

~~75-0105~~

~~C-3~~

097001



REPORT TO THE CONGRESS

UNITED STATES
GENERAL ACCOUNTING OFFICE

JUN 18 1975

LIBRARY SYSTEM



Limited Progress Made In Developing Loan Accounting System

Farmers Home Administration
Department of Agriculture

**BY THE COMPTROLLER GENERAL
OF THE UNITED STATES**

FGMSD-75-37

JUNE 18, 1975

~~Z02355~~ **097001**



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-114873

C1 To the President of the Senate and the
Speaker of the House of Representatives

This report points out that further actions are needed by the Farmers Home Administration, Department of Agriculture, to develop its accounting system design for my approval and to correct previously reported deficiencies in accounting procedures and practices. The Department plans to submit the design for approval in April 1976 and has taken steps to correct the deficiencies.

We made our review pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

We are sending copies of this report to the Director, Office of Management and Budget; the Secretary of Agriculture; and the Administrator of General Services.

A handwritten signature in black ink, reading "James A. Atchafalua".

Comptroller General
of the United States

C o n t e n t s

	<u>Page</u>
DIGEST	i
CHAPTER	
1 INTRODUCTION	1
Organizational responsibilities	1
Scope of review	1
2 LIMITED PROGRESS MADE IN DEVELOPING LOAN ACCOUNTING SYSTEM	3
Weaknesses not yet corrected	3
Allowances for losses on loans not supported	4
Inaccurate account balances	5
Unsound method of determining administrative expenses chargeable to loan programs	7
Need for Office of Audit con- sultation in system develop- ment	7
System development work discontinued	8
Conclusions	9
Recommendations to the Secretary of Agriculture	10
Agency comments and actions	10
3 ADDITIONAL WEAKNESSES OBSERVED	12
System documentation not up to date	12
Duplicate records needed to permit continued ADP operations not stored at a remote site	13
Conclusion	14
Recommendations to the Secretary of Agriculture	14
Agency comments and actions	14
APPENDIX	
I Letter dated April 25, 1975, from the Under Secretary of Agriculture	15

APPENDIX

Page

II	Principal officials of the Department of Agriculture responsible for ac- tivities discussed in this report	18
----	--	----

ABBREVIATIONS

ADP	automatic data processing
ECRF	Emergency Credit Revolving Fund
FmHA	Farmers Home Administration
GAO	General Accounting Office

COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

LIMITED PROGRESS MADE IN
DEVELOPING LOAN ACCOUNTING
SYSTEM
Farmers Home Administration
Department of Agriculture

D I G E S T

WHY THE REVIEW WAS MADE

The Farmers Home Administration administers several loan programs designed to strengthen family farms, improve rural communities, and alleviate rural poverty. At June 30, 1974, loans made had outstanding balances totaling about \$4 billion. 358

The agency has 1 accounting system for 13 loan program operations; the same accounting procedures are generally used for all loan programs.

GAO reviewed the loan accounting system to determine whether previously reported deficiencies in accounting procedures and practices for the emergency loan program and in the financial statements of the Farmers Home Administration's Emergency Credit Revolving Fund had been corrected.

GAO also sought to determine why the agency had not developed and submitted the accounting system design to the Comptroller General for approval as required by the Budget and Accounting Procedures Act of 1950.

FINDINGS AND CONCLUSIONS

The Farmers Home Administration corrected several previously reported deficiencies in its accounting procedures. For example, it improved the procedures for accounting for interest costs on the Government's investment in loan programs and the computation of accrued interest receivable and interest income. Also, Agriculture's Office of Audit increased the scope and frequency of its audits and tested several aspects of the system design.

The Farmers Home Administration, however, has not corrected the following deficiencies in its loan accounting which GAO reported in 1970.

--Estimates of future losses (\$119.2 million at June 30, 1973) on loans are not adequately supported, and the accounting system does not provide adequate information on which to base an evaluation of the collectability of outstanding loans. (See p. 4.)

--Cash and property accounts are understated because transactions are not classified or recorded promptly. Cash balances were understated about \$6.1 million at June 30, 1973, and about \$256 million at December 31, 1973. Property was understated by at least \$1 million at December 31, 1973. (See pp. 5 and 6.)

