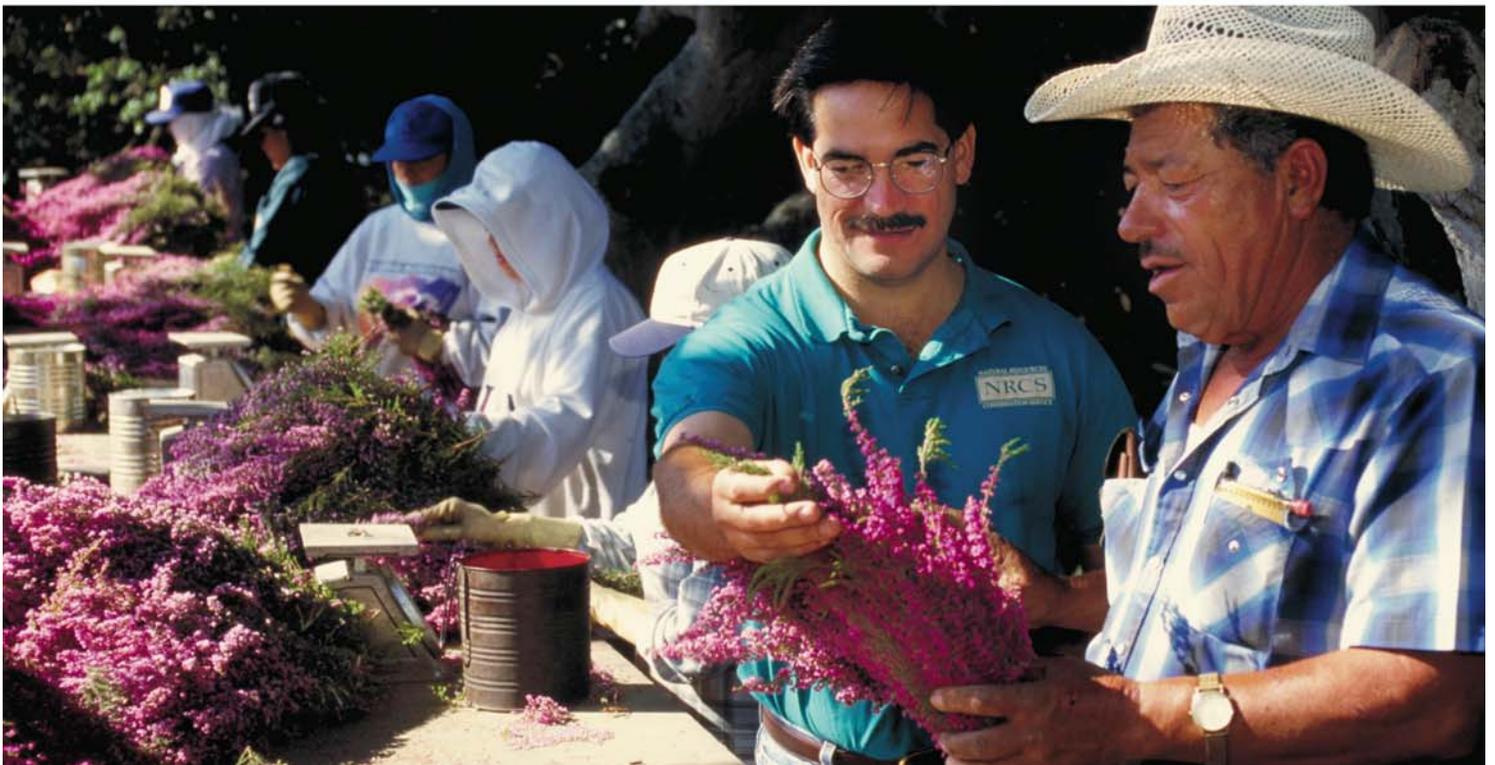
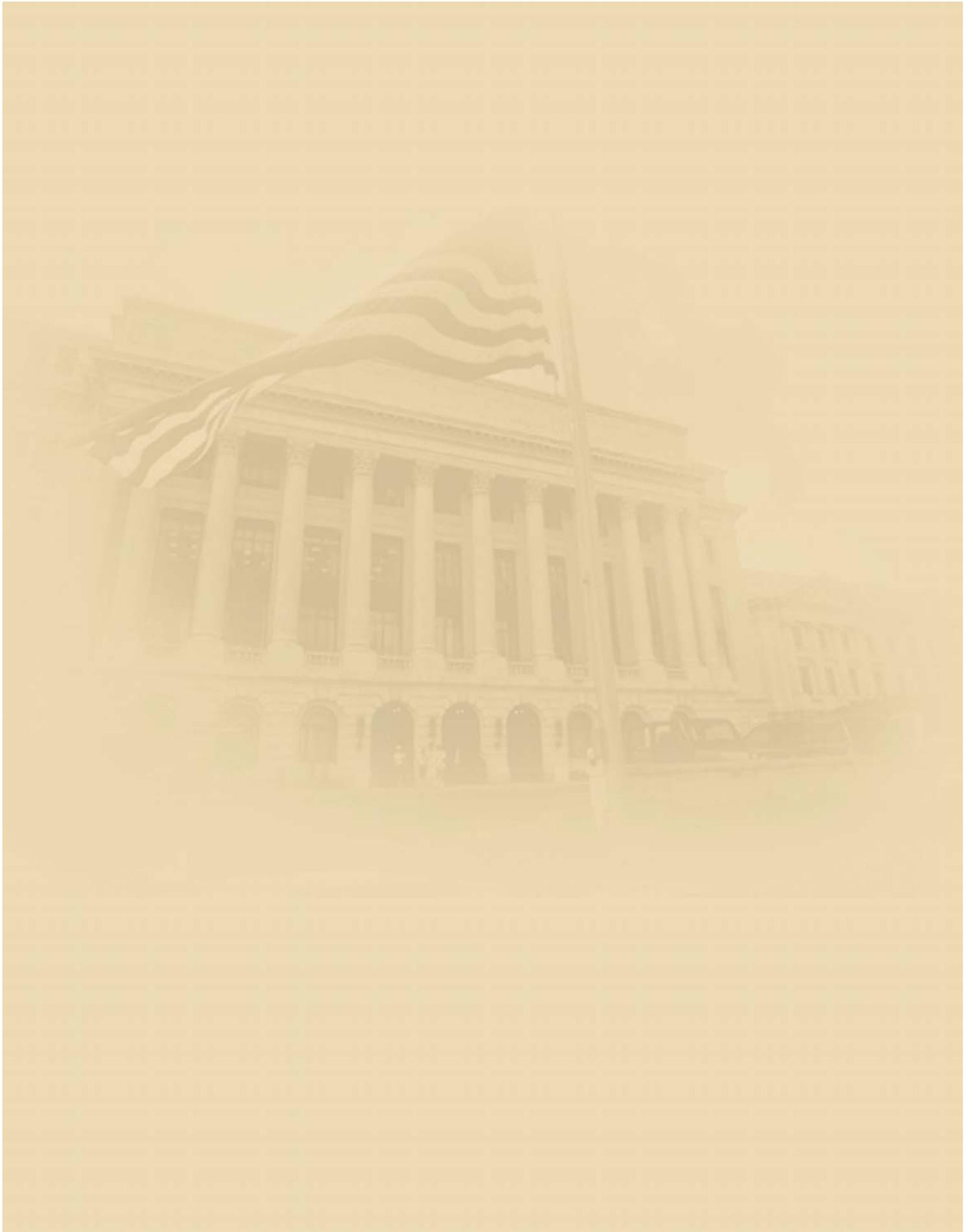


Section III

Systems, Controls and Legal Compliance





III. Systems, Controls and Legal Compliance

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

BACKGROUND

During the fiscal year, Office of the Inspector General (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. The plan is then submitted to OIG for its concurrence. If both OIG and management agree that the proposed corrective action will correct the deficiency, management decision 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. 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 them for sufficiency and determines if final action is completed.

