems; ▪ Continue to manage the USDA information survivability program to guide agencies in the development and testing of disaster recovery and business resumption plans for USDA's highest priority mission critical systems; and ▪ Refine or develop new policies as required. <p>RMA will:</p> <ul style="list-style-type: none"> ▪ Enforce newly implemented security policies, formalize draft policies and continue developing additional required policies; <p>RD will:</p> <ul style="list-style-type: none"> ▪ Implement incremental plan of action milestones to resolve network security and logical access control weaknesses ; ▪ Complete certification and accreditation of RUS legacy systems. <p>CCC will:</p> <ul style="list-style-type: none"> ▪ Improve security controls in system authorization and logical access; ▪ Complete tabletop testing as part of the Certification and Accreditation process. Tabletop testing is the simulation of an actual disaster to test documented plans for recovery and resumption of operations; and ▪ Develop a plan to fund, prioritize, and initiate the process to perform and update required employee background investigations. <p>APHIS will:</p> <ul style="list-style-type: none"> ▪ Conclude certification and accreditation of its systems. <p>FS will:</p> <ul style="list-style-type: none"> ▪ Continue to improve its general control environment. 	FY 2000	FY 2005

Responsible Agency(ies)	Material Deficiency Description	Corrective Actions Remaining To Be Taken	Year Identified	Current Estimated Completion Date
FS	04-01: Financial Management Internal Control Weaknesses: Controls inadequate to assure improvements in data quality.	<ul style="list-style-type: none"> ▪ Develop detailed future state process. Work with other teams to develop roles and responsibilities, staffing plan, migration plan, customer service IT requirements, and performance metrics. ▪ Build detailed future state processes (e.g., policies and procedures, reports, etc.). ▪ Build training materials for transition. ▪ Begin process to transition people and processes from the field and the Washington D.C. Office into the Center. ▪ Transition the Northeastern Research Station/Northeastern Area staff and finance activities to the Albuquerque Service Center to address major financial management deficiencies. ▪ Migrate management, administrative support, and customer service functions. ▪ Migrate personal property, real property, and WCF teams. ▪ Complete migration of the payments-grants and agreements and payments-other teams. 	FY 2004	FY 2005
Section 4 Financial Management System Nonconformance				
CCC	04-01: Improvement Needed in Funds Control Mechanisms and Budgetary Financial Accounting and Reporting Policies and Procedures	<ul style="list-style-type: none"> ▪ Identify and group programs with specific obligation and disbursement events; ▪ Identify and implement changes to current financial management processes and systems to improve the accuracy and timeliness of obligation amounts in the CORE financial system; ▪ Revise existing policy to reduce the materiality threshold for recording accrued liabilities from \$5 million to \$1 million; ▪ Revise policy for estimating and recording accruals of producer program payment liabilities. 	FY 2004	FY 2005

Exhibit 105: Material Deficiencies Decline

Fiscal Year	Corrected Deficiencies	New Deficiencies	
2001	10	9	32
2002	15	2	19
2003	12	1	8
2004	7	2	3

Summary of Corrected or Downgraded Material Deficiencies

Material deficiencies, for which corrective actions were completed or deemed no longer material as of September 30, 2004, are summarized below.

Criteria To Downgrade FMFIA Material Deficiencies

A material deficiency may be reassessed and downgraded for one of two reasons. The control vulnerability is no longer considered to be material, or the vulnerability no longer exists. Although downgraded from a material deficiency, it remains possible for these issues to be reported in other sections of this report (such as Improper Payments or Management Challenges). USDA component agencies will continue to monitor and assess downgraded deficiencies through completion of corrective actions.

Guidelines for Reporting a Corrected or Downgraded Material Deficiency

To report a material deficiency as corrected or downgraded, USDA agencies must:

- Demonstrate commitment of senior-level managers to resolve the material deficiency as evidenced by resource deployment and regular monitoring of corrective action progress;
- Provide substantial, timely and documented progress in completing corrective actions for the material deficiency;
- Complete the most significant corrective actions, with the remaining actions being minor in scope and not having a material effect on the program or operation; and
- Implement corrective actions that eliminate or minimize the cause(s) of the material deficiency.