--The method for determining administrative expenses chargeable to loan programs is not sound. In fiscal year 1973, about \$336,000 of costs applicable to loan programs were not recorded or reported as expenses of such programs. (See p. 7.)

Agriculture's Office of Audit did not consult with the agency while it was developing the loan accounting system to insure that adequate controls and audit trails were provided. (See p. 7.)

The Farmers Home Administration discontinued the system's development because other financial management projects had been given higher priority. (See p. 8.)

To achieve satisfactory progress, the agency should assign a higher priority to correcting deficiencies that GAO reported in 1970 and to designing an accounting system which will meet the principles, standards, and related requirements prescribed by the Comptroller General.

The Office of Audit, moreover, should monitor the system's development progress to insure that adequate internal controls and audit trails are included and to call attention to potential problem areas.

GAO also noted that system documentation was not up to date and that not all records needed to permit continued automatic data processing operations were duplicated and stored at a remote location.

RECOMMENDATIONS

The Secretary of Agriculture should direct the Administrator to:

- Assign a high priority to correcting weaknesses in the loan accounting system, developing its design, and establishing a firm target date for its submission to the Comptroller General. (See p. 10.)
- Establish procedures to insure that (1) documentation of the loan accounting system procedures and computer programs are kept up to date and complete and (2) all the records necessary for continued automatic data processing operations are duplicated and stored at a remote site. (See p. 14.)

The Secretary should direct the Office of Audit to consult with the Farmers Home Administration in developing the system and to monitor the progress of the development effort.

AGENCY ACTIONS AND UNRESOLVED ISSUES

Agriculture said the goal of its officials was to obtain approval of the loan accounting system by the Comptroller General and that April 1, 1976, was the target date for submitting the system for approval. The Department also has taken or plans to take action to:

- Define and develop better data on which to base allowances for losses on loans.
- Reduce the length of time collections remain undistributed and to record property transactions more promptly.
- Design an improved method to distribute administrative expenses to loan programs.

--Update the system documentation and to store essential files and operating instructions offsite.

In addition, the Office of Audit will consult with the Farmers Home Administration in developing the loan accounting system to insure that adequate controls and audit trails are provided.

MATTERS FOR CONSIDERATION BY
THE CONGRESS

The Accounting and Auditing Act of 1950 (31 U.S.C. 66) places responsibility for establishing and maintaining adequate systems of accounting and internal controls with the head of each agency. GAO is bringing this matter to the attention of the Congress because of continuing congressional interest in the development of adequate accounting systems in the Federal Government.

CHAPTER 1

INTRODUCTION

The Farmers Home Administration (FmHA) was established on November 1, 1946, pursuant to the Farmers Home Administration Act of 1946 (7 U.S.C. 1001 note), to simplify and improve credit services available to farmers and to promote farm ownership. FmHA operates 13 loan programs pursuant to authorities contained principally in the Consolidated Farm and Rural Development Act (7 U.S.C. 1921) and title V of the Housing Act of 1949 (42 U.S.C. 1471).

At June 30, 1974, loans made by FmHA had outstanding balances of about \$4 billion and loans guaranteed or insured by FmHA had outstanding balances of about \$9 billion.

ORGANIZATIONAL RESPONSIBILITIES

FmHA's Fiscal Division develops, recommends, and implements accounting systems under the guidance of the Deputy Administrator, Comptroller.

The Finance Office in St. Louis, Missouri, develops, recommends, and executes financial and program accounting and reporting requirements. About 500 employees at the Finance Office carry out FmHA's fiscal, business management, and accounting services.

FmHA prepares and maintains computer programs for its loan accounting activities. The Office of Automated Data Systems, a Department organization independent of FmHA, operates the computers.

The Department's Office of Audit makes internal audits of the loan accounting system.

SCOPE OF REVIEW

We directed our review toward evaluating the current state of development of FmHA's loan accounting system, including automatic data processing (ADP) aspects. We also followed up on the status of implementation of our recommendations for improving accounting for emergency loan programs made in our previous report (B-114873, Dec. 30, 1970). Generally, the accounting procedures and practices applicable to emergency loans are applicable also to FmHA's other programs.