FY 2005 Results

USDA agencies closed 102 audits in FY 2005. The Department's current inventory of audits that have reached management decision and require final action to close includes 60 new audits in FY 2005 and 104 existing audits for a total of 164. Three of these audits are in appeal status. As shown in Exhibit 91, this is a 20 percent decrease from the 206 audits that were open at the end of FY 2004. During the past 5 years, USDA's total audit inventory decreased 33 percent.

Exhibit 91: Decrease in Total Open Audit Inventory



Note: The FY 2004 ending balance was revised from 185 to include 20 audits that reached management decision in September 2004. One additional audit was issued in FY 2004, but was not transmitted to OCFO until FY 2005. These adjustments are also reflected in the beginning balances for audits with disallowed costs and funds to be put to better use shown in Exhibit 93 and Exhibit 95.

Audit Follow-Up Process

The Inspector General Act Amendments of 1988 require an annual report to Congress providing status of resolved audits that remain open. Reports on 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 awaiting a legislative solution, reporting may be limited to the number of affected audits.

Exhibit 92: Audit Follow-Up Definitions

Term	Definition
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 accomplished.
Funds To Be Put to Better Use (FTBU)	An OIG recommendation 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; • De-obligation 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 identified specifically.
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.

The Office of Management and Budget revised Circular A-123, “Management’s Responsibility for Internal Control,” December 21, 2004. The revision is designed to further strengthen internal control in the Federal Government. As USDA implements the revised circular, greater emphasis is placed on documenting, monitoring, correcting and reporting on internal controls. These controls include audit follow-up. Special attention is given to correcting those audit recommendations that relate directly to potential material weaknesses identified in a component agency’s program or operations. Agencies now are required to crosswalk all audit recommendations OIG identifies as material to the corresponding potential material weakness. Agencies must document completion of final action on those recommendations before the material weakness can be considered corrected.

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

Of the 102 audits that achieved final action during the fiscal year, 34 contained disallowed costs (DC). The number of DC audits remaining in the inventory at the end of the fiscal year is 66 with a monetary value of \$68,040,269.

For audits with disallowed costs that achieved final action in FY 2005, OIG and management agreed to collect \$24,459,052. Adjustments were made totaling \$12,908,545 (53 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 \$11,550,507.

Exhibit 93: Inventory of Audits with Disallowed Costs

Audits with Disallowed Costs	# of Audits	Amount (\$)
Beginning of the Period	84	85,705,402
Plus: New Management Decisions	16	6,793,919
Total Audits Pending Collection of Disallowed Costs	100	92,499,321
Adjustments		(12,908,545)
Revised Subtotal		79,590,776
Less: Final Actions (Recoveries)	34	(11,550,507) ²
Audits with DC Requiring Final Action at the End of the Period	66	68,040,269

¹ Exhibit 93 and Exhibit 95 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 Exhibit 93 and Exhibit 95 will not equal the total resolved audit inventory balance in Exhibit 91.

² This amount does not include \$829,153 interest collected.

Exhibit 94: Distribution of Adjustments to Disallowed Costs

Category	Amount (\$)
Changes in Management Decision	368,019
Legal Decisions	1,842,566
Write-Offs	2,309,382
Agency Documentation	7,012,909
Agency Discovery	1,130,510
Appeals	245,159
Total	12,908,545

Final action occurred on 15 audits that involved FTBU amounts. USDA projects more efficient use for 99 percent of the amount identified based on the corrective actions implemented. The number of FTBU audits remaining in the inventory to date is 29 with a monetary value of \$953,560,533.

Exhibit 95: Inventory of 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	39	1,308,483,017
Plus: New Management Decisions	5	\$9,067,436
Total Audits Pending	44	1,317,550,453
Less: Final Actions	15	363,989,920
Audits with FTBU Requiring Final Action at the End of the Period	29	953,560,533
Disposition of Funds to Be Put to Better Use:		
FTBU Implemented		359,075,460
FTBU Not Implemented		4,914,460
Total FTBU Amounts for Final Action Audits		363,989,920

Audits Open One or More Years Past the Management Decision Date

The number of audits open one or more years without final action continues to decline. These audits decreased 25 percent in FY 2005 from 134 to 101 and 32 percent during the past 5 years.

Exhibit 96: Decrease In Audits Open One or More Years Past Management Decision Date



SYSTEMS, CONTROLS AND LEGAL COMPLIANCE

Five audits are proceeding as scheduled, 65 are behind schedule and agencies have completed corrective actions on 31 audits that are pending collection of associated disallowed costs. While an additional three audits were scheduled for completion by September 30, 2005, final action documentation will not be evaluated this reporting period.

Exhibit 97: Distribution of Audits Open One or More Years Past the Management Decision Date, Disallowed Costs and FTBU

Agency	Audits On Schedule			Audits Behind Schedule			Audits Under Collection		
	No.	DC(\$)	FTBU (\$)	No.	DC (\$)	FTBU (\$)	No.	DC (\$)	FTBU (\$)
Totals	5	0	672,105,344	65	10,922,697	261,439,296	31	46,281,403	18,256,767

Audits without final action one or more years past the management decision date and behind schedule are listed individually in the table that follows. They 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;
- Office of General Counsel or OIG advice;
- Conclusion of external action; and
- Administrative action.

MANAGEMENT'S REPORT ON AUDIT FOLLOW-UP

Exhibit 98: Audits Open 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)
(24) Pending issuance of policy/guidance					
03006-1-AT	09/19/95	10/01/05	FSA Management of the Dade County, Florida, ASCS Office	684,642	-
05099-1-TE	09/30/97	12/30/05	RMA Reinsured Companies Actual Production History Self-Reviews	-	-
05099-8-KC	03/31/00	12/30/05	RMA Standard Reinsurance Agreement Reporting Requirements	-	-
05600-1-TE	09/28/89	12/30/05	RMA Crop Year 1988 Insurance Contracts with Claims	-	-
04601-1-KC	12/16/96	10/31/05	RHS Rural Rental Housing Program, Additional Servicing of Section 8/515 Projects	65,910	33,147,535

