



United States
General Accounting Office
Washington, D.C. 20548

Accounting and Information
Management Division

B-260264

September 29, 1995

The Honorable Daniel R. Glickman
The Secretary of Agriculture

Dear Mr. Secretary:

As part of our responsibility to audit the federal government's financial statements, we conducted a preliminary review of the Department of Agriculture's implementation of the Chief Financial Officers (CFO) Act of 1990, as expanded by the Government Management Reform Act (GMRA) of 1994. Our initial efforts focused on identifying challenges faced by Agriculture in meeting its statutory requirements under these laws. We anticipate working closely with Agriculture's CFO and Office of Inspector General (OIG) to identify ways to ensure successful implementation of these laws.

Our preliminary review addressed the (1) structure, responsibilities, staff qualifications, and training program of the CFO organization, (2) capability of financial management systems to produce reliable financial data, and (3) capacity of the OIG to perform CFO Act financial statement audits and review Agriculture financial management systems.

We conducted our work at the Department of Agriculture and the six component agencies identified separately in Agriculture's consolidated financial statements for fiscal year 1994.¹ We interviewed CFO personnel and other key financial managers, obtained personnel and training

¹The six component agencies identified in Agriculture's fiscal year 1994 consolidated financial statements are the Forest Service, Federal Crop Insurance Corporation, Commodity Credit Corporation, Farmers Home Administration, Rural Electrification Administration, and Food and Consumer Services. Through Agriculture's 1994 reorganization, a number of these agencies have been restructured and renamed.

information, analyzed organization charts and structures, and examined strategic plans and ongoing initiatives. In addition, we reviewed and analyzed the OIG's (1) organizational structure, (2) completed audits and investigations, (3) planned audits and programs subject to investigation, (4) resource capabilities, and (5) qualifications of staff. We also interviewed OIG officials. We conducted our review from December 1994 through July 1995, in accordance with generally accepted government auditing standards. We obtained official agency comments from Agriculture's CFO and OIG officials. Their comments are included in our agency comments section.

We found that Agriculture has made progress in accomplishing reforms required by the CFO Act and other financial management improvements. For example, Agriculture has appointed a CFO and Deputy CFO, both with extensive financial management experience; established strong communication vehicles within the CFO community; and procured a commercial off-the-shelf accounting system to replace older, nonintegrated financial systems. However, Agriculture must continue to focus on strengthening the CFO's role, improving component agency CFO organizations, providing financial management training, correcting serious systems and internal control weaknesses, and ensuring timely preparation and audit of annual financial statements. Agriculture will need to effectively address these financial management challenges in order to provide its managers and the Congress with timely, accurate, and reliable information. CFO accomplishments and challenges are described below.

FINANCIAL MANAGEMENT ACCOMPLISHMENTS

Agriculture has put in place a framework for financial management improvement by appointing a CFO and Deputy CFO with extensive experience in federal, state, and local government management. This broad financial management experience should help the CFO and Deputy CFO to fulfill their financial management responsibilities under the CFO Act. However, given the recent announcement that the CFO will be leaving to take a position as CFO of the District of Columbia, it is important that Agriculture take steps to ensure that its CFO position continues to be filled by a qualified financial manager.

Agriculture has submitted a revised CFO organization plan to the Office of Management and Budget (OMB). This plan gives the CFO responsibility for financial management functions,

including accounting, systems, and financial management personnel.² Agriculture has also established a controller position as the key financial management position at each component agency. In addition, the CFO has initiated a number of financial management improvements, including

- committees and forums to facilitate communication and action on financial management issues,
- a long-term project to develop an integrated financial management information system, and
- cooperative efforts with the OIG to identify and correct financial management weaknesses.