We made our review primarily at the Finance Office in St. Louis. We also interviewed officials of the FmHA headquarters office, and the Office of Audit, Department of Agriculture, both in Washington, D.C.

Although our review included several aspects of the loan accounting system design, we did not make a complete review and our work was not a substitute for the evaluation and review of the design which we will make when it is submitted to the Comptroller General for approval.

CHAPTER 2

LIMITED PROGRESS MADE IN DEVELOPING

LOAN ACCOUNTING SYSTEM

The Accounting and Auditing Act of 1950 (31 U.S.C. 66) places responsibility for establishing and maintaining adequate systems of accounting and internal control with the head of each executive agency. The systems are required to meet the accounting principles, standards, and related requirements prescribed by the Comptroller General.

An accounting system should be responsive to the agency's financial management needs by providing cost and other financial data for planning, programming, budgeting, and controlling agency operations. It must provide for the requirements of other executive branch organizations, particularly those of the Office of Management and Budget for assisting the President in discharging his budgetary and other management responsibilities, and those of the Department of the Treasury in connection with its central accounting and reporting responsibilities. An accounting system must also produce the financial information needed to keep the Congress fully informed of the agency's financial status and the results of its operations.

The 1950 act requires that the Comptroller General approve accounting systems when they are deemed adequate and conform to his prescribed principles, standards, and related requirements. The Comptroller General approves the accounting system in two stages--the agency's statement of principles and standards and the design of the accounting system.

In April 1969 FmHA submitted a statement of accounting principles and standards to the Comptroller General for review and approval. The Comptroller General approved these principles and standards in May 1969. FmHA has not yet developed and submitted the design of its accounting system to the Comptroller General for approval.

WEAKNESSES NOT YET CORRECTED

In our December 30, 1970, report to the Congress concerning FmHA's accounting for emergency loan operations, we described several serious weaknesses in the accounting system.

Some of these weaknesses have been corrected, such as recording in the accounts and reporting in the financial statements the interest costs on the Government's investment in the loan programs, providing more accurate computations of accrued interest receivable and interest income, and improving internal audits of financial statements. However, several other weaknesses still exist in the accounting for other loan activities and the emergency loan operations.

Allowances for losses on loans
not supported

In 1970 we reported that we were unable to evaluate the reasonableness of the allowance for losses on loans receivable, accrued interest receivable, and judgments receivable, as shown in the Emergency Credit Revolving Fund (ECRF) financial statements. Finance Office officials were unable to explain how the allowance rates were developed or why the rates were indicative of the uncollectable amounts.

We also reported that FmHA's accounting system did not provide adequate information on which to base an evaluation of the collectability of outstanding loans. For example, the system did not provide information on the (1) total outstanding principal balance of loans on which some amounts were delinquent, (2) number of borrowers who were delinquent on one or more loans, or (3) amount of delinquent installments which were past due. Finance Office officials agreed that the system should provide data on the status of outstanding emergency loans to enable them to effectively evaluate the collectability of the loans.

At June 30, 1973, allowances for losses on loans receivable amounted to about \$119.2 million on outstanding loans of almost \$2 billion.

During our current review we observed that FmHA was continuing to follow the same procedures for establishing uncollectable amounts and that the accounting system still did not provide enough information to evaluate the collectability of outstanding loans.

In accordance with our responsibilities under section 202 of the Legislative Reorganization Act of 1970, as amended by the Congressional Budget Act of 1974, we have been specifying congressional information requirements on programs FmHA administered. We have specified such requirements for loan delinquency and default information, including aging information on delinquent loans. We have

also specified information requirements on loan collateral acquisitions.

In responding to our proposed report, the Under Secretary of Agriculture stated that data elements, which would take into consideration the aging of loans, as well as other factors which were relevant in the computation of allowances for losses, were being identified by a task force to meet FmHA's management objectives for reporting on delinquent borrowers. These elements would be combined with our proposed data elements for the new congressional budget process. Once the elements were defined, the accounting system would be modified to provide the information on which to base allowances for losses.