Exhibit 106: Material Deficiencies Corrected or Downgraded

Responsible Agency	Number and Title of Material Deficiencies	Year Identified	Status Corrected/ Downgraded
FNS	94-01: Management of the Child and Adult Care Food Program	1994	Corrected
	99-01: National School Lunch and Breakfast Program Eligibility	1999	Downgraded
	01-01: Procurement in the Child Nutrition Program	2001	Downgraded
FS	03-01: Internal Control Weaknesses	2003	Corrected
CCC	00-01: Foreign Credit Reform System	2000	Corrected
RD	94-01: Direct Loan Servicing and Reporting Subsystem	1994	Corrected
	96-02: Oversight of the Multi-Family Housing Program	1992	Corrected

Material Weaknesses Corrected

FNS-94-01: Management of the Child and Adult Care Food Program

Management and monitoring of weaknesses in the the Child and Adult Care Food Program (CACFP) need strengthening. Sponsoring organizations have been identified as receiving excessive Federal funding for meal service and administration.

The Food and Nutrition Service (FNS) published regulations for CACFP. The regulations implemented legislative reforms to strengthen program integrity and improve management.

FS-03-01: Internal Control Weaknesses

Overall financial management controls are not adequate in the Forest Service.

During the fiscal year, the Forest Service completed the following corrective actions to close the weakness:

- Developed service-level agreements with USDA and the National Finance Center, which included specific responsibilities, roles, clearing timelines and escalation procedures;
- Began a monthly analysis of the composition of its budget and clearing accounts to determine the proper disposition of the account balances;
- Identified revenue sources and issued direction to the field requiring transfer or justification of balances in budget clearing accounts monthly;
- Implemented adequate system controls in PAYCHECK7 to ensure that each employee's supervisor of record appropriately reviews and approves timesheets;
- Developed training materials, trained the trainers and conducted training classes on property, plant and equipment (PP&E) transactions;
- Identified and issued compensating controls to ensure the accuracy of property transactions;
- Completed final review of capitalization controls in the PP&E handbook; and
- Issued policy requiring line officers and unit managers to complete a quarterly certification of all employees on payroll.

FSA-00-01: Foreign Credit Reform Systems

Systems are not fully automated and integrated into the Community Credit Corporation's Core Accounting System (CORE).

The General Sales Manager System (GSMS) was implemented to interface directly with the Commodity Credit Corporation's Core Accounting System (CORE) general ledger. Additionally, the Financial Management System accounting structure was replaced in the Automated Public Law (Pub. L.) No. 83-480 Umbrella System (APLUS) with the CORE accounting structure.

RD-94-01: Direct Loan Servicing and Reporting Subsystem

Direct Loan Servicing and Reporting system is not in compliance with OMB Circular A-127 "Financial Management Systems."

The agency has made substantial progress in the implementation of the Rural Utilities Loan Servicing System (RULSS) to replace the Rural Utility Service (RUS) legacy loan systems. During the fiscal year, the agency:

- Implemented architectural enhancements, the Borrower Director Management Systems, and upgraded to Webshere 4.0;
- Implemented the RUS data warehouse;
- Incorporated Water and Environmental Program (WEP) Loans into RULSS and WEP obligations through the Program Loan Accounting System;
- Implemented the Loan Obligation and Disbursement System – Phase 1 – Obligation request;
- Implemented the Cash Receipts System; and
- Completed the system certification and accreditation requirements.

RD-96-02: Oversight of the Multi-Family Housing Program

The Multi-Family Housing Program lacks adequate oversight and internal controls, which has led to program abuse by program participants.

The agency has made substantial progress in strengthening internal controls and providing adequate oversight of the multi-family housing program. The Multi-Family Housing regulation condenses 13 existing regulations. The proposed rule was published in June 2003. The final draft interim rule was provided to OMB for clearance and final publication in September 2004.

Material Weaknesses Downgraded

FNS-99-01: National School Lunch and Breakfast Program Eligibility

Data indicate a problem with the integrity of household eligibility determinations for free and reduced-price meals.

During the past five years, FNS has engaged in a number of activities to evaluate the extent and nature of weaknesses better. In partnership with State agencies, some of the activities undertaken included conducting demonstration projects, improving certification within the context of current regulations, exploring alternatives to the current process and collecting data on eligibility determination and verification efforts at the school food authority (SFA) level. States are expected to identify and resolve problems with the certification and verification processes based on the data collected. During FY 2004, FNS completed evaluations of the intervention effects on program integrity, participation and administrative burden. Senior agency officials used this information to make recommendations to Congress on ways to improve program integrity. The information also will be used to develop training for State and local officials on ways to reduce administrative errors.

