

III. SYSTEMS, CONTROLS AND LEGAL COMPLIANCE

INSPECTOR GENERAL ACT AMENDMENTS OF 1988 MANAGEMENT'S REPORT ON FINAL ACTION (AUDIT FOLLOW-UP)

Introduction

USDA's Office of the Chief Financial Officer (OCFO) oversees audit follow-up for the Department. OCFO works with agencies and the Office of Inspector General (OIG) to identify and resolve issues that affect the timely completion of corrective actions.

The Inspector General Act Amendments of 1988 require reporting on audit reports that remain open more than one year past the date of management decision. The report must include:

- Beginning and ending balances for the number of audit reports and dollar value of disallowed costs and funds to be put to better use;
- The number of new management decisions reached;
- The disposition of audits with final action; and
- For each audit report, the date issued, dollar value and an explanation of why final action has not been taken. For audits in formal administrative appeal or legislative solution, reporting may be limited to the number of affected audits.

Specific definitions of terms used in this section are provided on the next page.

Highlights

During FY 2003, USDA agencies completed corrective actions on 65 audits. An additional 55 audits reached management decision. The current inventory of audits with management decision is 217, down from 227 at the beginning of the year.

Audit Follow-Up Process

Audit follow-up ensures that prompt and responsive action is taken once management decisions are reached on recommendations contained in final audit reports. USDA agencies are required to prepare combined time-phased implementation plans and interim progress reports for all audits that remain open one or more years beyond the management decision date. Time-phased implementation plans are 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.

Agencies also provide quarterly interim progress reports 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.

Exhibit 83: Audit Follow-Up Definitions

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

Resolved Audit Inventory

Resolved audits are those for which management decisions have been reached on all recommendations in the audit report.

At the beginning of the fiscal year, USDA agencies and OIG reached management decisions on all recommendations in 227 audits. During the fiscal year, agencies and OIG reached management decisions on an additional 55 audits. Management completed corrective actions on 65 audits. The total resolved audit inventory is 217, which includes 5 audits in appeal status.

Exhibit 84: Decrease in Total Resolved Audit Inventory

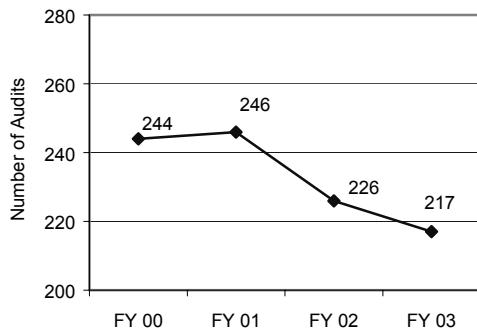
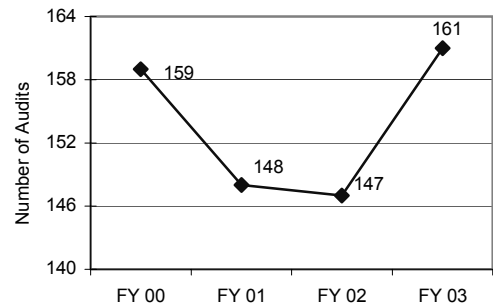


Exhibit 85: Increase in Reportable Audits



The number of reportable audits represents those audits with management decisions but without final action one or more years past the management decision date. Although the number of reportable audits has increased, the percentage of audits behind schedule remained at 60 percent (88 of 147 in FY 02 and 96 of 161 in FY 03.) Agencies have completed corrective actions on 56 audits that only are pending collection of associated disallowed costs. An additional 21 audits are scheduled for completion by September 30, 2003; however, final action documentation will not be evaluated this reporting period.

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

Of the 65 audits that achieved final action during the period, 34 audits contained disallowed costs. The number of disallowed cost audits remaining in the inventory at the end of the fiscal year is 97 with a monetary value of \$99,386,645.

Final action occurred on 10 audits that involved funds to be put to better use (FTBU) amounts. USDA projects more efficient use for 99 percent of the amount identified, based on the corrective actions implemented.

Exhibit 86: Inventory of Audits With Disallowed Costs

Disallowed Costs	# of Audits	Amount (\$)
Beginning Balance	111	\$126,636,309
Plus: New Management Decisions	20	\$18,189,115
Total Audits Pending Collection	131	144,825,424
Adjustments		(13,783,963)
Revised Subtotal		131,041,461
Less: Final Actions	34	
Disallowed Costs Recovered		(3,654,816) ¹
Property in Lieu of Cash		(28,000,000)
Audits Pending Final Action at the End of the Period	97	99,386,645

¹This amount does not include \$83,019 of interest collected.

The number of FTBU audits remaining in the inventory to date is 44 with a monetary value of \$618,691,774.