Inaccurate account balances

Cash understated

We previously reported that the cash balance shown on the December 31, 1968, ECRF Statement of Financial Condition was understated by \$10 million and that accounts and notes receivable from other Government agencies were overstated by the same amount because collections in that amount remained in a suspense account ^{1/} of another FmHA accounting entity and had not been transferred to ECRF until after December 31, 1968.

FmHA's accounting system had not been designed to aid timely clearing of cash collections initially deposited in the suspense account or to provide for initially depositing cash collections in the proper fund. Transferring the collections in the suspense account to ECRF took from 3 to 19 days. Finance Office officials told us that information on each loan account was being computerized and that, upon completing this project, the time would be reduced.

During our current review we observed that the Finance Office was continuing to initially deposit cash collections in the suspense account. Although the loan accounts had been computerized, transferring collections recorded in the suspense account to the appropriate funds and loan accounts still took from 18 to 21 days.

^{1/}An account used to record collections which, at the time received, cannot be definitely identified for credit to the proper account.

Treasury regulations require that suspense accounts be cleared to appropriate accounts every June 30. To comply with the regulations, as of June 30, 1973, the Finance Office distributed \$21.5 million from the suspense account to the various cash accounts for the loan programs. However, after these distributions were made, an additional \$6,148,290 was recorded in the suspense account; it was not distributed to the appropriate accounts as of June 30, 1973. On December 31, 1973, the suspense account balance was \$256 million. Consequently, on the financial statements prepared as of those dates, the cash balances in the cash accounts for the loan programs were understated and the loan and interest receivable balances were overstated by these amounts.

In commenting on our proposed report, the Department stated that payments sent by borrowers to the Finance Office were now being cleared from the suspense account in 1 day and that payments sent to county offices were being forwarded directly to the Finance Office and cleared from the suspense account in about 3 days. The Department expected shortly to reduce the 3-day lag to 1 day.

Property understated

We previously reported that the ECRF Statement of Financial Condition at December 31, 1968, showed that property acquired from borrowers through voluntary conveyances or foreclosure actions was understated by \$25,990 because FmHA had not recorded the value of two parcels of real estate that had been acquired. One parcel was acquired in May 1968 but was not recorded until April 1969; the other was acquired in November 1968 but was not recorded until June 1969. For all the property in the account, the time between acquisition and recording ranged from 51 to 462 days.

Our current review showed that FmHA was still delaying recording property acquired from borrowers. The acquired property account for one loan fund was understated by at least \$1 million at December 31, 1973, because of delays of 41 to 323 days in recording acquisitions.

The Department informed us that in October 1974 the property accounting records were converted from a manual operation to a computer operation. Property transactions were being sent directly to data conversion for computer processing when reported on the prescribed form. This eliminated delays that arose from the previous manual operations.

Unsound method of determining administrative expenses chargeable to loan programs

Costs of administering loan programs (salaries, travel, equipment rentals, etc.) are financed initially from the FmHA salaries and expense appropriation and are later distributed to the various loan funds and programs.

Our previous review showed that FmHA had not used a sound method for determining the costs of administering the emergency loan programs. We reported that administrative costs chargeable to the ECRF for the 6-month period ended December 31, 1968, were based on budget estimates rather than on actual costs. As a result, the administrative expenses included in the Statement of Income and Expense for the period ended December 31, 1968, did not give reliable information on the cost of administering the emergency loan program.

FmHA Finance Office officials told us they would develop an improved method when they designed their accounting system.

Our current review showed no changes had been made in the method of determining administrative expenses chargeable to loan programs. Three loan programs were charged only the budgeted cost for fiscal year 1973, although the costs determined by the Finance Office to be applicable to the loan programs were \$336,468 higher. The uncharged costs were borne by the salaries and expense appropriation and were not recorded or reported as an expense of conducting the loan programs.

The Department informed us that administrative expenses had been allocated to loan programs for years on the basis of a work measurement system and that an FmHA task force was making a study to design an improved system with the objective of obtaining meaningful program cost data.

Need for Office of Audit consultation in system development

In 1970 we recommended that the Department's Office of Audit (then the Office of the Inspector General) consult with FmHA to insure that the accounting system, as designed, would comply with accepted principles and standards.