SYSTEMS, CONTROLS AND LEGAL COMPLIANCE

Audits	Date Issued	Estimated Completion Date	Audit Title	Monetary Amount	
				DC (U.S. dollars)	FTBU (U.S. dollars)
04601-2-AT	03/25/99	12/31/05	RHS Guaranteed Rural Housing Loan Program	5,928	139,146,407
04801-4-CH	02/12/99	11/30/05	RHS Evaluation of Rural Rental Housing Tenant Income Verification Process	-	-
08001-2-HQ	03/29/02	12/30/05	FS Aviation Security Over Aircraft Facilities	-	-
08601-18-SF	03/01/97	03/31/06	FS Research Cooperative and Cost Reimbursable Agreements	121,195	40,328
08601-30-SF	03/31/03	03/31/06	FS Review of FS Security Over Explosives/Munitions/Magazines Located Within National Forest System	-	-
10099-1-TE	02/01/02	09/30/06	NRCS Security Over IT Resources	-	-
10099-10-KC	09/30/03	03/31/06	NRCS Homeland Security Protection of Federal Assets	-	-
24099-4-HY	02/25/03	TBD	FSIS Imported Meat and Poultry Inspection Process, Phase II	-	-
24601-1-CH	06/21/00	TBD	FSIS Laboratory Testing of Meat and Poultry Products	-	-
27002-14-CH	01/14/02	12/31/05	FNS State Agencies Oversight of the Child and Adult Care Food Program	-	-
27601-3-CH	03/22/96	03/31/07	FNS Food Stamp Program—Disqualified Recipient System	-	-
27601-27-CH	04/30/02	03/31/06	FNS Food Service Management Companies	-	-
34099-2-AT	09/14/01	06/30/06	RBS Business and Industry Loan Program, Omnivest Resources, Inc.	4,052,351	-
34601-1-HY	07/22/98	06/30/06	RBS Business and Industry Loan Program—Morgantown, West Virginia	-	-
34601-3-CH	03/11/03	12/31/05	RBS Processing of Loan Guarantees to Members of the Western Sugar Cooperative	-	-
34601-7-SF	12/04/02	06/30/06	RBS B&I Liquidation of Loans to the Pacific Northwest Sugar Company in Washington State	-	14,000,000
50401-28-FM	02/01/99	12/31/05	RHS FY 1998 Rural Development Financial Statements	-	-
50601-3-CH	07/23/01	TBD	APHIS Assessment of APHIS & FSIS Inspection Activities to Prevent the Entry of Foot and Mouth Disease	-	-
89099-1-HQ	10/21/02	6/30/06	OPPM Audit of Compliance with the National Energy Conservation Policy Act of 1978, Energy Act of 1992 and Executive Order Number 13123	-	-
(3) Pending conclusion of investigation, negotiation or administrative appeal					
04801-3-KC	03/31/99	12/30/05	RHS Bosley Management, Inc. – Sheridan, Wyoming	146,690	85,516
04801-6-HY	03/17/99	12/30/05	RHS Rural Rental Housing Program, Lewiston Properties, Fayetteville, New York	-	-
34004-5-HY	02/18/00	TBD	RBS Audit of Procurement Operations, Virginia State Office, Richmond, Virginia	-	-

SYSTEMS, CONTROLS AND LEGAL COMPLIANCE

Audits	Date Issued	Estimated Completion Date	Audit Title	Monetary Amount	
				DC (U.S. dollars)	FTBU (U.S. dollars)
(23) Pending receipt and/or processing of final action documentation					
02007-1-AT	3/13/03	12/30/05	ARS Florida Agricultural and Mechanical University – Specific Cooperative Agreements for Establishment of a Science Center	421,764	-
03099-32-KC	12/22/99	09/30/05	FSA Controls Over Administrative Payment Operations	-	-
04004-04-AT	7/15/04	11/30/05	RHS Local Government's Management of Multi-Family Housing Projects in North Carolina	-	-
04601-2-HY	07/22/03	10/31/05	RHS Review of Project Funds for Progressive Property Management Inc.	84,011	-
04601-5-KC	08/08/02	11/30/05	RHS Rural Rental Housing Program Insurance Expenses, Phase III	418,321	15,500,000
04801-6-KC	12/18/00	12/30/05	RHS Rural Rental Housing Program Insurance Expenses, Phase I	1,029,999	9,000
08001-1-HQ	06/28/00	11/30/05	FS Implementation of the Government Performance and Results Act	-	-
08003-2-SF	08/05/98	12/31/05	FS Toiyabe/Humboldt National Forest Land Adjustment Program	-	27,900,000
08003-5-SF	12/15/00	12/31/05	FS Land Acquisitions and Urban Lot Management Program	-	10,329,300
08016-1-SF	09/30/03	12/30/05	FS Follow-Up Review of FS Security Over Aircraft & Aircraft Facilities	-	-
08401-1-FM	01/09/03	09/30/05	FS Audit of FY 2002 Financial Statements	-	-
08601-25-SF	06/22/01	12/30/05	FS Working Capital Fund Enterprise Services	-	2,600,000
08801-2-TE	09/24/98	03/31/06	FS Assistance Agreements with Nonprofit Organizations	140,497	1,173,925
23099-2-FM	05/22/02	12/30/05	DA Security of Information Technology Resources at USDA Departmental Administration	-	-
33099-4-CH	03/03/04	TBD	APHIS Management and Security of Information Technology Resources	-	-
34601-14-TE	09/27/02	10/30/05	RBS Business and Industry Direct Loan Program – Arkansas	-	-
34601-15-TE	09/30/03	6/30/06	RBS National Report on the Business and Industry Loan Program	-	-
50099-13-AT	03/29/02	12/30/05	Multi-Agency Audit Oversight and Security of Biological Agents at Laboratories Operated by USDA	-	-
50099-14-AT	9/29/03	12/30/05	Homeland Security Controls Over Biological, Chemical and Radioactive Materials at Institutions Funded by USDA	-	-
50601-9-KC	08/18/04	TBD	APHIS Phase I Review of BSE Surveillance	-	-
50801-2-HQ	2/27/97	12/30/05	Civil Rights Evaluation Report for the Secretary on Civil Rights Issues, Phase I	-	-
50801-12-AT	9/9/02	12/30/05	HMMP Management of Hazardous Materials Management Funds	-	1,813,809
85401-9-FM	11/7/03	03/31/06	RD Financial Statements for FY 2003 and 2002	-	-