Exhibit 87: Inventory of Audits With Funds to be Put to Better Use

Funds to be Put to Better Use	# of Audits	Amount (\$)
Beginning Balance	45	\$586,962,365
Plus New Management Decisions	9	\$49,032,556
Total Audits Pending	54	635,994,921
Less: Final Actions	10	
Funds to Be Put to Better Use:		
FTBU Implemented		17,175,794
FTBU Not Implemented		127,353
Total FTBU Amounts		17,303,147
Audits Pending Final Action at The End of The Period	44	618,691,774

Adjustments to Disallowed Costs

For audits with disallowed costs that achieved final action, OIG and management agreed to collect a total of \$45,438,779 of which \$31,654,816 was recovered. However, OIG and management made adjustments worth \$13,783,963 (30 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.

Exhibit 88: Distribution of Adjustments to Disallowed Costs

Category	Amount (\$)
Change in Management Decision	267,741
Legal Decision	11,639,005
Write-Off	1,172,512
Agency Documents	455,932
Agency Discovery	33,002
Appeal	215,771
Total	\$13,783,963

Reportable Audit Statistics by USDA Agency

Reportable audits are separated into three groups:

- Audits without final action for which corrective action is continuing as planned and deemed to be on schedule;
- Audits behind schedule which have missed their original estimated completion dates; and
- Audits for which all administrative actions have been completed and the only action remaining is the collection of disallowed costs.

Exhibit 89: Distribution of Audits, Disallowed Costs and FTBU by USDA Agency

Agency	Audits On Schedule			Audits Behind Schedule			Audits Under Collection		
	No.	DC(\$)	FTBU(\$)	No.	DC(\$)	FTBU(\$)	No.	DC(\$)	FTBU(\$)
AMS	1	-	-	-	-	-	-	-	-
APHIS	-	-	-	3	-	-	4	8,891,635	-
ARS	-	-	-	1	-	-	-	-	-
CR	1	-	-	-	-	-	-	-	-
DA	-	-	-	4	27,259	249,866	-	-	-
FNS	1	41,898	6,145,810	12	8,840	67,220,249	8	9,514,741	499,860
FS	1	2,500,000	-	25	1,350,000	70,269,210	-	-	-
FSA/CCC	-	-	-	8	697,225	208,043,386	32	21,659,558	8,540,768
FSIS	-	-	-	2	-	-	-	-	-
NASS	-	-	-	2	-	-	-	-	-
NRCS	-	-	-	2	-	2,970,003	1	21,033,708	-
OCFO	5	-	-	1	-	-	-	-	-
OCIO	-	-	-	2	-	-	-	-	-
RBS	-	-	-	4	4,202,351	100,000	1	850,000	-
RD	-	-	-	3	-	-	1	264,000	-
RHS	-	-	-	17	1,268,495	189,366,322	2	25,102	-
RMA	-	-	-	9	69,217	23,818	6	1,650,792	13,264,866
RUS	-	-	-	1	-	-	1	35,118	-
Totals	9	2,541,898	6,145,810	96	7,623,387	538,242,854	56	63,924,654	22,305,494

Reportable audits that are behind schedule are listed individually and categorized by the reason final action has not occurred. The categories are:

- 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 the General Counsel (OGC) or OIG advice;
- Conclusion of external action; and
- Administrative action.

Audits previously reported to Congress are identified by an asterisk.

USDA Performance and Accountability Report for FY 2003
Systems, Controls and Legal Compliance

Exhibit 90: Audits One Year or More Past the Management Decision Date and Behind Schedule