In a letter dated February 4, 1971, the Department informed the Chairman, House Committee on Government Operations, that the Department's Office of Budget and Finance

was working closely with FmHA to assure that the design of FmHA's accounting system complied with accepted accounting principles and standards and that the Office of Audit would review the completed design to further assure that it complied with accepted principles and standards.

In our current review, we noted that the Office of Audit had increased the scope and frequency of its audits and had tested several aspects of the system design in its audits of FmHA accounts but that it had not consulted with FmHA in developing the system design. As stated in the GAO publication "Internal Auditing in Federal Agencies (1974)," internal audit staffs should be kept informed of proposed changes in methods, systems, and procedures, particularly those involving computer applications, so that they can contribute suggestions on them before they are put into effect. Participation by internal audit staffs helps to insure that adequate controls are established and that adequate audit trails are provided in the system so as to avoid costly changes after a new system has been installed. This participation does not include the responsibility for developing and installing methods, systems, or procedures.

In commenting on our proposed report, the Department stated that the Office of Audit would consult with FmHA in developing the loan accounting system to insure that, as work on the system progressed, adequate controls and audit trails were provided. The Department stated further that a comprehensive publication of monitoring standards had been prepared and was being distributed for use by Office of Audit field offices in reviewing system development work in all agencies of the Department.

SYSTEM DEVELOPMENT WORK DISCONTINUED

In our previous report on the audit of the financial statements of ECRF, we recommended that the Administrator, FmHA, assign adequate staff to the task of designing an accounting system which would meet the needs of FmHA managers and the requirements set forth by the Comptroller General.

FmHA stated that it was in general agreement with our recommendation and had hired accounting specialists to implement a financial management system as promptly as possible. FmHA also told us that problems such as those discussed in our report would be corrected as work on the system progressed so that future financial statements would show transactions accurately and would provide more reliable information to management.

At the request of the Chairman, House Committee on Government Operations, the Department commented on our report in its February 4, 1971, letter. The Department stated that (1) FmHA generally agreed with the audit findings, (2) it was giving top priority to designing an accounting system to meet the Comptroller General's requirements as well as the needs of FmHA management, (3) some of the deficiencies cited in our report had already been corrected, and (4) the remaining deficiencies would be corrected as the new accounting system design progressed.

On April 6, 1972, the Department announced its policy for developing a central accounting system which would provide uniformity of data and meet the requirements of the Comptroller General.

On March 1, 1973, the Department announced that current plans for establishing the central system called for excluding from centralization, segments of certain agency accounting systems, including the segment involving FmHA loan programs. The announcement further stated that agencies should continue improvement efforts devoted to segments of systems excluded from centralization.

On March 20, 1974, during hearings before a subcommittee of the House Committee on Appropriations, the Administrator, FmHA, was asked if GAO had approved FmHA's accounting system. He said that the accounting system had not been approved but that the system's documentation had been completed and the Department was reviewing it.

FmHA officials told us, however, that work on the accounting system design was discontinued in fiscal year 1973 because the Department's accounting systems had been centralized and other financial management projects had been given higher priorities.

CONCLUSIONS

Although the Comptroller General approved FmHA's statement of accounting principles and standards in May 1969, FmHA has made limited progress in designing and documenting its accounting system to meet the needs of FmHA managers and the requirements of the Comptroller General.

To achieve satisfactory progress, FmHA must assign a higher priority to correcting the reported weaknesses in its accounting system and to designing an accounting system which will meet the Comptroller General's requirements.

Moreover, the Office of Audit should monitor the progress of FmHA in developing the design to insure that adequate internal controls and audit trails are included in the system and to offer the Office of Audit the opportunity to independently appraise the system during development and to call attention to potential problems.

RECOMMENDATIONS TO THE
SECRETARY OF AGRICULTURE

We recommend that the Secretary of Agriculture direct:

- FmHA's Administrator to assign a high priority to correcting the weaknesses described in this section, developing the design of the loan accounting system, and establishing a firm target date for submitting it to the Comptroller General for approval.
- The Office of Audit to consult with FmHA in developing the loan accounting system and to monitor the progress of the development effort.