SYSTEMS, CONTROLS AND LEGAL COMPLIANCE

Audits	Date Issued	Estimated Completion Date	Audit Title	Monetary Amount	
				DC (U.S. dollars)	FTBU (U.S. dollars)
(10) Pending systems development, implementation, or enhancement					
03008-2-KC	9/25/03	09/30/06	FSA Review of FSA and CCC Bidding Procedures and Awards for Commodities	-	-
03099-27-TE	5/24/01	10/01/06	FSA Payment Limitations – Majority Stockholders of Corporations	-	-
05401-8-FM	03/30/00	12/30/05	RMA FY 1999 FCIC Financial Statements Report on Management Issues	-	-
06401-16-FM	11/7/03	09/30/06	CCC Financial Statements for FY 2003	-	-
08099-6-SF	03/27/01	09/30/06	FS Security Over USDA Information Technology Resources	-	-
08401-2-FM	02/28/03	09/30/06	FS Audit of FY 2002 Financial Statements – Summary of Information Technology Findings	-	-
24099-1-FM	08/11/03	09/30/05	FSIS Security Over Information Technology Resources at FSIS	-	-
27004-3-AT	11/09/01	12/31/05	FNS Florida Food Stamp Program, Tallahassee, Florida	-	15,443,610
50099-27-FM	03/30/01	3/31/06	OCIO Security Over USDA Information Technology Resources Needs Improvement	-	-
50099-50-FM	9/10/02	12/31/05	OCIO Government Information Security Reform Act – FY 2002	-	-
(1) Pending results of internal monitoring or program review					
27401-8-HY	06/27/97	12/31/05	FNS FY 1996 Financial Statements	-	-
(1) Pending results of request for change in management decision					
33004-1-AT	03/07/00	TBD	APHIS Plant Protection and Quarantine Activities in Florida	-	-
(1) External Action Required					
27004-3-CH	08/14/98	12/31/05	FNS Administration of the Food Stamp Employment and Training Program – Columbus, Ohio	2,921,556	-
(1) Pending Administrative Action					
23801-1-HQ	08/20/98	TBD	OO Review of Office of Operations Contract with B&G Maintenance, Inc.	-	249,866
(1) Pending Office of General Counsel (OGC) or OIG advice					
27010-11-SF	02/05/99	10/30/05	FNS Child and Adult Care Food Program – Culver City, California	829,833	0
Total Number Audits (65)		Total \$		10,922,697	261,439,296

FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT REPORT ON MANAGEMENT CONTROLS

BACKGROUND

While USDA made progress in correcting certain milestones for its existing material deficiencies, two of them remain outstanding at fiscal year-end. Additionally, one new material deficiency was added this year. USDA is committed to operating its programs efficiently and effectively in compliance 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) 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). The act requires that financial management systems comply substantially with: (1) Federal financial management system requirements; (2) applicable Federal accounting standards; and (3) the Standard General Ledger at the transaction level.

FMFIA also 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 2005. 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 Office of Inspector General (OIG) and Government Accountability Office audits;
- Management and system reviews;
- Establishing an Information Technology Security Task Force to monitor corrective actions by USDA component agencies; and
- Prompt attention to correcting the causes of identified weaknesses.

USDA's management control program ensures compliance with the requirements of FMFIA and Office of Management and Budget (OMB) Circulars A-123, "Management's Responsibility for Internal Control," and A-127, "Financial Management Systems."

USDA's agency managers, at all levels, are responsible for ensuring that their programs operate efficiently and effectively, and comply with relevant laws. They must also 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 corrects them promptly and efficiently. The term "material deficiency" describes both material weaknesses and financial system non-conformances, collectively.

FY 2005 Results

The "Message from the Secretary" provides qualified assurance that USDA's systems of internal control comply with FMFIA's objectives. The Department's internal control systems comply substantially with the objectives of FMFIA, with the exception of the material deficiencies described in this section.

USDA agencies continue to report quarterly on progress in correcting existing material deficiencies. The agencies also provided annual assurance statements. Throughout the year, determinations are made as to whether newly identified weaknesses should be declared as agency-level material deficiencies. If an agency-level material deficiency is declared, OCFO staff reviews the supporting documentation to determine whether it meets the criteria to be considered a Departmental material deficiency. The criteria for reportable condition, corrected and downgraded material deficiencies are outlined below.

During the fiscal year, USDA implemented a number of corrective actions on the three material deficiencies declared in FY 2004. The scheduled completion dates for the two remaining material weaknesses have been delayed until FY 2006. Significant accomplishments are as follows:

- The Department gained approval for 14 security policies this fiscal year. These include policy guidance on: Certification and Accreditation, Capital Planning and Investment Controls, Privacy, Telework/Remote Access, Firewall, Encryption, Access Control, Risk Management Methodology, Personnel Security, Sensitive-but-Unclassified, IT Contingency Plans, Annual Security Plans and System Development Life Cycle;
- USDA's component agencies continue to develop contingency plans for their IT major applications and general support systems with the support of USDA's enterprise-wide system, Living Disaster Recovery Planning System;
- Approximately 70 percent of the disaster recovery and business resumption plans currently are tested;
- The Forest Service (FS) established policy and procedures on information security program management and implemented access controls. It also implemented monitoring to detect vulnerabilities and eliminate unauthorized applications, implemented a Memorandum of Understanding with the OCFO regarding the management, operations and security of connections between FS and NFC information systems, and tested continuity of operations plans;
- FS' financial management internal control weakness was related to compliance with accounting standards for revenue recognition and reporting accruals. All corrective actions were implemented during the year; and
- FSA completed application-level contingency plans for its major applications, finalized security policies, and regularly scans its networks; it documented standard processes for recording obligation for programs with common business events, added or restructured transaction codes for obligations in the general ledger system to reduce manual postings, and completed a review of posting models for transactions that have a material impact on the financial statement.

USDA's FY 2006 goal is to eliminate the existing material deficiencies and correct any new material deficiencies within one year.

Also, during the fiscal year, USDA's Rural Utilities Service (RUS) reported a violation of the Anti-Deficiency Act. The act bars U.S. Government employees from making or authorizing an expenditure or obligation exceeding the amount available in an appropriation or fund for the expenditure or obligation. As required by section 1517(b) of Title 31, U.S. Code, the Department reported the violation of section 1517(a)(1) of Title 31 of the Anti-Deficiency Act to OMB. The violation occurred in the Rural Electrification and

Telecommunications Direct Loan Financing Account in the amount of \$1 billion. RUS officials unintentionally executed a bond guarantee agreement and the related guarantee of payment prior to the approval of the official notification that funds were available for obligation. Financial management system controls prevented any attempts to disburse the funds and the violation was discovered.

While no funds were disbursed, an Anti-Deficiency Act violation occurred because the obligation was made without an apportionment of the guaranteed loan level. To prevent future violations, the Office of the Assistant Administrator for Electric Programs will hold the unsigned note pending written verification that OMB has processed the apportionment of funds.

In September 2005, the Department entered into a contract for assistance in the implementation of the new reporting requirements in Appendix A of OMB Circular A-123. USDA has established an Assessment Implementation Team to plan and execute the Department-wide assessment approach. This top-down approach will assess the key processes of those component agencies that contribute materially to the balances of selected significant accounts/line items in the key financial reports. An implementation plan has been developed that addresses the major tasks identified by OMB to implement the Department-wide assessment approach.

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 at least one 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 OMB Circular A-127, which includes the availability of timely, consistent and relevant financial information for decision-making purposes.

Material Weakness Reported Under FMFIA

Information Technology (IT) security continues to be an issue for USDA. The Department depends on IT to deliver its programs efficiently and effectively, as well as to provide meaningful and reliable financial reporting. While further efforts are needed to address weaknesses within USDA’s information security program, the Department and its agencies have made significant progress toward improving security of IT resources. USDA, under the direction of the Office of the Chief Information Officer (OCIO), has worked diligently to assist agencies in complying with security mandates. OCIO plans to conduct an independent verification and validation of all information systems certified in FY 2005. The majority of the systems (86 percent) have been certified and accredited. Other systems are being reviewed. Additionally, OCIO has become actively involved in the budget process to ensure that cyber security and FISMA requirements are addressed in IT acquisitions.