FNS-01-01: Procurement in the Child Nutrition Program

Improper procurement of goods and services have been found to occur in the National School Lunch, School Breakfast and CACFP and Summer Food Service Programs.

FNS identified a number of control features to pursue to strengthen procurement and contract management on the part of cooperating State and local agencies. FNS implemented the following milestones:

- Issued a series of policy and guidance memoranda to expand required and recommended procurement practices. The guidance outlines policy and procedure for requesting applications for proposals and related contract standards. The policy covers bid specification standards required for Federal programs;
- Made presentations on strengthening procurement integrity at gatherings such as the American School Food Service Association (ASFSA) Convention and regional conferences with State agencies. ASFSA is a trade association created to advance the availability, quality and acceptance of school-nutrition programs as an integral part of education;
- Participated on an ASFSA task force to develop an online procurement manual for contracting with SFAs;
- In cooperation with the National Food Service Management Institute (NFSMI), developed and provided training on an equipment procurement manual for SFA use, and a comparable purchasing manual for CACFP. NFSMI is an institute that provides information and services promoting the continuous improvement of Child Nutrition Programs;
- Updated the “First Choice” manual, the primary procurement document for schools and school meal programs; and
- Developed a policy section on procurement contracts for purchasing food and management services.

FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT REPORT ON FINANCIAL MANAGEMENT SYSTEMS

BACKGROUND

The Federal Financial Management Improvement Act (FFMIA) is designed to improve accountability of financial and program managers, provide better information for decision-making, and improve the efficiency and effectiveness of Federal programs. FFMIA requires financial management systems to provide reliable, consistent disclosure of financial data in accordance with generally accepted accounting principles and standards. These systems also must comply substantially with: (1) Federal financial management system requirements; (2) applicable Federal accounting standards; and (3) the Standard General Ledger at the transaction level. Additionally, the Federal Information Security Management Act (FISMA) requires that there be no significant deficiencies in information security policies, procedures or practices to be substantially compliant with FFMIA (referred to as Section 4 in the table below).

FY 2004 RESULTS

During FY 2004, USDA evaluated its financial management systems to assess substantial compliance with the Act. While the Department found itself to be substantially compliant with applicable Federal accounting standards that was not the case with the Federal financial management system requirements, the Standard General Ledger at the transaction level or the FISMA requirement. To reach this conclusion, USDA considered all the information available, including the auditor's opinions of its component agencies, independent contractors and the progress made in addressing the weaknesses identified in the FFMIA section.

While USDA's FY 2003 and FY 2002 Consolidated Financial Statements received an unqualified audit opinion from OIG, the auditor's Report on Compliance with Laws and Regulations also disclosed that the Department was not substantially compliant with FFMIA. OIG found material weaknesses for USDA's financial and accounting systems and information security program. The Department will continue monitoring progress on plans to improve its financial management systems and work to comply fully with the FFMIA and the FISMA requirements, as reported below.

USDA is not compliant with FFMIA – Sections 1, 2 and 3, and the FISMA information security requirement.

Exhibit 107: Initiatives Completed

Initiatives Completed to Achieve FFMIA Compliance		
Instance/Agency	Actions Taken	Completion Date
Section 1—Federal Financial Management System Requirements		
Compliance with OMB Circular A-130		
<ul style="list-style-type: none"> ▪ RD ▪ OCFO ▪ FAS ▪ FS 	<ul style="list-style-type: none"> ▪ Completed system certification and accreditation (C&A) to be in compliance with OMB Circular A-130. ▪ Completed Phase II of the C&A process for Financial and Payroll Systems. ▪ Completed C&A for financial systems. ▪ Completed C&A for financial systems. 	<ul style="list-style-type: none"> 07/30/2004 09/30/2004 09/30/2004 09/30/2004
Quality control reviews of financial statements.		
<ul style="list-style-type: none"> ▪ RD 	<ul style="list-style-type: none"> ▪ Developed a plan of action; trained personnel; provided OIG with RD's quality control checklist; restructured and clarified Statement of Financing crosswalks and documentation; and compiled statements using the Department's Financial Statements Data Warehouse II. 	<ul style="list-style-type: none"> 10/31/2003