AGENCY COMMENTS AND ACTIONS

The Under Secretary of Agriculture, in commenting on our proposed report, stated that the goal of officials of the Department and of the Administrator, FmHA, was to obtain approval of the FmHA loan accounting system by the Comptroller General as required by the Budget and Accounting Procedures Act of 1950. After the Comptroller General's approval in May 1969 of FmHA's accounting principles and standards, the Department began initial development of the design of the system. However, it was considered advisable to study, in detail, the processing of certain transactions. It was discovered later that all of FmHA's accounting would have to be automated to have a successful system design and that additional computer processing capacity was needed to provide timely transaction processing and management reporting. Final system design had been delayed to carry out (1) management improvements resulting from the detailed studies of certain transactions and (2) new authorities FmHA had been given under the Rural Development Act of 1972, Emergency Livestock Credit Act of 1974, and Housing and Community Development Act of 1974.

The Department has established a target date of April 1, 1976, for submitting the FmHA accounting system design to the Comptroller General for approval. Because FmHA did not have enough staff resources to accomplish this objective, the Department plans to bring in expert consultants to tie

in FmHA's accounting system with the Department's central accounting system, as well as to design an FmHA accounting system which will be acceptable to the Comptroller General.

In view of the delays in developing the system design and submitting it to the Comptroller General for approval, it is important that the Department closely monitor the progress to insure that the target date of April 1, 1976, is met.

The Department's comments on the specific weaknesses noted in the accounting system described in this section and on the need for the Office of Audit to consult with FmHA in developing the loan accounting system are included in applicable sections of this chapter.

CHAPTER 3

ADDITIONAL WEAKNESSES OBSERVED

During our current review, we observed that accounting system documentation was not up to date and that not all the items necessary to permit continuity of ADP operations in the event of disaster were duplicated and stored at a remote site.

Comprehensive and current systems documentation is necessary for the continued efficient operation and success of any data processing system. System documentation describes the system's objective, a flow of data within the system, and the functions of the different processing steps and their interrelationships. It contains both flow charts and descriptive material.

Documentation is required to permit operating management and review personnel to understand the design of the system and how it operates; to evaluate internal controls; and to maintain continuity in operations, especially where personnel turnover is a problem.

SYSTEM DOCUMENTATION NOT UP TO DATE

In reviewing various aspects of the loan accounting system, we noted several instances where the system documentation was not up to date.

1. Public Law 93-86, dated August 10, 1973, authorized the Secretary of Agriculture to sell certificates evidencing beneficial ownership in blocks of insured or guaranteed notes. FmHA began selling certificates of beneficial ownership in December 1973; however, its accounting system documentation, including the documentation of the computerized operations, had not been revised to show this major change in accounting operations.
2. The current accounting system documentation identifies the financial reports that the accounting system is to produce for FmHA management use. One of the identified reports is the weekly "Report of Insured Loans Made from the Fund for Later Sale." This report has been discontinued. Another report--"Statement No. 6, Summary Statement of FmHA Programs"--identified as being produced semi-annually is currently being produced annually. These changes have not been incorporated into the accounting system documentation.

3. The internal controls over cash described in the accounting system differ from those in use.
4. A description of the ADP system for loan accounting is contained in a set of three books. These books give a general overview of the system, including flow charts showing the processing of source documents and information from county offices through both the manual and automated operations in the Finance Office, a description of system controls, and a description of the file structure and contents. Only the book containing the description of the file structure and contents, dated May 1973, had been updated since December 1970.
5. For several different types of transactions, the ADP system documentation identified 178 validity checks. We identified 226 validity checks for the same transactions.
6. A computer program written for changing incorrect information caused by equipment malfunctions was identified in the system documentation as a current program; however, a Finance Office official told us that it was no longer part of the system.
7. The documentation for two of four computer programs we examined did not contain descriptions of the functions performed, did not describe how the programs accomplished those functions, and did not identify the sources of input and disposition of output.

DUPLICATE RECORDS NEEDED TO PERMIT
CONTINUED ADP OPERATIONS
NOT STORED AT A REMOTE SITE

Duplicate copies of computer programs, data files, and ADP system operating instructions should be stored at a site remote from the computer to provide for continuing operations if the data at the computer site is destroyed.