USDA’s component agencies need to aggressively implement IT security requirements to reduce the level of vulnerability. The following exhibit describes areas of continued concern for the Department and summarizes corrective actions planned to eliminate this material deficiency. Additional corrective actions to address specific areas of concern will be identified by the end of the first quarter of FY 2006.

Historical Data on Material Deficiencies

Although USDA did not complete corrective actions on two of the existing material deficiencies, there was only one newly identified material deficiency for FY 2005. USDA has reduced the number of existing material deficiencies from a high of 19 in FY 2002 to 3 in FY 2005. This is an 84 percent decrease in the number of outstanding material deficiencies reported 3 years ago.

SUMMARY OF MATERIAL DEFICIENCIES

Exhibit 99: Summary of Outstanding Material Deficiencies and Estimated Completion Dates

Responsible Agency(ies)	Material Deficiency Description	Areas of Concern	Corrective Actions Remaining To Be Taken	Year Identified	Current Estimated Completion Date
Section 2 Material Weakness					
Multiple	Multi 00-01: USDA Information Security Weakness: Weaknesses have been identified in the Department’s ability to protect its assets from fraud, misuse and disruption.	Policy, oversight and monitoring ¹	<ul style="list-style-type: none"> • OCIO will: Improve the quality and process for managing USDA information security vulnerabilities and actions; • Complete vulnerability assessments of all mission critical systems; 	FY 2000	FY 2006

SYSTEMS, CONTROLS AND LEGAL COMPLIANCE

Responsible Agency(ies)	Material Deficiency Description	Areas of Concern	Corrective Actions Remaining To Be Taken	Year Identified	Current Estimated Completion Date
Multiple (cont'd)			<ul style="list-style-type: none"> 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; Implement and maintain a robust Internet Protocol (IP) database that includes accurate, up-to-date contacts for each IP address; Refine policy and issue new policy; and Ensure that security management personnel have the authority and cooperation of agency management to implement and manage security programs effectively. 		
		General Control Environment	<ul style="list-style-type: none"> FS will: Improve controls over the PRCH system data access, input, and integrity and segregation of duties. 	FY 2005	FY 2006
			<ul style="list-style-type: none"> NRCS will: Document change control processes, software changes, and testing processes for the ProTracts System. Improve controls and documentation of change control for payment specifications. Reconcile Protracts appropriations, obligations and payments to FFIS. 	FY 2005	FY 2006
			<ul style="list-style-type: none"> FSA/CCC will: Collaborate with OCIO to identify and implement additional improvements needed to improve the agency's general control environment. 	FY 2004	FY 2006
Multiple	Multiple 05-01: Improvement needed in financial accounting and reporting policies, practices and procedures ²	Inadequate Accountability for Undelivered Orders	FS will determine specific actions to be taken.	FY 2004	FY 2006

SYSTEMS, CONTROLS AND LEGAL COMPLIANCE

Responsible Agency(ies)	Material Deficiency Description	Areas of Concern	Corrective Actions Remaining To Be Taken	Year Identified	Current Estimated Completion Date
Multiple (cont'd)		Inadequate Accounting for Accrued Liabilities	<ul style="list-style-type: none"> FSA/CCC will: Re-examine existing accrual policies and analytical procedures with regard to Federal accounting standards and CCC business practices, determine where improvements need to be made, and implement improvements 	FY 2004	FY 2006
Section 4 Financial Management System Nonconformance					
FSA/CCC	MW 04-01: Improvement Needed in Funds Control Mechanisms	N/A	FSA/CCC will: <ul style="list-style-type: none"> Document and evaluate current system of budgetary accounting controls, identify deficiencies and develop improved control processes. Obtain training for staff, and implement organizational changes. Identify compensating controls to address material weakness and ensure requirements are incorporated into the next generation of program feeder systems. Enhance usage of existing web services for funds control. 	FY 2004	FY 2009

¹Additional corrective actions have been provided by the agency.

²While deficiencies in this area were reported in FY 2004 financial statement audits, they did not give rise to a Departmental material weakness.

Exhibit 100: Material Deficiencies Remain the Same

Fiscal Year	Corrected Deficiencies	New Deficiencies	Remaining Deficiencies
2002	15	2	19
2003	12	1	8
2004	7	2	3
2005	1	1	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, 2005, 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 either is no longer considered to be material or 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 ones 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 101: Material Deficiencies Corrected or Downgraded

Responsible Agency	Number and Title of Material Deficiencies	Year Identified	Status Corrected/Downgraded
FS	04-01: Financial Management Internal Control Weaknesses: Controls inadequate to assure improvements in data quality.	2004	Corrected
RMA/RD/APHIS	00-01: Agency Specific Information Security Weaknesses: Weaknesses have been identified in the Department's ability to protect its assets from fraud, misuse and disruption.	2004	Corrected

Material Weaknesses Corrected

FS-04-01: Financial Management Internal Control Weaknesses

Controls inadequate to assure data-quality improvements.

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

- Developed roles, responsibilities, staffing plans, migration plans, IT requirements and performance metrics for staff and processes migrating to the Albuquerque Service Center (ASC);
- Transitioned people and processes from the field and Washington, D.C., office to the ASC;
- Built training materials for transitioning staff; and
- Developed and implemented policy, procedures and reports for transitioning business processes.

Multi 00-01: Agency Specific Information Security Weaknesses

Weaknesses have been identified in the Department's ability to protect its assets from fraud, misuse and disruption. Although the information security weakness remains open for the Department, several agencies completed agency-specific actions to eliminate component-level material weaknesses. They are as follows:

RMA

- Implemented new security policies, formalized draft policies and developed additional policies as required.

RD

- Entered into an Incidental Transfer Agreement and Memorandum of Understanding with OCIO delineating roles and responsibilities for infrastructure resources; initiated scanning and patching for the National Office and certain field offices, established and implemented hardening guides on Windows and Linux servers, completed a detailed review of all servers managed by RD, and mitigated vulnerabilities; and
- Completed certification and accreditation of the RUS legacy system.

APHIS

- Completed the certification and accreditation of the User Fee Financial System.

FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT REPORT ON FINANCIAL MANAGEMENT SYSTEMS

BACKGROUND

The Federal Financial Management Improvement Act (FFMIA) is designed to improve financial and program managers' accountability, provide better information for decision-making and improve the efficiency and effectiveness of Federal programs. FFMIA requires that financial management systems provide reliable, consistent disclosure of financial data in accordance with generally accepted accounting principles and standards. These systems must also 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 2005 RESULTS

During FY 2005, USDA evaluated its financial management systems to assess substantial compliance with the act. The Department is not substantially compliant with the Federal Financial Management System Requirements, applicable Federal accounting standards, the Standard General Ledger at the transaction level or the FISMA requirement. As part of its financial systems strategy, USDA agencies will work continuously to meet FFMIA and FISMA objectives. During the fiscal year, the Office of the Chief Financial Officer (OCFO) and the Office of the Chief Information Officer (OCIO) formed a joint task force to address information technology (IT) security weaknesses in USDA's financial systems. As a result, corrective actions were taken to eliminate/mitigate several significant deficiencies known as of July 31, 2005. In assessing FFMIA conformance, USDA considered all the information available. This information included the auditor's opinions of component agencies' financial statements, the work of independent contractors and progress made in addressing the material weaknesses identified in the *FY 2004 Performance and Accountability Report - Report on Management Controls* section.