Initiatives Completed to Achieve FFIA Compliance		
Instance/Agency	Actions Taken	Completion Date
Compliance with OMB Circular A-127		
<ul style="list-style-type: none"> RD 	<ul style="list-style-type: none"> Completed a Joint Financial Management Improvement Program (JFMIP) Direct Loan System Requirements review of the RUS Legacy Systems and determined that the existing systems, procedures, and operations substantially comply with the JFMIP functionality. Implemented compensating controls to resolve problems that originally contributed to RUS legacy systems substantial non-compliance 	09/30/2004
<ul style="list-style-type: none"> FSA/CCC 	<ul style="list-style-type: none"> Migrated foreign credit programs accounting data to CORE Accounting System Interfaced GSM and A Plus Systems with CORE Accounting System 	06/30/2004 06/30/2004
Compliance with OMB Circular A-123		
<ul style="list-style-type: none"> FSA/CCC 	<ul style="list-style-type: none"> Reviewed, revised and published accrual policies and procedures. Provided training to financial management personnel on the same. 	09/30/2004
Section 2—Applicable Federal Accounting Standards		
SFFAS No. 7 Accounting for Revenue and Other Financing Sources		
<ul style="list-style-type: none"> FS 	<ul style="list-style-type: none"> Implemented a business process to recognize revenue at point of sale for maps and the national recreation reservations systems. 	06/30/2004
Section 3—Standard General Ledger at the Transaction Level		
Standard General Ledger Posting		
<ul style="list-style-type: none"> FS 	<ul style="list-style-type: none"> Identified, analyzed and corrected invalid posting models. 	09/30/2004
CORE accounting system posting models		
<ul style="list-style-type: none"> FSA/CCC 	<ul style="list-style-type: none"> Implemented changes to financial posting logic, which may have a material impact on CCC's Financial Statements, and improved interface controls between feeder systems and CORE. 	09/30/2004
Section 4—Information Security Policies, Procedures or Practices¹		

¹ Completed corrective actions for this initiative apply to both Section 1 (OMB Circular A-130) and Section 4 (information security policies, procedures or practices) noncompliances and are therefore not repeated in Section 4.

Exhibit 108: Initiatives Remaining To Be Completed

Remaining Initiatives To Achieve FFIA Compliance				
Initiative	Section of Non-compliance	Agency	Target Completion Date	Remediation Plan Reference
Financial Management Planning and Assurance Process	Section 1 – OMB Circular A-127	RMA	12/31/2004 and ongoing	1.1
Certification and Accreditation of System/Information Technology Security Controls ¹	Section 1 – OMB Circular A-130, and Section 4	RMA	09/30/2005	1.2
		RMA	12/31/2004	1.3
		FSA	12/31/2004	1.4
		APHIS	12/3/2004	1.5
		RD	06/30/2005	1.6
		RD	06/30/2005	1.7
FS	06/30/2005	1.8		
Improve compliance with Federal accounting standards	Section 2	FS	09/30/2005	2.1
Funds Control Mechanisms	Section 3	FSA/CCC	TBD	3.1

Remaining Initiatives To Achieve FFMIA Compliance				
Initiative	Section of Non-compliance	Agency	Target Completion Date	Remediation Plan Reference
Sections: FFMIA: 1 – Federal financial management system requirements. 2 – Applicable Federal accounting standards. 3 – Standard General Ledger at the transaction level. FISMA: 4 – Information security policies, procedures or practices.				
		OMB Circulars: A-123, Management Accountability and Control. A-127, Financial Management Systems. A-130, Management of Federal Information Resources (Appendix 3).		

¹ Remediation Plans for this initiative apply to both Section 1 (OMB Circular A-130) and Section 4 (Information security policies, procedures or practices) noncompliances and are therefore not requested in Section 4.

Remediation Plans to Achieve Substantial Compliance

As required by law, the Department, in consultation with OMB, develops remediation plans that will result in substantial compliance with FFMIA and improved financial management systems. These plans are discussed below.