Financial Management

To pursue financial management improvements, the CFO has established various forums of communication within Agriculture's financial community. In 1992, the CFO established the Financial Statement Coordinating Committee to provide a forum on issues relating to Agriculture's consolidated and component-level financial statements. The CFO has revitalized two advisory committees--the Financial Forum (formerly the Finance Council) and the CFO's Advisory Group. The Financial Forum, led by a three-member board, comprised of the CFO and two component agency controllers, provides a forum for the departmentwide financial management community. The CFO's Advisory Group, comprised primarily of the controllers in the component agencies and the chairperson of the Financial Forum, meets monthly to advise the CFO on financial operations of Agriculture and the federal government. The CFO and Deputy CFO are able to bring to the agency problem-solving techniques, best practices, and cross-cutting financial management issues shared across government by their active participation in the CFO Council and its committees aimed at improving financial management governmentwide.

Also, in June 1994, the CFO hosted the National Financial Management Forum aimed at building a strong, unified, and proactive financial management community. The Forum, which was broadcast live by satellite to Agriculture field offices, let financial management personnel here top administration

²The revised CFO organization plan resulted from the October 1994 Agriculture reorganization.

officials, lawmakers, and Agriculture's top financial officials discuss the importance of financial management. Immediately following the Forum, the CFO sponsored the departmentwide Financial Management Retreat at which financial management personnel developed mission and vision statements, discussed and defined their roles and responsibilities, and identified and ranked the pressing issues within Agriculture's financial community.

Financial Systems Project

In March 1993, to carry out financial system responsibilities, the CFO initiated a long-term project referred to as the Financial Information Systems Vision and Strategy (FISVIS). The goal of FISVIS is to develop a single, integrated³ and seamless financial information system that incorporates all Agriculture financial systems and the financial portion of mixed systems⁴ by 1998. As part of the FISVIS project, the CFO has developed a set of financial management standards to be implemented departmentwide, and Agriculture has procured a commercial off-the-shelf financial system to replace some older systems and to provide the foundation for a single, integrated financial management system. As discussed in our section on challenges for improving financial management, our September 1995 report makes a number of recommendations to help ensure effective FISVIS implementation.⁵

Cooperation with OIG

Since passage of the CFO Act, the CFO and OIG have cooperated in intensive efforts to annually prepare and audit financial statements for Agriculture and its six major component

³An integrated system is one in which subsystems are planned for and managed together, operated in an integrated fashion, and linked electronically. In an integrated system, the software, hardware, personnel, processes, procedures, and controls work together to provide the information necessary to carry out financial management and reporting functions.

⁴The term "mixed system" means an information system that supports both financial and nonfinancial functions of the federal government or its components.

⁵USDA Financial Systems: Additional Actions Needed To Resolve Major Problems (GAO/AIMD-95-222, September 29, 1995).

agencies. As a result, the OIG and CFO have identified material financial management weaknesses and are working together to correct them and avoid disclaimers and qualified opinions in future audit reports. In addition, the OIG has been actively involved with the CFO to provide insight and expertise regarding the design, development, and implementation of FISVIS, as well as in reviewing other significant financial system upgrades and modernization. For example, the OIG is reviewing one project to develop new business processes to support the delivery of farm, rural development, and natural resource services and another project to modernize administrative processes that cut across all Agriculture agencies.

CHALLENGES FOR IMPROVING
FINANCIAL MANAGEMENT

Although much has been accomplished, Agriculture still faces significant financial management challenges in the areas of CFO organization, financial systems, and financial statement audits. Its most serious challenges will be to

- strengthen the CFO's role in improving financial management, establish a strong component agency CFO organizational structure, and develop a continuing professional education (CPE) program for financial management personnel;
- implement an integrated financial management system and a standard general ledger at all component agencies and provide reliable cost data for performance measurement in order to correct financial management system weaknesses that keep Agriculture's financial systems on OMB's high-risk list; and
- ensure reliable financial statement information and timely preparation and audit of financial statements.