Audits	Date Issued	Estimated Completion Date	Audit Title	Monetary Amount	
				DC (U.S. dollars)	FTBU (U.S. dollars)
(42) Pending issuance of policy/guidance					
03006-1-AT	09/19/95	12/31/03	FSA Management of the Dade County, Florida ASCS Office	684,642	-
03601-15-KC*	03/31/00	10/31/03	FSA Emergency Conservation Program	12,583	2,794,586
03601-36-TE*	06/08/00	03/31/04	FSA Farm Loan Program Guaranteed Loans	-	205,248,800
04099-1-AT	06/01/01	02/28/04	RHS Guaranteed Multi-Family Housing Loans	-	-
04099-1-HQ*	02/01/96	02/28/04	RHS Legislative Proposals to Strengthen the Rural Rental Housing Program	-	-
04099-3-KC	02/25/02	12/31/03	RHS FY 2001 Financial Statement Field Confirmation Review, Nebraska	-	-
04600-5-KC*	09/30/93	02/28/04	RHS Rural Rental Housing Program, Servicing of HUD Section 8/515 Projects	-	4,815,119
04600-47-CH*	09/30/94	02/28/04	RHS Rural Rental Housing Program, Management Operations	-	-
04601-1-KC*	12/16/96	02/28/04	RHS Rural Rental Housing Program, Additional Servicing of Section 8/515 Projects	65,910	33,147,535
04801-4-CH*	02/12/99	01/31/04	RHS Evaluation of Rural Rental Housing Tenant Income Verification Process	-	-
05600-4-TE*	09/30/93	03/30/04	RMA FCIC Crop Year 1991 Claims	-	-
05601-5-TE*	03/15/99	12/31/03	RMA Prevented Plantings of 1996 Insured Crops	69,217	23,818
08001-2-HQ	03/29/02	03/31/04	FS Aviation Security Over Aircraft Facilities	-	-
08002-2-SF*	11/28/00	11/28/03	FS Valuation of Lands Acquired in Congressionally Designated Areas Land Adjustment Program	-	-
08003-2-SF*	08/05/98	11/28/03	FS Toiyabe/Humboldt National Forest Land Adjustment Program	-	27,900,000
08003-5-SF*	12/15/00	12/31/03	FS Land Acquisitions and Urban Lot Management Program	-	10,329,300
08003-6-SF*	07/14/00	11/28/03	FS Zephyr Cove Land Adjustment	1,350,000	18,700,000
08099-6-SF*	03/27/01	12/31/03	FS Security Over USDA Information Technology Resources	-	-
08099-37-AT*	08/24/92	09/30/03	FS FY 1991 Financial Statements	-	-
08099-42-AT*	08/03/93	09/30/03	FS FY 1992 Financial Statements	-	-
08401-4-AT*	07/18/96	12/31/03	FS FY 1995 Financial Statements	-	-
08401-7-AT*	07/13/98	09/30/03	FS FY 1997 Financial Statements	-	-
08401-12-AT	02/26/02	03/31/04	FS FY 2001 Financial Statements	-	-
08601-1-AT*	03/29/96	12/31/03	FS Management of Hazardous Waste at Active or Abandoned Mines	-	1,950,000
08601-7-SF*	05/23/95	11/28/03	FS Controls Over Research Services Provided to External and Forest Service Clients	-	5,024,245
08601-27-SF	03/28/02	11/28/03	FS Review of National Land Ownership Adjustment Team Effectiveness	-	-
08801-3-AT*	06/16/00	09/30/03	FS Real and Personal Property Issues	-	-
08801-6-SF*	01/19/00	11/28/03	FS Land Adjustment Program San Bernadine National Forest & South Zone	-	-
23099-1-FM*	03/30/00	TBD	OCIO Security Over Data Transmission in the Department Needs Improvement	-	-
24601-1-CH*	06/21/00	03/31/04	FSIS Food Safety and Inspection Service Laboratory Testing of Meat and Poultry Products	-	-
27010-11-CH*	08/25/97	09/30/04	FNS National School Lunch Program – Verification of Applications in Illinois	-	31,200,000
27099-13-SF*	03/23/01	12/31/03	FNS Appeal Process	-	-
27600-6-AT*	03/31/95	09/30/04	FNS Day Care Homes Nationwide	-	-
27601-3-CH*	03/22/96	09/30/04	FNS Food Stamp Program—Disqualified Recipient System	-	-
27601-7-SF*	08/23/99	09/30/04	FNS Presidential Initiative: Operation Kiddie Care	-	34,551,576
33601-1-CH*	06/29/96	01/31/04	APHIS Licensing of Animal Exhibitors	-	-

USDA Performance and Accountability Report for FY 2003
Systems, Controls and Legal Compliance

Exhibit 90: Audits One Year or More Past the Management Decision Date and Behind Schedule