FmHA stores offsite copies of the computer programs and periodically produced copies of the borrowers' master files but it does not store copies of ADP systems operating instructions or subsequent transactions affecting the master files.

CONCLUSION

To permit effective management control over the design and operation of ADP systems and their continued operation if destruction of computer programs and data files occurred, documentation of computer programs and operating procedures must be kept up to date and copies thereof, along with copies of computerized files and subsequent transactions, must be stored at remote locations.

RECOMMENDATIONS TO THE SECRETARY OF AGRICULTURE

We recommend that the Secretary of Agriculture direct the Administrator, FmHA, to establish procedures to insure that (1) documentation of the loan accounting system procedures and computer programs are kept up to date and complete and (2) all the records necessary for continued ADP operations are duplicated and stored at a remote site.

AGENCY COMMENTS AND ACTIONS

The Department agreed that system documentation had fallen behind. The Department said it planned to republish one of the three books describing the ADP system by April 30, 1975, and to republish the remaining two books by December 31, 1975. In addition, the Department planned to strengthen control over documentation by assigning control responsibility to a technical review section.

The Department stated that a thorough review would be made to determine the essential files and operating instructions which should be reproduced periodically and stored offsite.



DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D. C. 20250

April 25, 1975

Mr. D. L. Scantlebury, Director
Division of Financial and General
Management Studies
United States General Accounting Office
Washington, D. C. 20548

Dear Mr. Scantlebury:

Reference is made to a draft of a proposed report to the Congress on limited progress in developing the Farmers Home Administration (FmHA) loan accounting system which you transmitted on January 16, 1975, for review and comment.

The goal of officials of this Department and of the Administrator, FmHA, is to obtain approval of the FmHA loan accounting system by the Comptroller General as required by the Budget and Accounting Procedures Act of 1950. Following the Comptroller General's approval in May 1969 of FmHA's accounting principles and standards, initial development of the design of the system was undertaken. However, it was considered advisable to study in detail the processing of certain transactions. It was discovered later that all of FmHA accounting would have to be automated to have a successful system design. It was discovered also that additional computer processing capacity was needed to provide timely transaction processing and management reporting. Final system design has been delayed to (1) implement management improvements resulting from the detailed studies of certain transactions and (2) implement new authorities FmHA has been given under the (a) Rural Development Act of 1972, (b) Livestock Emergency Loan Act of 1974, and (c) Housing and Community Development Act of 1974.

Our target date is April 1, 1976, for submitting the FmHA accounting system to the Comptroller General for approval. Because FmHA has insufficient staff resources to accomplish this objective, we plan to bring in expert consultants. These consultants will be engaged to tie the FmHA accounting system in with the Department's central accounting system as well as design a FmHA accounting system which will be acceptable to the Comptroller General.

Comments on previously reported weaknesses and additional weaknesses observed follow.

Allowances for losses on loans

Data elements are being identified by a task force to meet FmHA management objectives for reporting on delinquent borrowers. These elements will be

2-Mr. D. L. Scantlebury

combined with GAO proposed data elements for the new congressional budget process. Such elements take into consideration the aging of loans as well as other factors which are relevant in the computation of allowances for losses. Once elements are defined, the accounting system will be modified to provide the information on which to base allowances for losses.

Inaccurate account balances

Cash understated

We have recently taken two actions which have significantly reduced the length of time a collection remains undistributed. One, source data conversion for direct payment borrowers is now done with a mini-computer during cash balancing which results in overnight clearance of such collections from the suspense account. Two, payments received by county offices are forwarded directly to the St. Louis Finance Office for deposit and application. Application now takes about three days, but we expect shortly to reduce this lag to one day.

Property understated

In October 1974 the FmHA property accounting records were converted from a manual operation to a computer operation. Property transactions are now sent directly to data conversion when reported on the prescribed form. Thus, we eliminated delays that arose from our manual operations.

Method of determining administrative expenses chargeable to loan programs not sound

Administrative expenses have been allocated to programs for years on the basis of the FmHA work measurement system. Distribution of administrative expenses to programs is on the basis of budget estimates during the year, but at June 30 it is on the basis of actual loan volume for the year. An FmHA task force is presently involved in a study to design an improved work measurement system with the objective of obtaining meaningful program cost data.