SYSTEMS, CONTROLS AND LEGAL COMPLIANCE

While USDA's FY 2004 and FY 2003 Consolidated Financial Statements received an unqualified audit opinion from the Office of the Inspector General (OIG), the auditor's Report on Compliance with Laws and Regulations also disclosed that the Department was not substantially compliant with FFMIA requirements. OIG found material weaknesses for USDA's financial and accounting systems and information security program. The Department has completed many of the FY 2005 initiatives to substantially comply with the act's requirements. Additionally, USDA has added new initiatives with several milestones to improve the controls over the Commodity Credit Corporation's financial management systems, and the Natural Resource Conservation Service's application controls for the Program Contracts System (ProTracts) as reported below. The Department will continue monitoring progress on plans to improve its financial management systems. It will also work to comply fully with FFMIA and FISMA requirements. Significant accomplishments in FY 2005 are listed in the exhibit below.

Exhibit 102: Initiatives Completed

Initiatives Completed to Achieve FFMIA Compliance			
Agency	Initiatives Completed	Completion Date	Remediation Plan Reference
Section 1—Federal Financial Management System Requirements			
RMA	• Financial Management Planning and Assurance Process.	05/31/2005	1.1
	• Information Technology Security Controls.	08/31/2005	1.2
	• Application Program and System Software Change Controls.	12/31/2004	1.3
APHIS	• Certification & Accreditation for the User Fee System.	09/9/2005	1.5
RD	• Certification & Accreditation for of the RUS Legacy System.	05/23/2005	1.5
	• Strengthen Network Security and Logical Access Controls.	06/30/2005	1.6
Section 4—Information Security Policies, Procedures or Practices¹			

¹Completed 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 therefore are not repeated in Section 4.

Exhibit 103: Initiatives To Be Completed

Outstanding Initiatives to Achieve FFMIA Compliance				
Initiative	Section of Noncompliance	Agency	Target Completion Date	Remediation Plan Reference
Information Technology Security Controls.	Section 1 and 4, OMB A-123, A-127, A-130 and FISMA	FSA/CCC	09/30/2006	1.4
Improve General Control Environment	Section 1 – OMB Circular A-130	FS	03/31/2006	1.7
Application Controls – ProTracts (New)	Section 1 – OMB Circular A-130	NRCS	12/31/2005	1.8
Federal Accounting Standards	Section 2 – SFFAS	FS	10/30/2005	2.1
Federal Accounting Standards	Section 2 – SFFAS, OMB A-123	FSA/CCC	09/30/2009	2.1
Funds Control Mechanisms	Section 3 – Treasury Financial Manual and OMB Circulars A-123 and A-127	FSA/CCC	09/30/2009	3.1

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).

Remediation Plans to Achieve Substantial Compliance

As required by law, USDA, in consultation with OMB, develops remediation plans that will result in substantial compliance with FFMIA and improved financial management systems. These plans provide details of completed and planned actions as discussed in the table that follows.

Area of Noncompliance/Proposed Corrective Actions	Target Completion Date	Revised Completion Date	Actual Completion Date
Section 1 – Federal Financial Management System Requirements			
1.1 Financial Management Planning and Assurance Process			
Agency Point of Contact: RMA – Chief Financial Officer			
<ul style="list-style-type: none"> Reviewed RMA/FCIC's Financial Management Systems for compliance with financial management systems requirements. (OMB A-123, A –127) 	4/30/2005		4/30/2005
<ul style="list-style-type: none"> Provided 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 areas of substantial noncompliance with the FFMIA (OMB A-123, A –127). 	5/31/2005		5/31/2005
1.2 Information Technology (IT) Security Controls			
Agency Point of Contact: RMA—Chief Financial Officer			
<ul style="list-style-type: none"> Enforced newly implemented security policies, formalized draft policies and developed additional required policies. 	12/31/2004	5/31/2005	5/31/2005
<ul style="list-style-type: none"> Performed an agency-wide review of user IDs and access levels to monitor the effectiveness of existing controls. 	9/30/2005		9/23/2004
<ul style="list-style-type: none"> Performed regular and periodic comprehensive reviews of file, directory and user permissions in the UNIX environment. 	11/30/2004		11/30/2004
<ul style="list-style-type: none"> Delegated sufficient authorities and provided adequate staff and other resources to the chief information officer to develop and oversee an effective IT system, organization and operation, and manage and administer RMA IT security activities properly. 	9/30/2004	5/31/2005	6/30/2005
<ul style="list-style-type: none"> Prescribed and applied a periodic review process to ensure that approved policies and procedures for RMA IT operations, processes, functions and activities are applied properly and enforced consistently agency-wide. 	12/31/2004	5/31/2005	6/30/2005
<ul style="list-style-type: none"> Identify and include RMA IT organizational and security weaknesses in the annual FMFIA report and subsequent reports until all material weaknesses have been corrected and IT operations substantially comply with applicable laws and regulations. 	5/31/2005		5/31/2005
<ul style="list-style-type: none"> Developed, documented and implemented an action plan with milestone dates for an overall strategy to address the weaknesses not cited in RMA's FMFIA report. 	9/30/2004	5/31/2005	5/31/2005
<ul style="list-style-type: none"> Prepared and submitted quarterly status reports to OCIO until the FMFIA weaknesses were corrected. 	9/30/2005		8/31/2005
<ul style="list-style-type: none"> Developed internal written policies and procedures that established effective access controls for RMA-controlled users to follow in using RMA, NITC and NFC systems in accordance with applicable Federal guidance and Departmental regulation requirements. 	12/31/2004	5/31/2005	5/31/2005
<ul style="list-style-type: none"> Implemented stronger physical security. 	9/30/2004	5/31/2005	5/31/2005