Audits	Date Issued	Estimated Completion Date	Audit Title	Monetary Amount	
				DC (U.S. dollars)	FTBU (U.S. dollars)
34001-1-HQ*	12/17/96	12/31/04	RBS Minority Enterprise Financial Acquisition Corp., Cooperative Agreement, Kansas City, KS	150,000	100,000
34099-2-AT	09/14/01	01/30/04	RBS Business and Industry Loan Program, Fort Gaines, GA	4,052,351	-
34601-1-HY*	07/22/98	12/31/03	RBS Business and Industry Loan Program—Morgantown, West Virginia	-	-
50099-4-HQ	10/16/01	09/30/03	OO USDA's Physical Critical Infrastructure Program	-	-
50801-3-HQ*	09/29/97	08/31/04	FSA Minority Participation in FSA's Farm Loan Program	-	-
85099-1-HQ	09/10/01	12/31/04	RD Cooperative Agreement with the Washington State Department of Community, Trade, and Economic Development	-	-
(6) Pending conclusion of investigation, negotiation or administrative appeal					
04801-3-KC	03/31/99	10/31/03	RHS Bosley Management, Inc. – Sheridan Wyoming	146,690	85,516
04801-6-HY*	03/17/99	09/30/03	RHS Rural Rental Housing Program, Lewiston Properties, Fayetteville, NY	-	-
05099-2-KC*	07/14/98	07/31/04	RMA Quality Control for Crop Insurance Determinations	-	-
23801-1-HQ*	08/20/98	03/31/04	OO Review of Office of Operations Contract with B&G Maintenance, Inc.	-	249,866
27099-22-CH	02/22/02	TBD	FNS Opportunities Industrialization Center of Greater Milwaukee	8,840	1,468,673
34004-5-HY*	02/18/00	TBD	RBS Audit of Procurement Operations, Virginia State Office, Richmond, Virginia	-	-
(16) Pending receipt and/or processing of final action documentation					
04601-2-AT	03/25/99	10/17/03	RHS Guaranteed Rural Housing Loan Program	5,928	139,146,407
04801-9-SF*	01/27/99	12/30/03	RHS Rural Rental Housing Program—DBSI Realty Corporation, Boise, ID	8,794	20,850
04801-11-TE	09/23/99	09/30/03	RHS Calhoun Property Management—Mansfield, Louisiana	1,034,459	11,896,622
05099-1-KC*	03/03/98	11/30/03	RMA Transfer of Catastrophic Risk Protection Policies to Reinsured Companies	-	-
05099-6-KC*	09/30/99	11/30/03	RMA Servicing of Catastrophic Risk Protection Policies	-	-
05401-8-FM	03/30/00	10/31/03	RMA FY 1999 FCIC Financial Statements Report on Management Issues	-	-
08401-9-AT*	02/25/00	09/30/03	FS FY 1999 Financial Statements	-	-
08601-4-AT*	03/31/98	09/30/03	FS Wildlife and Fisheries Habitat Management	-	148,049
08601-25-SF*	06/22/01	09/30/03	FS Working Capital Fund Enterprise Services	-	2,600,000
08801-3-SF*	06/16/00	09/30/03	FS Financial Disclosure and Outside Employment Reporting Requirements	-	-
24601-1-FM	04/04/01	10/30/03	FSIS Review of FSIS Staffing and Budget Management	-	-
50099-3-TE*	07/20/01	10/01/03	NRCS Grants/Agreements with the National Fish and Wildlife Foundation	-	2,970,003
50099-5-HQ	06/27/02	09/30/03	DA Locating New Office and Facilities in Rural Areas	-	-
50099-11-FM*	03/25/98	10/31/03	DA Review of Controls in the Payroll/Personnel and T&A Systems	27,259	-
50601-2-CH*	03/30/01	12/30/03	RD Verification of the Government Performance and Results Act – Program Performance in Rural Development	-	-
85401-6-CH	02/27/02	12/30/03	RD FY 2001 Financial Statement Audit	-	-
(14) Pending systems development, implementation, or enhancement					
02099-1-FM	12/04/01	09/30/05	ARS IT Security	-	-
03099-32-KC*	12/22/99	09/30/03	FSA Controls Over Administrative Payment Operations	-	-
04099-72-FM*	09/28/90	09/30/03	RHS Collection Systems and Other Selected Areas	313	254,273
06401-11-FM	07/13/00	03/31/04	CCC FY 1999 Financial Statements	-	-
06401-14-FM	06/27/01	03/31/04	CCC FY 2000 Financial Statements	-	-

USDA Performance and Accountability Report for FY 2003
Systems, Controls and Legal Compliance

Exhibit 90: Audits One Year or More Past the Management Decision Date and Behind Schedule

Audits	Date Issued	Estimated Completion Date	Audit Title	Monetary Amount		
				DC (U.S. dollars)	FTBU (U.S. dollars)	
08001-1-HQ*	06/28/00	03/31/05	FS Implementation of the Government Performance and Results Act	-	-	
09600-5-HQ*	04/01/92	09/30/04	RUS FY 1991 Management Letter	-	-	
10099-1-TE	02/01/02	09/30/04	NRCS Security Over IT Resources	-	-	
26099-2-FM	03/25/02	09/30/03	NASS Information Technology Security	-	-	
27099-4-KC*	01/31/00	10/31/04	FNS Food Stamp Program Participation by Disqualified Retailers	-	-	
27099-18-HY*	09/05/01	12/31/03	FNS Security Over Information Technology Resources	-	-	
27601-8-CH*	01/21/97	10/31/04	FNS Food Stamp Program—Retailer Monitoring with Store Tracking and Redemption Subsystem	-	-	
50401-21-FM*	05/29/98	09/30/06	RHS Audit of the Rural Development Consolidated Financial Statements for FY 1996	-	-	
50601-3-CH*	07/23/01	12/30/03	APHIS Assessment of APHIS & FSIS Inspection Activities to Prevent the Entry of Foot and Mouth Disease	-	-	
(6) Pending results of internal monitoring or program review						
05099-1-TE*	09/30/97	07/31/04	RMA Reinsured Companies Actual Production History Self-Reviews	-	-	
05600-1-TE*	09/28/89	07/31/04	RMA Crop Year 1988 Insurance Contracts with Claims	-	-	
26099-1-FM*	05/14/01	09/30/03	NASS Security of NASS Information Technology Resources	-	-	
27099-9-HY*	12/14/99	09/30/03	FNS State Option Food Stamp Program	-	-	
27401-8-HY*	06/27/97	09/30/05	FNS FY 1996 Financial Statements	-	-	
50099-28-FM*	07/18/00	12/31/03	OCIO President's Council on Integrity and Efficiency Critical Infrastructure Protection Review	-	-	
(4) Pending results of request for change in management decision						
05099-8-KC*	03/31/00	TBD	RMA Standard Reinsurance Agreement Reporting Requirements	-	-	
08099-9-TE	06/22/01	09/30/03	FS Challenge Cost Share Program	-	-	
08401-1-AT*	06/20/95	10/31/03	FS FY 1994 Financial Statements	-	-	
50099-19-FM	01/02/01	10/31/03	OCFO Review of Controls Over Selected USDA Administrative Systems	-	-	
(1) Pending OGC or OIG advice						
33004-1-AT	03/07/00	TBD	APHIS Plant Protection and Quarantine Activities in Florida	-	-	
(5) External Action Required						
04004-4-CH*	03/13/98	12/31/03	RHS Evaluation of Rural Rental Housing Tenant Income Verification Process in East Lansing, MI	6,401	-	
04801-5-KC*	11/02/98	11/01/03	RHS Rural Rental Housing Program, Brookview Management, Inc., St. Louis, MO	-	-	
08601-5-SF*	09/30/93	09/30/05	FS Graduated Rate Fee System	-	3,617,616	
08801-4-TE*	02/15/98	11/28/03	FS Collection of Royalties on Oil and Gas Production	-	-	
27010-24-SF	01/09/02	10/31/03	FNS Child and Adult Care Food Program Crystal Stairs, Inc.	-	-	
(2) Pending Administrative Action						
03099-47-KC	10/31/01	09/30/03	FSA Security Over FSA/CCC IT Resources	-	-	
04099-1-HY*	11/07/95	12/31/03	RHS Rural Rental Housing Program, Whistleblower Complaint, San Juan, PR	-	-	
Total Number Audits (96)				Total \$	7,623,387	538,242,854

FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT REPORT ON MANAGEMENT CONTROLS

Background

USDA has made substantial progress by reducing the number of material deficiencies to eight. This result continues the downward trend that began in FY 2000 when there were 33 material deficiencies. It further demonstrates the Department's commitment to operating its programs efficiently and effectively in accordance with the Federal Managers' Financial Integrity Act (FMFIA). FMFIA requires agencies to provide reasonable assurance that:

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

Additionally, FMFIA requires a separate statement as to whether financial management systems conform to standards, principles and other requirements to ensure that Federal managers have timely, relevant and consistent financial information for decision-making purposes. USDA's goal is to eliminate material internal control weaknesses and financial system nonconformances by the end of FY 2004, which complements the related goal of sustaining an unqualified audit opinion. This will be achieved through the continuous evaluation of USDA programs, operations and financial systems; financial-statement audits, other OIG and GAO audits; management and system reviews; and prompt attention to correcting the causes of identified weaknesses.

Under the Federal Financial Management Improvement Act (FFMIA), agencies are required to report whether financial management systems substantially comply with the Federal financial management systems requirements, Federal accounting standards and the U. S. Government Standard General Ledger at the transaction level. If any agency is not in compliance, it must implement a remediation plan to upgrade its financial management systems. Three USDA component agencies have outstanding FFMIA noncompliances. Remediation plans will be included in the *FY 2003 Five-Year Financial Management Plan*. USDA's administrative systems are FFMIA compliant.

Highlights

The "Message from the Secretary" provides USDA's assurance statement for FMFIA reporting. This message states that USDA complies with the objectives of FMFIA Sections 2 (internal controls) and 4 (financial management systems), except for the weaknesses described in this section. In cooperation with OIG and the Office of the Chief Financial Officer (OCFO), Agency heads and managers have worked diligently to address and correct existing and any newly discovered weaknesses.

USDA agencies provided annual assurance statements and reports on material weaknesses and/or financial management system nonconformances. At that time, a determination was made as to whether the weaknesses were agency-level material deficiencies. OCFO staff reviewed each agency-level material deficiency to determine whether it met the criteria for a Departmental material deficiency. The criteria for reportable, corrected and downgraded material weaknesses and financial management system nonconformances are listed on the next page.

During the fiscal year, USDA reduced the number of material deficiencies by more than half. The Department exceeded its projected target by closing 12 material deficiencies. USDA began the year with 19 material deficiencies and completed or determined that 12 weaknesses were no longer material. The De-

partment also added one new material weakness for a year-end total of eight outstanding material deficiencies. Six material weaknesses and two financial management system nonconformances account for the outstanding material deficiencies. While one material weakness and one financial management system nonconformance scheduled for completion have been delayed until FY 2004, one other material weakness was completed ahead of schedule, and seven were determined to be no longer material. The FY 2004 goal is to eliminate the remaining material deficiencies.

Management Controls Program

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

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

USDA Guidelines for Reportable Material Deficiencies

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

- Merits the attention of the Executive Office of the President and the relevant Congressional oversight committees;
- Violates statutory or regulatory requirements;
- Deprives the public of needed services;
- Significantly weakens safeguards against waste, loss, unauthorized use or misappropriation of funds, property or other assets;
- Significantly impairs fulfillment of the Department's mission;
- Results in a conflict of interest; or
- Is of a nature that omission from the annual *Report on Management Controls* could reflect adversely on the actual or perceived management integrity of the Department.