CFO Organization Must
Be Strengthened

In recent testimony on the implementation of the CFO Act,⁶ we emphasized that sustained progress in establishing effective

⁶Financial Management: Momentum Must Be Sustained To Achieve the Reform Goals of the Chief Financial Officers Act (GAO/T-AIMD-95-204, July 25, 1995).

financial management leadership and organization structures is key to achieving the financial management reforms envisioned by the CFO Act. While Agriculture's CFO and Deputy CFO are committed to financial management improvement, we believe that the CFO's ability to improve financial management departmentwide is impeded because (1) the CFO has limited responsibility over the formulation and execution of the agency budget, (2) key component agencies' controller positions remain unfilled and the CFO's responsibility and authority over those positions is limited, and (3) Agriculture does not have a departmentwide financial management training program.

Limited Authority Over Budget Matters

In April 1992, OMB approved Agriculture's CFO organization structure designating the Assistant Secretary for Administration as the CFO. In March 1993, the Secretary of Agriculture decided to establish a separate Office of the CFO, and OMB requested submission of a revised organization plan specifying the responsibilities delegated to the CFO. Agriculture substantively changed the original delegation of authority to provide the CFO with responsibility for financial management functions, including accounting, systems, and financial management personnel. However, we are concerned that Agriculture's CFO will not be fully effective because the plan continues to exclude budget formulation and execution responsibilities from the CFO organization.⁷

In a January 25, 1995, letter to the Deputy Secretary, we emphasized that a key objective of the CFO Act is to better integrate budget and accounting information. The CFO Act requires the CFO to monitor budget execution and to develop and maintain systems which integrate accounting and budget information. It also requires the CFO to develop the agency's financial management budget submission. Because of the interdependency of the budget and accounting functions, 19 of the 24 CFO agencies have included both budget formulation and execution functions under the CFO's authority.

However, while Agriculture, in its CFO organization plan, has delegated responsibility to the CFO for developing the

⁷Pending OMB's approval of the CFO organization plan, the CFO is operating under the delegation of authorities proposed in the plan.

department-level financial management budget submissions and monitoring budget execution, in practice, the CFO's budget responsibilities are limited. For example, the CFO is not involved in agencywide budget formulation, and he is not responsible for allocating and controlling budgetary resources, as is the case with most other CFOs.

Authority over both budget formulation and execution provides the ability to integrate finance and budget and to ensure that budgets consider financial implications and that policy decisions are based on sound financial information. For example, our ongoing review of how the Forest Service obtains, uses, and accounts for reforestation funds in the Knutson-Vandenberg (K-V) Trust Fund,⁸ has identified financial management weaknesses in both the budget and accounting functions. The CFO told us that his efforts to address these interrelated issues will be limited because he does not have broad responsibility for the budget function.

Further, without broad authority over both the budget formulation and execution functions, the CFO has little influence over the amount of resources that are directed at correcting material control weaknesses and nonconformances.

Further, Agriculture's fiscal year 1994 Federal Managers' Financial Integrity Act (FMFIA) report listed 42 pending material management control weaknesses and 22 pending financial management systems material nonconformances. While correcting some of these problems will require long-term actions and additional funding, the CFO stated that due to limited resources, these issues are not receiving priority attention. The CFO further stated that the lack of adequate budget resources for financial management personnel and financial systems presents a significant barrier to developing and enhancing financial management systems, particularly those of the component agencies.

Limited Component Agency
CFO Organization Structure

Agriculture has not fully implemented a component agency CFO organizational structure. In its report, the former House

⁸The Knutson-Vandenberg Act of 1930 provided that funds be collected from timber sales and used to reforest the harvested lands. These collections are deposited in the Forest Service's K-V Trust Fund.

Committee on Government Operations (recommending passage of the CFO Act) suggested that agencies establish controllers to oversee financial management in their major program and activity areas, and that controllers report directly to the agency subdivision head. OMB guidance for preparing organization plans under the CFO Act also provides that the CFOs are, at a minimum, to have a role in hiring and evaluating the performance of the controllers.