Area of Noncompliance/Proposed Corrective Actions (Completed Actions are not Shown on this Report)		Target Completion Date
Section 1 – Federal Financial Management System Requirements		
1.1	Financial Management Planning and Assurance Process	
	Agency Points of Contact: RMA — Chief Financial Officer Estimated Resources Needed: FY 2005 FTE: 1 Dollars: TBD	
	<ul style="list-style-type: none"> ▪ Review RMA/FCIC's Financial Management Systems for compliance with financial management systems requirements. ▪ Provide documentation to the OCFO of RMA's continuous monitoring effort to ensure compliance with the financial management systems requirements including a remediation plan for any substantial areas of noncompliance with the FFMIA. 	12/31/2004 and Ongoing Annually
1.2	Information Technology (IT) Security Controls	
	Agency Points of Contact: RMA — Chief Financial Officer Estimated Resources Needed: FY 2005 FTE: 8.5 Dollars: \$1,823,000	
	<ul style="list-style-type: none"> ▪ Enforce newly implemented security policies, formalize draft policies and continue developing additional required policies. ▪ Perform an agency-wide review of user IDs and access levels to monitor the effectiveness of existing controls. ▪ Prescribe and apply a periodic monitoring and review process to ensure that approved policies and procedures for RMA IT operations, processes, functions and activities are applied properly and consistently, and enforced continuously agency-wide. ▪ Prepare and submit quarterly status reports to OCIO until the cited weaknesses in FMFIA reviews and reporting, risk assessments, system certifications, security plans, contingency planning and disaster recovery, background investigations, incident response procedures, security training, performance measures and unauthorized software are corrected. ▪ Develop internal written policies and procedures that establish effective access controls for RMA-controlled users to follow in using RMA, NITC and National Finance Center (NFC) systems in accordance with applicable Federal guidance and Departmental regulation requirements. ▪ Prescribe and implement in RMA's formal directive system a system development lifecycle (SDLC) methodology in accordance with Departmental regulations and provide senior management oversight to ensure that application managers properly implement the prescribed SDLC methodology and management controls. 	12/31/2004 09/30/2005 12/31/2004 09/30/2005 12/31/2004 12/31/2004

Area of Noncompliance/Proposed Corrective Actions (Completed Actions are not Shown on this Report)		Target Completion Date
Section 1 – Federal Financial Management System Requirements (cont'd)		
	<ul style="list-style-type: none"> ■ Add a contract provision requiring background investigations for all IT contractor employees and associated subcontractor employees, where applicable, and ensure they are satisfactorily completed before access to RMA systems, hardware and facilities are authorized. 	11/30/2004
	<ul style="list-style-type: none"> ■ Amend the appropriate contract to describe the specific security services expected from contractor employees and to record the details of the services or deliverables to be provided by them. 	11/30/2004
	<ul style="list-style-type: none"> ■ Develop and apply a policy to conduct a routine and timely review of RMA's firewall configuration and periodically verify the effectiveness of FSA firewall protection that RMA must rely upon. 	12/31/2004
	<ul style="list-style-type: none"> ■ Improve network operating system policy and procedures. 	12/31/2004
	<ul style="list-style-type: none"> ■ Secure funding for the Business Impact Assessment to be completed by a third party. 	12/31/2004
1.3	Application Program and System Software Change Controls	
	<p>Agency Points of Contact: RMA — Chief Financial Officer Estimated Resources Needed: FY 2005 FTE: 3.5 Dollars: \$240,000</p> <ul style="list-style-type: none"> ■ Implement enterprise-wide change management procedures. 	12/31/2004
1.4	Information Security	
	<p>Agency points of Contact: FSA/CCC—Director, Information Technology Services Division Estimated Resources Needed: FY 2005 FTE: 3 Dollars: \$500,000</p> <ul style="list-style-type: none"> ■ Develop and test contingency plans for FSA/CCC financial applications ■ Develop plan to perform security clearance and background checks on all personnel accessing FSA/CCC applications. 	12/31/2004 10/31/2004
1.5	Certification & Accreditation	
	<p>Agency Points of /Contact: APHIS—Deputy Administrator, MRP Business Services Estimated Resources Needed: FY 2005 FTE: 1 Dollars: \$23,500</p> <ul style="list-style-type: none"> ■ Complete Phases I & II of Certification & Accreditation for the User Fee System 	12/3/2004
1.6	Certification & Accreditation	
	<p>Agency points of Contact: RD—Deputy Chief Financial Officer Estimated Resources Needed: FY 2005 FTE: 5 Dollars: 300,000</p> <ul style="list-style-type: none"> ■ Complete certification and accreditation of the RUS Legacy System 	06/30/2005
1.7	Strengthen Network Security and Logical Access Controls	
	<p>Agency points of Contact: RD—Deputy Chief Financial Officer Estimated Resources Needed: FY 2005 FTE: TBD* Dollars: TBD*</p> <p>(* Resources needed to resolve the areas of noncompliance will be determined in conjunction with the master plan, a living document, which includes fully defined tasks, timeframes, resources, interdependencies, and responsibilities.)</p> <p>Complete network security enhancements</p> <ul style="list-style-type: none"> ■ Implement incremental Plan of Action Milestones. ■ Summarize the corrected vulnerabilities and rescan to verify corrections. ■ Coordinate with the Information Technology Working Group; Web Farm; St. Louis, MO; and Washington, D.C. to: <ul style="list-style-type: none"> – Ensure the scheduling, analysis, and tracking of vulnerabilities and corrective actions. – Implement policy and procedures describing specific controls to ensure all Transmission Control Protocol/Internet Protocol functions are scanned, tracked, and reported to Agency Information Systems Security Staff (ISSS) and oversight agencies. 	06/30/2005