A Departmental material financial system nonconformance satisfies one or more of the following criteria:

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

USDA Guidelines for Reporting a Corrected or Downgraded Material Deficiency

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

- The demonstrated commitment of senior-level managers to resolve the material deficiency as evidenced by resource deployment and frequent and regular monitoring of corrective action progress;

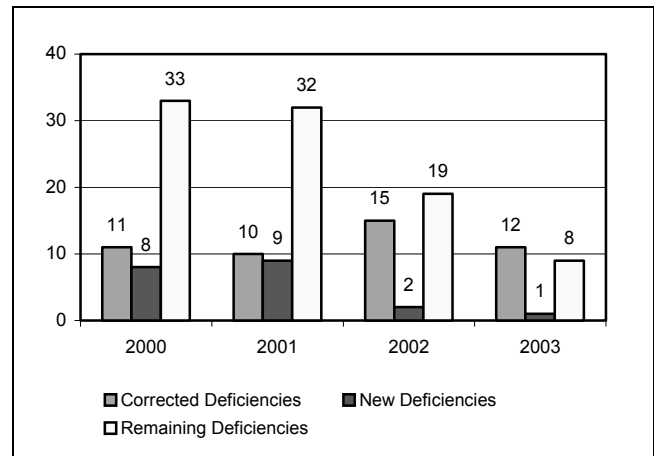
- Provided substantial and timely documented progress in completing corrective actions for the material deficiency;
- Completed the most significant corrective actions, with the remaining actions being minor in scope and not having a material effect on the program or operation; and
- Implemented corrective actions that have eliminated or minimized the cause(s) of the material deficiency.

Material Weaknesses and Nonconformances Reported in the FMFIA and FFMIA

Information technology (IT) is a major issue for USDA. It impacts the Department's ability to efficiently and effectively deliver its programs and provide meaningful and reliable reporting. While the Department and its agencies continue to improve the security over its IT resources, significant progress is still needed.

USDA's ability to protect its assets from fraud, misuse and disruption needs strengthening. The Department, under the direction of the Office of the Chief Information Officer (OCIO), will continue to develop policy, publish guidance and regulations, and provide training in the areas of information system risk assessment and mitigation, physical and logical access controls, disaster recovery and contingency planning, intrusion detection and response, certification and accreditation, and security awareness. The Exhibit on the next page provides a description and a summary of the corrective actions planned for the remaining material deficiencies.

Exhibit 91: Material Deficiencies Decline



Historical Data on Material Deficiencies

The Department has reduced the number of material deficiencies from a high of 33 in FY 2000 to 8 for FY 2003. This result is a 76-percent decrease in the number of outstanding material deficiencies reported during the past four years. Corrected deficiencies continue to exceed the number of new deficiencies reported.

Exhibit 92: Summary of Outstanding Material Deficiencies and Estimated Completion Dates

Responsible Agency	Material Deficiency Description	Corrective Actions Remaining To Be Taken	Year Identified	Current Estimated Completion Date
Section 2 Material Weaknesses				
FNS	94-01: Management of the Child and Adult Care Food Program (CACFP): Management and monitoring of weaknesses in the CACFP need strengthening. Sponsoring organizations have been identified as receiving excessive Federal funding for meal service and administration.	Publish the CACFP management improvement regulations. Conduct management evaluations in approximately half of the CACFP SAs. Reassess, revise, and implement training on final regulations.	FY 1994	FY 2004
	99-01: National School Lunch (NSL) and Breakfast Program Eligibility: Data indicate a problem with the integrity of household eligibility determination for free and reduced-price meals.	Develop and implement legislative provisions requiring SAs to collect and report on data verification activities to FNS.	FY 1999	FY 2004
	01-01: Procurement in the Child Nutrition Program: Improper procurement of goods and services have been found to occur in the NSL, School Breakfast and CACFP and Summer Food Service Programs.	Revise procurement guidance and evaluate its effectiveness against improper procurement of goods and services.	FY 2001	FY 2004
FS	03-01: Internal Control Weakness: Overall financial management controls not adequate.	Provide training and issue new policy requiring supervisory review of property transactions and to improve capitalization controls. Finalize the process to certify payroll.	FY 2003	FY 2004
OCIO	00-01: USDA Information Security Weaknesses: Weaknesses have been identified in the Department's ability to protect its assets from fraud, misuse, and disruption.	Improve controls in the Department's information security in the areas of risk assessment and mitigation, physical and logical access controls, disaster recovery and contingency planning, intrusion detection and response, certification and accreditation and security awareness.	FY 2000	FY 2004
RD	96-02: Oversight of the Multi-Family Housing Program (MFH): The MFH Program lacks adequate oversight and internal controls which has led to program abuse by program participants.	Publish Final Rule for Multi-Family Housing Loan Programs.	FY 1992	FY 2004
Section 4 Financial Management System Nonconformances				
RD	94-01: Direct Loan Servicing and Reporting Subsystem: Direct Loan Servicing and Reporting system not in compliance with OMB Circular A-127, "Financial Management Systems."	Complete incremental implementation of the Rural Utilities Loan Servicing System to replace legacy loan systems.	FY 1994	FY 2004
FSA	00-01: Foreign Credit Reform Systems: Systems are not full automated and integrated into the Commodity Credit Corporation's Core Accounting System (CORE).	Implement new General Sales Manager System to interface directly with the CORE general ledger and replace the Financial Management System accounting structure in the Automated P.L. 480 Umbrella System (APLUS) with the CORE accounting structure.	FY 2000	FY 2004