Under Agriculture's 1994 reorganization, it established eight controller positions as the key financial management officials at the component organization level.⁹ However, to date, only one of the eight controller positions has been filled. The other seven agencies have designated acting controllers. In addition, under Agriculture's reorganization, these controllers, with one exception, do not report directly to their organization heads. We believe that filling these controller vacancies is especially critical given Agriculture's highly decentralized organization and the number of serious component agency financial management weaknesses.

Further, the CFO Act and OMB's implementing guidance¹⁰ provides that agency CFOs shall direct, manage, and provide policy guidance and oversight of agency financial management personnel, including recruitment, selection, and training of personnel to carry out agency financial management functions. However, under the delegation of authority in the CFO organization plan submitted to OMB for approval, Agriculture's CFO is allowed only to make recommendations to the Secretary on selecting the controllers but has no formal role in evaluating their performance. We believe that the CFO's role with regard to component agency CFO organizations must be strengthened to ensure that component agency CFOs are full partners in achieving Agriculture's financial management objectives.

⁹Although Agriculture's reorganization created seven component agencies, there are eight controllers because the Forest Service and the Natural Resource Conservation Service have not yet consolidated their financial management functions.

¹⁰Guidance for Preparing Organization Plans Required by the Chief Financial Officers Act of 1990 (OMB, M-91-07, February 27, 1991).

Establishing strong financial management leadership in the component agencies, with direct access to the agency heads, and a formal relationship with Agriculture's CFO is essential to ensuring that financial management consequences will be considered in making management decisions involving component agencies.

Training Programs Not Implemented

Five years have elapsed since the CFO Act required that CFOs oversee training of personnel who carry out financial management functions. However, Agriculture has not yet implemented a departmentwide financial management training program. Further, unlike the OIG, Agriculture's CFO does not have a formal system to record and monitor the training of its financial management staff.

In its report accompanying the 1990 CFO Act, the former House Committee on Government Operations stated that investments must be made in training to ensure that financial management personnel increase their professional skills to keep pace with emerging technology and developments in financial management. In our December 1992 transition series report,¹¹ we suggested that to place greater priority on training efforts, financial management personnel be required to participate in a minimum amount of continuing professional education. For example, government auditors are required to attain 80 hours of continuing professional education every 2 years.

In March 1993, Agriculture formed a task force to conduct a training needs assessment across Agriculture and outline training requirements for financial managers. The task force recommended implementing a departmentwide training program in financial management, encouraging the completion of 40 hours of CPE per year. In addition, the CFO Strategic Plan, dated May 1994, called for a CPE program for accounting professionals to be developed within 1 year. However, no such program has been developed. According to the CFO, budget constraints, including inadequate travel and training funds, are a major obstacle to implementing the training plan.

¹¹Financial Management Issues (GAO/OCG-93-4TR).

We believe that Agriculture needs to invest in financial management training, particularly as agency downsizing demands greater efficiencies and new legislation requires increased skills in areas such as accounting policy and systems, internal controls, and cost accounting. A formal training program and a system for monitoring compliance needs to be adopted by the Department to help ensure that the type and amount of training taken by its financial management staff is adequate for their ongoing professional proficiency. Further, to maintain skills and proficiencies and place priority on training efforts, we believe that financial management personnel should be required to participate in a minimum amount of continuing professional education.

Financial Management Systems
Improvements Are Needed

The CFO Act requires that the CFO develop and maintain an integrated agency accounting and financial management system, including financial reporting and internal controls. However, Agriculture has long-standing financial management system deficiencies, including nonintegrated financial systems and noncompliance with the standard general ledger. These deficiencies continue to keep this area on OMB's high-risk list. In the President's Budget Submission for both fiscal years 1995 and 1996, OMB reported that Agriculture stands at risk for loss or misapplication of its multi-billion dollar budget resources due to unreliable financial information.