1.7	Strengthen Network Security and Logical Access Controls	
	<p>Strengthen logical access controls</p> <ul style="list-style-type: none"> ▪ Issue guidance concerning the responsibility of managers in reviewing and monitoring access. ▪ Implement incremental Plan of Action Milestones. ▪ Establish an Information Security-Point of Contact to serve as liaison with the ISSS on security matters and ensure the ISSS is adequately staffed ▪ Implement the Information Systems Security Plan. ▪ Develop a logbook system to track and monitor access requests. Work with the local access network (LAN) support personnel to differentiate between privileged users and implement procedures to restrict authority. ▪ Work with the LAN support personnel to implement policies and procedures for limiting privileged user's accounts. Expand the monthly user access verification and certification process to include reports for all 129 user types within its organization. <p>Establish a database for all current contractors and standardize logbook forms to track and monitor authorized access by contractors.</p> <ul style="list-style-type: none"> ▪ Implement procedures to verify user identification and access reports. Rural Development managers will attest to the accuracy of the user IDs for their organizations. ▪ Develop a master plan to resolve systemic internal control weaknesses on all platforms. Including migration from the existing logbook system to Magic Solutions. ▪ Conduct a review of the change control process of all major applications and general support systems to ensure the process complies with Departmental guidance. 	06/30/2005
1.8	Improve General Control Environment	
	<p>Agency points of Contact: FS—Financial Management Systems Director</p> <p>Estimated Resources Needed FY 2005 FTE: TBD Dollars: TBD Remediation plan to be developed.</p>	06/30/2005
Section 2 – Applicable Federal Accounting Standards		
2.1	SFFAS No. 7 Accounting for Revenue and Other Financing Sources	
	<p>Agency points of Contact: FS—Financial Management Systems Director</p> <p>Estimated Resources Needed FY 2005 FTE: TBD Dollars: TBD Remediation plan to be developed.</p>	09/30/2005
Section 3 – Standard General Ledger at the Transaction Level		
3.1	Funds Control Mechanisms	
	<p>Agency Points of Contact: FSA/CCC—Controller</p> <p>Estimated Resources Needed: FY 2005 FTE: 3 Dollars: \$200,000; FY 2006 FTE: 3 Dollars: \$300,000</p> <ul style="list-style-type: none"> ▪ Identify and implement changes to current financial management processes and systems to improve the accuracy and timeliness of obligation amounts in the core financial system. ▪ Develop and implement changes in the program and financial software to record obligations at the transaction level. 	09/30/2005 TBD*

* The target date for completing this task will be identified as part of the Modernize and Innovate the Delivery of Agricultural System (MIDAS) project being implemented by the Farm Program Directorate and Financial Management Division. This modernization effort will include the obligation recognition requirements at the transaction level in the new business processes being developed. Input to the MIDAS project will come after FSA identifies and implements changes to current financial management processes and systems.