Exhibit 93: Material Deficiencies Aging Analysis

Fiscal Year Identified	2000 and Prior	2001	2002	2003	Total
Beginning Balance FY 2003	11	6	2	-	19
Add: New Weaknesses Reported in FY 2003	-	-	-	1	1
Deduct: Completed or Deemed Nonmaterial	5	6	1	-	12
Pending Completion	6	0	1	1	8

Summary of Corrected or Downgraded Material Weaknesses

Material deficiencies for corrective actions completed or deemed no longer material as of September 30, 2003, are summarized below.

Exhibit 94: Material Deficiencies Corrected or No Longer Material

Responsible Agency	Number and Title of Material Deficiencies	Year Identified	Status Completed/Downgraded
DA	01-01: USDA's Agencies' Internal Control Purchase Card Management System (PCMS)	2001	Completed
FNS	91-01: Management of Food Stamp Program Recipient Claims	1991	Downgraded
	91-02: Administration of the Food Stamp Program (FSP) at State Agencies	1991	Downgraded
	01-02: Administrative Cost Reimbursement Made to Partner Agencies Operating Food Assistance Programs Under the Auspices of FNS	2001	Downgraded
FS	91-02: Adequacy of Financial Systems	1989	Downgraded
	92-01: Administration of Lands Special Use Permits	1992	Downgraded
	00-01: Performance Reporting	2000	Downgraded
	01-01: Timber Sale Environmental Analysis	2001	Downgraded
FSA	01-01: Reimbursable Claims Not Made for Excess Ocean Freight Payments	2001	Completed
OCFO	01-01: USDA's Financial Statement Preparation is Not Timely or Reliable	2001	Completed
OCIO	01-01: Information Security Weaknesses at the National Information Technology Center (NITC)	2001	Completed
	02-01: Security Weaknesses in USDA's Controls Over Web Site Content	2002	Completed

Material Weaknesses Corrected

DA-01-01: USDA's Agencies' Internal Controls Purchase Card Management System (PCMS)

USDA's Departmental Administration issued revised regulations and policies on PCMS, developed and deployed PCMS software oversight queries and completed ALERTS training for USDA agencies.

FSA-01-01: Reimbursable Claims Not Made for Excess Ocean Freight Payments

The Commodity Credit Corporation (CCC) submitted excess ocean freight billings to the Maritime Administration on the basis of finalized documentation. CCC also established accounts receivable for excess ocean freight for FYs 1994-2002 in the FY 2003 financial statements.

OCFO-01-01: USDA's Financial Statement Preparation is Not Timely or Reliable

USDA deployed the Financial Statements Data Warehouse October 1, 2002, and successfully used it to produce the *FY 2002 USDA Consolidated Financial Statements*. The Department also performed a comprehensive analysis regarding the ability to use Federal Agencies' Centralized Trial Balance System

(FACTS) file formats for interfacing programmatic data. The analysis showed that FACTS is not feasible for interfacing. Thus, USDA deployed a generic interface for summary financial data from the program systems.

OCIO-01-01: Information Security Weaknesses at the National Information Technology Center (NITC)

During FY 2003, NITC issued policy and procedures to require all new resources or services deployed by customer agencies to meet security requirements prior to implementation. Installation and review procedures outline and describe the requirements for all mid-range systems deployment including Operating System hardening procedures as specified by OCIO/Cyber Security. The NITC Foundation for Security Policy maps out a comprehensive “blueprint” for all security directives and policies issued by NITC. NITC established the S/390 Firewall system and completed Phase 2 of the Enterprise Cyber Security Project to separate Public and Intranet traffic. NITC common resources (TN 3270 and FTP) requiring public Internet access were identified and deployed in the Demilitarized Zone (DMZ). A DMZ is a computer host that prevents outside users from obtaining direct access to an organization’s data. The encryption of all sensitive data transported in and out of the DMZ through NITC common resources was enabled through the use of Secure Socket Layer for TN 3270/SSL and Secure/FTP. NITC customers are being notified of the encrypted services available from the public Internet and that all unencrypted access from the public Internet will be disallowed as of January 1, 2004.