In addition, long-term and pervasive problems in the operation of departmentwide as well as many component agency financial systems have resulted in inaccurate reporting, ineffective controls, and disclaimed or qualified opinions on financial statements. Moreover, reported financial systems weaknesses have increased. For example, Agriculture's fiscal year 1994 FMFIA report identified 22 pending financial management systems nonconformances compared with 13 in its 1993 FMFIA report. The 1994 FMFIA report also showed 42 pending management control weaknesses compared with 50 at the end of 1993.

Nonintegrated Financial Management Systems

As stated earlier, the CFO Act calls for an integrated agency accounting and financial management system, including the

integration of accounting and budgeting information. However, accounting and budget information is currently maintained separately at Agriculture. In addition, Agriculture reported to OMB that Agriculture's existing financial management systems were, for the most part, developed in isolation and use incompatible accounting and data standards. The fragmented systems do not provide policy, program, management, and operating staff with necessary financial information in a timely manner.

Further, Agriculture's departmental financial information system does not accurately record, process, summarize, and report departmentwide financial information. The ultimate goal of the FISVIS project is to provide Agriculture with a single, integrated financial management system by 1998. Our September 1995 report on FISVIS discusses our concerns about the project and makes recommendations to help ensure effective system implementation by (1) providing the CFO with the authority to oversee component agency financial management efforts, (2) ensuring that component agency financial management systems comply with Agriculture's financial Standards, and (3) updating the FISVIS strategy to identify opportunities for streamlining or consolidating financial management systems across agencies and mission areas.

Noncompliance With Standard General Ledger

Agriculture has not fully implemented the federal government's Standard General Ledger (SGL). OMB guidance¹² requires that financial events be recorded in common accounts by agencies throughout the financial management system by applying requirements of the SGL at the transaction level. The CFO told us that as of August 1995, only about 7 percent of Agriculture's financial systems applications have incorporated the SGL at the transaction level. Because Agriculture does not have a fully integrated accounting system, and it does not fully use the government's SGL, many component agencies maintain costly, duplicate records to facilitate reconciliation of financial information at year-end. This has resulted in delayed financial statement preparation and audits.

¹²OMB Circular A-127, "Financial Management Systems."

Noncompliance with the SGL principles has resulted in errors on financial statements and the need for manual adjustments and corrections to Agriculture's reports to Treasury. The FISVIS project will address standard general ledger issues. However, if these problems are not fully resolved, they will not only impede Agriculture's consolidated audit, but could also affect the reliability of the governmentwide financial statements for fiscal year 1997.

Limited Cost Information for
Performance Measurement

The CFO Act also assigns an agency CFO with responsibility for the development and reporting of cost information. In Agriculture's fiscal year 1996 budget submission to OMB, the agency reported that program managers have little information on the cost of providing their services or products. The submission also stated that program managers need better cost information to support the fees charged in order to recover full costs of products or services provided to the public and to other agencies on a reimbursable basis.

Without reliable cost data, agency and program managers and the Congress will be unable to determine the costs associated with ensuring program "effectiveness," which includes measuring the programs' impact and customer satisfaction. Agriculture program managers' ability to manage by results through performance measurement is seriously inhibited. One goal of FISVIS is to ensure that performance measurement is an integral part of Agriculture's future financial management systems. In connection with FISVIS, the CFO has set up three joint efforts with component agencies to pilot activity-based costing projects, and one other project is pending.