Need for participation by the Office of Audit in systems development

As you noted, the Office of Audit (OA) has tested a number of aspects of the systems design in its audits of FmHA accounts. In addition, OA will consult with FmHA in the development of its loan accounting system to insure that adequate controls and audit trails are provided in the system,

3-Mr. D. L. Scantlebury

as work on this system progresses. The St. Louis OA residency has been given responsibility for monitoring the development of the systems design as certain stages of the development are reached by the agency.

In this regard, several other actions have been taken to assure OA involvement in all Departmental design activities, not only FmHA. For example, the Northeast Region has been given overall responsibility to assure that all systems development activities are being monitored by OA units at computer field locations.

Also, a comprehensive publication of monitoring standards has been prepared and is being distributed for use by OA field offices in reviewing system development work.

System documentation not up to date

System documentation has fallen behind. We plan to republish Book 3 of the series describing the EDP system by April 30, 1975, and Books 1 and 2 by December 31, 1975, which should correct the examples cited. We plan to strengthen control over documentation by assigning control responsibility to a Technical Review Section.

Duplicates of all records needed to permit continued ADP operations not stored at a remote site

A thorough review will be made by April 30, 1975, to determine the essential files and operating instructions which should be reproduced periodically in current form and stored off-site.

We appreciate the opportunity to comment on your proposed report. We will be glad to meet with you or your representatives to discuss these matters in greater detail.

Sincerely,



J. PHIL CAMPBELL
Under Secretary

PRINCIPAL OFFICIALS OF THE
DEPARTMENT OF AGRICULTURE
RESPONSIBLE FOR ACTIVITIES
DISCUSSED IN THIS REPORT

	Tenure of office	
	From	To
SECRETARY OF AGRICULTURE:		
Earl L. Butz	Dec. 1971	Present
Clifford M. Hardin	Jan. 1969	Nov. 1971
ASSISTANT SECRETARY FOR RURAL DEVELOPMENT (note a):		
William W. Erwin	Jan. 1973	Present
Thomas K. Cowden	May 1969	Jan. 1973
DIRECTOR, OFFICE OF AUDIT (note b):		
Leonard H. Greess	Apr. 1974	Present
Leonard H. Greess (acting)	July 1973	Apr. 1974
Nathanial E. Kossack	May 1969	June 1973
ADMINISTRATOR, FARMERS HOME ADMINISTRATION:		
Frank B. Elliott	Aug. 1973	Present
Frank B. Elliott (acting)	Mar. 1973	Aug. 1973
Vacant	Feb. 1973	Mar. 1973
James V. Smith	Mar. 1969	Feb. 1973
James V. Smith (acting)	Jan. 1969	Mar. 1969

a/Until January 1973 the title of this position was Assistant Secretary for Rural Development and Conservation.

b/Until January 1974 the title of this position was Inspector General, Department of Agriculture.





Copies of GAO reports are available to the general public at a cost of \$1.00 a copy. There is no charge for reports furnished to Members of Congress and congressional committee staff members, officials of Federal, State, local, and foreign governments, members of the press; college libraries, faculty members, and students, and non-profit organizations.

Requesters entitled to reports without charge should address their requests to:

U.S. General Accounting Office
Distribution Section, Room 4522
441 G Street, NW.
Washington, D.C. 20548

Requesters who are required to pay for reports should send their requests with checks or money orders to:

U.S. General Accounting Office
Distribution Section
P.O. Box 1020
Washington, D.C. 20013

Checks or money orders should be made payable to the U.S. General Accounting Office. Stamps or Superintendent of Documents coupons will not be accepted. Please do not send cash.

To expedite filling your order, use the report number in the lower left corner of the front cover.

AN EQUAL OPPORTUNITY EMPLOYER

UNITED STATES
GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

OFFICIAL BUSINESS
PENALTY FOR PRIVATE USE, \$300

POSTAGE AND FEES PAID
U. S. GENERAL ACCOUNTING OFFICE



THIRD CLASS