OCIO-02-01: Security Weaknesses in USDA’s Controls over Web Site Content

OCIO published two departmental directives that provide guidance to USDA agencies in evaluating publications prior to being posted on Home pages or Web pages. The directives are designed to determine if any potential Web site content contains sensitive security information. The directives also include criteria for USDA agencies to use to challenge or eliminate such content. USDA maintains an inventory of agency Web sites.

Material Weaknesses Downgraded

A material weakness may have been downgraded for one of two reasons. The control vulnerability is no longer considered to be material or the vulnerability no longer exists based on absent or weakened control(s) that are within the span of the agency’s authority to correct. While downgraded as a material weakness, it is still possible for these problems to be reported in other sections of this report (such as improper payments or management challenges). USDA will continue to monitor and assess the downgraded weaknesses.

FNS-91-01: Management of Food Stamp Program Recipient Claims

Over the last several years, the Food Nutrition Service (FNS) has worked with Food Stamp Program State agencies to guide them toward improving claims systems and claims collection. FNS also implemented a review system by which regional offices monitor and evaluate recipient-claims activity in each State. This review is designed to identify systems that are working properly. Any State with significant problems is required to submit an acceptable corrective-action plan and timetable. Regions then monitor progress against the plan in each State. This emphasis has resulted in significant measurable progress:

- Today, the number of States passing review is 39, compared to only 10 in 1998; and
- The amount of Nationwide issuance by these 39 States is 72 percent. This is an increase from 23 percent of Nationwide issuance by States having acceptable claims systems in 1998.

FNS will continue to focus on this area and monitor State progress toward further improvement.

FNS-91-02: Administration of the Food Stamp Program (FSP) at State Agencies

During the past 15 years, FNS has established National control measures to guide State Agencies through error rate reduction efforts. These new measures have demonstrated progress; error rates have been reduced to the lowest in program history. During the fiscal year, FNS implemented a new methodology for a multi-tiered approach to error reduction. This methodology:

- Supported different levels of intervention based upon the size and status of each State;
- Enhanced the Quality Control and Payment Accuracy Extranet to include extensive payment accuracy materials;
- Implemented the revised *FNS Handbook 310* and associated forms;
- Began development of data analysis based on new reporting requirement;
- Implemented a monitoring process that allows for early identification and intervention to help States whose reported error rates are rising; and
- Published the *FSP Accuracy Best Practices Guide*.

FNS-01-02: Administrative Cost Reimbursement Made to Partner Agencies Operating Food Assistance Programs Under the Auspices of FNS

State agencies managing financial aspects of USDA food-assistance programs follow controls established under general Federal and program-specific guidelines when claiming Federal reimbursement for program operations and Automated Data Processing (ADP) acquisitions. During the fiscal year, FNS:

- Developed additional supportive guidance in key areas;
- Evaluated the effectiveness of the revised Special Supplemental Nutrition Program for Women, Infants and Children (WIC) cost allocation guidance;
- Provided training and technical assistance to the States;
- Planned and implemented the National Tracking System for tracking APDs;
- Participated on the ADP Reform Committee that produced decisions to pursue regulations to increase the submission threshold;
- Evaluated Financial Management reviews and single audits; and
- Determined that there were no new trends that indicated new national controls or guidance was necessary.

FS-91-02: Adequacy of Financial Systems

The Forest Service (FS) completed procedures for reconciling FFIS interfaces with subsidiary systems. It also defined the required documentation for reconciliations. FS developed financial statements from a single, official trial balance using USDA's new Financial Statements Data Warehouse. The agency established procedures to validate that the general ledger is in balance for budgetary and proprietary accounts. The procedures include all recorded transactions prior to preparing year-end financial statements. The pilot project for incident accounting was launched to address recommendations from the needs assessment. The project also incorporates new OMB direction. The results of the pilot testing were successful. FS now transfers obligations to FFIS daily. An electronic training package for managers was developed and currently is being reviewed. FS issued 27 CFO Bulletins in FY 2002 and 18 in FY 2003. The CFO Bulletins do not expire and carry the same authority as policy incorporated in the directives system.

FS-92-01: Administration of Lands Special Use Permits

FS continued its efforts to incorporate comments on proposed revisions to categorical exclusions for special uses. OMB classified the proposed rule as non-significant. Field units were trained on the requirements for special uses. The Final Rule is expected to be published October 2003.

FS-00-01: Performance Reporting

FS designated the Associate Chief and Chief Operating Officer as the responsible official for agency performance accountability. This designation includes the development of a Performance and Accountability System (PAS). A comprehensive action plan with milestones was developed for implementing PAS. Agency output measures were refined and linked to output measures in the strategic plan for development of the FY 2005 budget and inclusion in PAS. FS tied its measures to the Budget Formulation and Execution System activities. It also used the measures to assess and report on the performance of Agency programs, and for budget formulation.

FS-01-01: Timber Sale Environmental Analysis

FS drafted manuals and handbooks for standard review procedures of environmental assessments, and implementation of NEPA and other environmental regulations. Standard reviews were completed for 52 sales nationwide.