Reliability and Timeliness
of Financial Statements
Must Be Improved

Agriculture and the OIG have cooperated to prepare and audit financial statements of the Department and its component agencies annually since the passage of the CFO Act. However, OIG audits have identified an increasing number of control weaknesses that have resulted in material misstatements of financial statement information and a lack of support for information included in the financial statements. As a result, the number of unqualified opinions on Agriculture

agencies' financial statements has declined. Further, timeliness of submitting audited statements continues to be a problem. Meeting the legislative timetable for agencywide audited financial statements is essential to put the federal government on a par with state and local governments, as well as the private sector, which have already made the necessary investment to ensure accurate and timely audited financial data is available to decisionmakers. In addition, agencies, such as Agriculture, must devote necessary resources to ensure timely preparation and audit of financial statements to meet the timetable for auditing the consolidated executive branch financial statements required by GMRA for fiscal year 1997.

Unreliable Financial Statement Information

An unqualified financial statement audit opinion is a first step toward ensuring accurate financial information for program, management, and congressional decision-making. Agriculture's CFO stated that having unqualified financial statement audit opinions is certainly a Department goal. However, recurring material internal control weaknesses and other deficiencies have precluded Agriculture's OIG from issuing unqualified opinions.

Further, while the overall rate of progress of the 24 CFO agencies in receiving unqualified audit opinions has been increasing, the trend at Agriculture has been moving in the opposite direction. For example, Agriculture received six unqualified opinions for the seven component agencies audited for fiscal years 1992 and 1993. This compares to receiving only four unqualified opinions for the same seven components in fiscal year 1994. This is largely attributable to OIG audits identifying significant new control weaknesses from problems encountered in using a newly implemented accounting system and unresolved issues on credit reform.

The CFO told us that he has initiated performance agreements with the OIG and component agency controllers to help outline responsibilities and implement corrective action plans so that Agriculture's systems can provide accurate and timely financial data that will result in unqualified opinions on the financial statements. We believe that effectively resolving these material weaknesses will require that the CFO

have the authority to ensure that these plans are implemented.

Late Submission of Financial Statements

Although improving in recent years, Agriculture has consistently failed to meet OMB deadlines for submitting audited statements. OMB currently requires statements to be submitted by March 1, following the end of each fiscal year. For the fiscal year 1994 statements, OMB extended the due date for Agriculture to April 30, 1995; but the Department did not submit its consolidated statements to the OIG until mid-July. Consequently, the fiscal year 1994 audited statements were not issued until August 23, 1995, almost 6 months after OMB's deadline.

The OIG stated that if the statements are prepared timely, the audit can be performed in time to meet OMB deadlines. The CFO and the OIG have pledged to OMB that they will work together to issue audited statements by March 1, 1996, for the fiscal year 1995 financial reporting period. Also, the CFO believes that implementing FISVIS, which is targeted for 1998, will significantly reduce the time needed to prepare and audit financial statements in the future. However, we believe that until the longer term systems modernization effort is completed, Agriculture needs to develop short-term solutions.

CONCLUSIONS

Strong CFO leadership with a sustained commitment to improving financial management is essential to meet the goals and objectives of the CFO Act. Effective financial management provides decisionmakers with the necessary tools to better carry out their missions. It also provides stakeholders with information on which to evaluate the effectiveness of programs. The OIG plays a crucial role in this process by working with management to help identify and resolve financial management and systems weaknesses. The audits performed by the OIG ensure the accuracy and reliability of the financial information used by these decisionmakers and stakeholders. Therefore, it is important that Agriculture continues to address the challenges we have outlined in this letter.

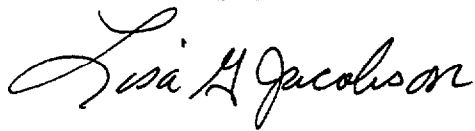
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AGENCY COMMENTS

We discussed the results of our work, including the facts, findings, and our conclusions, with the CFO and OIG officials and have incorporated their comments where appropriate. These officials generally agreed with the contents of our report.