SYSTEMS, CONTROLS AND LEGAL COMPLIANCE

Area of Noncompliance/Proposed Corrective Actions	Target Completion Date	Revised Completion Date	Actual Completion Date
Section 1 – Federal Financial Management System Requirements			
<ul style="list-style-type: none"> Prescribed and implemented in RMA's formal directive system a System Development Lifecycle (SDLC) methodology in accordance with Departmental regulations, and provided senior management oversight to ensure that application managers properly implement the prescribed SDLC methodology and management controls. 	12/31/2004	5/31/2005	5/31/2005
<ul style="list-style-type: none"> Strengthened senior management oversight and periodically monitored and documented the effectiveness of agency-wide policies, procedures and management controls to ensure that IT services contract provisions conform to all applicable laws and regulations, and contract provisions are enforced. 	9/30/2004		5/31/2005
<ul style="list-style-type: none"> Added a contract provision requiring background investigations for all IT contractor employees and associated subcontractor employees, where applicable, and ensured they were completed satisfactorily before access to RMA systems, hardware and facilities was authorized. 	11/30/2004		11/30/2004
<ul style="list-style-type: none"> Amended the appropriate contract to describe the specific security services expected from contractor employees and record the details of the services or deliverables to be provided by them. 	9/30/2004	5/31/2005	5/31/2005
<ul style="list-style-type: none"> Prepared individual task orders and other needed supporting documentation to describe the specific security services expected from contractor employees and record the details of the services or deliverables provided by them. 	11/30/2004		11/30/2004
<ul style="list-style-type: none"> Developed and applied a policy to conduct routine and timely reviews of RMA's firewall configuration and verify the effectiveness of FSA firewall protection. 	12/31/2004		12/30/2004
<ul style="list-style-type: none"> Improved network operating system policy and procedures. 	12/31/2004	6/17/2005	6/17/2005
<ul style="list-style-type: none"> Secured funding for the Business Impact Assessment completed by a third party. 	12/31/2004	1/31/2005	1/31/2005
1.3 Application Program and System Software Change Controls			
<p>Agency Point of Contact: RMA—Chief Financial Officer</p> <ul style="list-style-type: none"> Implemented enterprise-wide change management procedures. 	12/31/2004		12/31/2004
1.4 Information Security			
<p>Agency Point of Contact: FSA/CCC—Director, Financial Management Division</p>			
<ul style="list-style-type: none"> Estimated Resources Needed: FY 2006 FTE: 40, Dollars \$3,200,000 and Contractors \$2,600,000 Updated AS400 log files to show trail of when user profiles were used or modified last. Granted access on a need-to-know basis using standard security request forms. 	9/30/2004	1/31/2005	1/31/2005
<ul style="list-style-type: none"> Developed and tested contingency plans for FSA/CCC financial applications. 	12/31/2004		12/31/2004
<ul style="list-style-type: none"> Worked with the new Information Technology Service to strengthen the physical security in field office computer rooms housing FSA/CCC applications. 	9/30/2004	1/31/2005	1/31/2005
<ul style="list-style-type: none"> Developed plan to perform security clearance and background checks on all personnel accessing FSA/CCC applications. 	10/31/2004		10/31/2004
<ul style="list-style-type: none"> FSA will collaborate with the Office of the Chief Information Officer to identify and implement additional improvements needed to improve USDA's general control environment 	9/30/2006		

SYSTEMS, CONTROLS AND LEGAL COMPLIANCE

Area of Noncompliance/Proposed Corrective Actions	Target Completion Date	Revised Completion Date	Actual Completion Date
Section 1 – Federal Financial Management System Requirements			
1.5 Certification & Accreditation			
Agency Point of Contact: APHIS—Deputy Administrator, MRP Business Services <ul style="list-style-type: none"> • Completed Phases I & II of Certification & Accreditation for the User Fee System. 	12/30/2004	9/13/2005	9/9/2005
Agency Point of Contact: RD—Deputy Chief Financial Officer <ul style="list-style-type: none"> • Completed certification & accreditation of the RUS Legacy System. 	6/30/2005		5/23/2005
1.6 Strengthen Network Security and Logical Access Controls			
Agency Point of Contact: RD—Deputy Chief Financial Officer <ul style="list-style-type: none"> • Completed network security enhancements: <ul style="list-style-type: none"> – Summarized the corrected vulnerabilities and rescanned to verify the corrections. 	6/30/2005		6/30/2005
<ul style="list-style-type: none"> • Strengthened logical access controls <ul style="list-style-type: none"> – Established an Information Security-Point of Contact to serve as liaison with the Information Systems Security Staff (ISSS) on security matters and ensured the ISSS is staffed adequately. – Developed a logbook system to track and monitor access requests. Worked with the local access network (LAN) support personnel to differentiate between privileged users, and implemented procedures to restrict authority. – Worked with the LAN support personnel to implement policies and procedures for limiting privileged user's accounts. Expanded the monthly user access verification and certification process to include reports for all user types. – Established a database for all current contractors and standardized logbook forms to track and monitor authorized access by contractors. – Implemented procedures to verify user identification and access reports. Attested the accuracy of the user IDs for their organizations. – Completed major project to strengthen controls over logical access to major applications and general support systems. – Conducted a review of the change control process for all major applications and general support systems to ensure the process complies with Departmental guidance. 	6/30/2005		6/30/2005
1.7 Improve General Control Environment			
Agency Point of Contact: FS—Financial Management Systems Director <ul style="list-style-type: none"> • Implemented Information Security Program Management and Access Controls 	9/30/2004		8/3/2005
<ul style="list-style-type: none"> • Software Management Controls <ul style="list-style-type: none"> – Replaced ISS with a suite of commercial scanning tools and a comprehensive monitoring infrastructure to detect enterprise-level vulnerabilities, and eliminate unused or unauthorized applications. 	8/31/2005		8/24/2005 ¹

SYSTEMS, CONTROLS AND LEGAL COMPLIANCE

Area of Noncompliance/Proposed Corrective Actions	Target Completion Date	Revised Completion Date	Actual Completion Date
Section 1 – Federal Financial Management System Requirements			
– Develop and implement entity-wide software management policy and procedures.	3/31/2006		
• Service Continuity			
– Tested the continuity of operations plan entity-wide.	9/30/2005		9/30/2005 ¹
1.8 Application Controls – ProTracts			
Agency Point of Contact: NRCS—Chief Information Officer Estimated Resources Needed: FY 2006 FTE: 1, Dollars \$150,000			
• Document the ProTracts change control process.	11/15/2005		
• Document changes to the ProTracts software.	11/15/2005		
• Establish a ProTracts testing process.	12/31/2005		
• Changed the per-unit cost of the current program payment specifications.	6/30/2005		6/30/2005
• Establish a formally approved document for the ProTracts payment specifications.	11/15/2005		
• Establish a schedule for the systematic reconciliation of ProTracts appropriations, obligations and payments with amounts recorded in FFIS.	11/15/2005		
Section 2 – Applicable Federal Accounting Standards			
2.1 Federal Accounting Standards			
Agency Point of Contact: FS—Financial Management Systems Director			
• SFFAC 2 (OMB Bulletin No. 01-09) Improve financial statement note disclosures			
– Conducted training on OMB Bulletin No. 01-09 to ensure proper note disclosures to the financial statements.	5/31/2005		5/25/2005
• SFFAS 5 Accounting for Liabilities of the Federal Government			
– Changed cookbook certification reviews to a November, February, May, August quarterly cycle.	5/31/2005		5/31/2005
– Monitored compliance with the review and certification requirements for obligations and accruals.	5/31/2005		5/31/2005 ¹
• SFFAS 6, 8 Proper accounting for leases, internal use software and non-monetary business processes			
– Established policy and procedures for the proper accounting treatment of leases, internal-use software and non-monetary business processes.	5/31/2005	6/30/2005	9/30/2005
– Conduct training and implement monitoring process for compliance with established policy and procedures.	5/31/2005	10/30/2005 ²	
• SFFAS 7, 21 Accounting for Revenue and Other Financing Sources and Reporting Correction of Errors and Changes in Accounting Principles			
– Issued memo and conducted training to re-emphasize the proper recording of revenue transactions.	5/31/2005		5/31/2005
– Implemented Department policy for the review and recording of prior period adjustments.	5/31/2005		6/1/2005 ¹
– Conducted monthly Cumulative Results of Operations review and analysis.	5/31/2005		6/15/2005

SYSTEMS, CONTROLS AND LEGAL COMPLIANCE

Area of Noncompliance/Proposed Corrective Actions	Target Completion Date	Revised Completion Date	Actual Completion Date
Section 2 – Applicable Federal Accounting Standards			
Agency Point of Contact: FSA/CCC—Director, Financial Management Division			
Estimated Resources Needed for Sections 2 and 3: FY 2006 FTE: 10, Dollars \$800,000 and Contractors \$2,000,000			
<ul style="list-style-type: none"> • SFFAS No. 5 — Accounting for Liabilities of the Federal Government <ul style="list-style-type: none"> – Developed and approved accrual policies and procedures. 	6/30/2005		6/30/2005
<ul style="list-style-type: none"> • Improvement needed in controls to ensure funds control and budgetary transactions are properly supported, recorded timely and accurately <ul style="list-style-type: none"> – Document and evaluate current system of budgetary accounting controls, identify deficiencies, develop and implement improved, well-defined control processes, as part of OMB A-123 Appendix A assessment of CCC's internal controls over financial reporting. 	9/30/2009		
<ul style="list-style-type: none"> – Obtain contractor training for financial management staff in budgetary accounting and analysis. 	9/30/2006		
<ul style="list-style-type: none"> – Implement organizational structure changes to leverage expertise and improve performance in financial and budgetary accounting policy documentation, reconciliations, analysis, and review. 	9/30/2006		
<ul style="list-style-type: none"> – Analyze current feeder systems to determine compliance with financial data requirements (and if required financial data are being transmitted to the Core financial system.) Identify feeder system gaps and costs to correct. 	9/30/2009		
<ul style="list-style-type: none"> – Identify compensating controls to address material weakness and ensure requirements are incorporated into the next generation of program feeder systems. 	9/30/2006		
<ul style="list-style-type: none"> – Enhance existing financial web services, such as the National Payment Service and e-Funds control systems, and increase CCC programs using these systems. 	9/30/2007		
<ul style="list-style-type: none"> – Implement a new integrated financial management system that includes funds control functionality, under OMB Financial Management-Line of Business. 	TBD		

¹ Based on the results of the recent audit, additional corrective actions are needed to address the weakness.

² This corrective action has been revised to align with the establishment of guidance on the accounting treatment of leases and on internal use software, which were completed on 9/30/2005.

Area of Noncompliance/Proposed Corrective Actions	Target Completion Date	Revised Completion Date	Actual Completion Date
Section 3 – Standard General Ledger at the Transaction Level			
3.1 Funds Control Mechanisms			
Agency Point of /Contact: FSA/CCC – Director, Financial Management Division			
For Estimated Resources Needed see Sections 2.			
<ul style="list-style-type: none"> • Corrected posting models to be compliant with the SGL. <ul style="list-style-type: none"> – Completed financial posting logic review of transactions and implemented all required changes to financial posting logic that may have a material impact on CCC's Financial Statements. 	8/31/2004	6/30/2005	6/30/2005

SYSTEMS, CONTROLS AND LEGAL COMPLIANCE

Area of Noncompliance/Proposed Corrective Actions	Target Completion Date	Revised Completion Date	Actual Completion Date
Section 3 – Standard General Ledger at the Transaction Level			
<ul style="list-style-type: none"> – Implemented improved interface controls between feeder systems and the CORE accounting system. 	9/30/2004		11/30/2004
<ul style="list-style-type: none"> • Developed standard operating procedures for feeder systems. 	11/30/2004		11/30/2004
<ul style="list-style-type: none"> • Expanded the obligation review and certification process to include all open obligations and programs having disbursements during the fiscal year. Identified and grouped programs with specific obligation and disbursement events. 			
<ul style="list-style-type: none"> – Developed, distributed and provided necessary training on the new Funds Status Report to program managers and staff. The training consisted of providing an understanding of the report design, how the report can be used, Governmental finance/budgetary concepts and an overview of how information is recorded in CCC's general ledger. 	6/30/2005		6/30/2005
<ul style="list-style-type: none"> – Expanded the review and certification of obligations to include all programs with open obligation balances. The obligations team developed a process to implement the certification quarterly. 	6/30/2005		4/30/2005
<ul style="list-style-type: none"> • Developed an approach for estimating obligations by business event. 	5/31/2005		5/31/2005
<ul style="list-style-type: none"> • Identified and implemented changes to current financial management processes and systems to improve the accuracy and timeliness of obligation amounts in the core financial system. 			
<ul style="list-style-type: none"> – Performed more timely and accurate identification and quantification of program obligations, and published updated policies and procedures for recording budgetary entries related to obligations. 	6/30/2005		6/30/2005
<ul style="list-style-type: none"> – Reviewed and enhanced monthly general ledger budgetary account reconciliation to evaluate all program obligation and disbursement activity. 	6/30/2005		6/30/2005
<ul style="list-style-type: none"> – Developed and implemented changes in the program and financial software to record obligations at the transaction level. 	TBD ¹		Discontinued
<ul style="list-style-type: none"> • Improvement needed in controls to ensure funds control and budgetary transactions are properly supported, recorded timely and accurately. 	9/30/2009		
<ul style="list-style-type: none"> – Document and evaluate current system of budgetary accounting controls, identify deficiencies, develop and implement improved, well-defined control processes, as part of OMB A-123 Appendix A assessment of CCC's internal controls over financial reporting. 	9/30/2006		
<ul style="list-style-type: none"> – Obtain contractor training for financial management staff in budgetary accounting and analysis. 	9/30/2006		
<ul style="list-style-type: none"> – Implement organizational structure changes to leverage expertise and improve performance in financial and budgetary accounting policy documentation, reconciliations, analysis, and review. 	9/30/2006		
<ul style="list-style-type: none"> – Analyze current feeder systems to determine compliance with financial data requirements and if required financial data are being transmitted to the Core financial system. Identify feeder system gaps and costs to correct. 	9/30/2009		

SYSTEMS, CONTROLS AND LEGAL COMPLIANCE

Area of Noncompliance/Proposed Corrective Actions	Target Completion Date	Revised Completion Date	Actual Completion Date
Section 3 – Standard General Ledger at the Transaction Level			
– Identify compensating controls to address material weakness and ensure requirements are incorporated into the next generation of program feeder systems.	9/30/2006		
– Enhance existing financial web services, such as the National Payment Service and e-Funds control systems, and increase CCC programs using these systems.	9/30/2007		
– Implement a new integrated financial management system that includes funds control functionality, under OMB Financial Management-Line of Business.	TBD		
¹ Additional transaction codes are being added to automate the liquidation of obligation balances. Reports have been developed to improve oversight of obligation balances and ensure activity is being recorded in a timely fashion. The actual posting process at the transaction level remains manual for most programs. USDA has determined that some changes cannot be made due to system or business process limitations. In those cases, USDA has implemented such compensating controls as program analysis, reviews of account balances and confirmations of balances with program managers. Obligation balances are being posted monthly and automated sources for data are being utilized.			
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) noncompliance and therefore are not repeated in Section 4.			