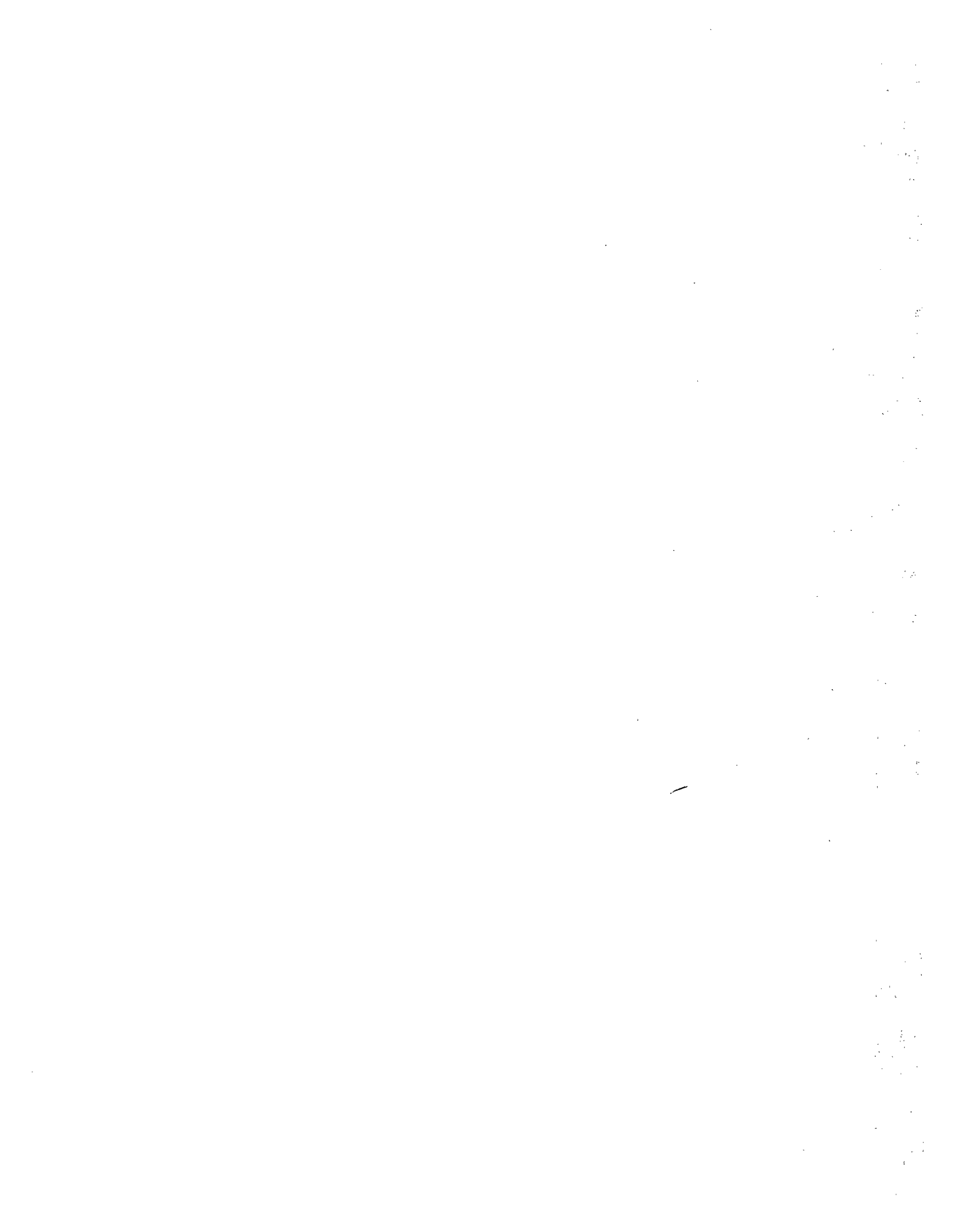
Please contact me at (202) 512-9542 or Dieter Kiefer at (913) 384-7415 if you have any questions concerning this letter.

Sincerely yours,

A handwritten signature in cursive script that reads "Lisa G. Jacobson".

Lisa G. Jacobson
Director, Civil Audits

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