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

/S9S66

Resources, Community, and
Economic Development Division

B-278417

November 14, 1997

The Honorable Richard G. Lugar
Chairman, Committee on Agriculture,
  Nutrition, and Forestry
United States Senate

Subject: U.S. Department of Agriculture: Working Capital Fund and
             Modernization of Administrative Processes Program

Dear Mr. Chairman:

As requested, we are providing you with information on (1) the activities
supported by the U.S. Department of Agriculture's (USDA) Working Capital
Fund (WCF), its funding sources, and the controls in place to prevent
inappropriate uses and (2) the status of USDA's Modernization of
Administrative Processes (MAP) Program and its accomplishments. On
October 7, 1997, we briefed your office on the results of our analysis (see enc.
I for the briefing materials provided).

USDA'S WORKING CAPITAL FUND–ACTIVITIES FINANCED, FUNDING
SOURCES, AND INTERNAL CONTROLS

USDA's WCF, authorized in 1943, finances 22 separate activities that provide a
wide variety of centralized and common administrative services to over 120
federal departments (including USDA), agencies, commissions, and other
entities. The largest activity is conducted by USDA's National Finance Center
(NFC), located in New Orleans, Louisiana. It operates central administrative
processes, such as payroll/personnel, central accounting, and administrative
billings and collections for USDA and other federal entities. The center also
provides record-keeping services to the Federal Retirement Thrift Investment
Board, which manages the Thrift Savings Plan for all federal employees.

WCF activities are reimbursed from customer agencies for the cost of the
services provided. Of the 22 WCF activities, some are reimbursed on an
actual-cost basis (e.g., for the number of copies printed, number of employee

/5 9S66

records processed, minutes of computer time used); other activities are reimbursed on either a use-based cost recovery or cost-allocation basis.[1] WCF's costs for fiscal year 1996, the most recent year for which data are available, were $215 million. These costs were reimbursed by USDA agencies (64 percent) and non-USDA agencies (36 percent).

There are several controls over WCF to ensure its uses are appropriate. First, USDA and the Office of Management and Budget must approve the inclusion of new activities in WCF.[2] Approval is given on the basis of whether the activity would result in cost savings through (1) economies of scale, (2) reduced overhead costs, (3) central cost-based management, and (4) avoidance of duplication among those who might provide the services. Approved activities that subsequently fail to meet these criteria may be eliminated from WCF.

Second, to ensure that capital investment and operating estimates are fully justified, budgets for each activity are annually reviewed by the WCF Working Group in USDA's Office of Chief Financial Officer and the WCF Executive Committee, which represents USDA's customer agencies. The WCF Working Group performs a variety of duties, including (1) reviewing estimates for capital investment and operating budget needs prepared by WCF activity managers, (2) conducting special reviews of WCF's financial and operational activities at the WCF Executive Committee's request, and (3) presenting findings and results of reviews to the Executive Committee. The Executive Committee provides recommendations to the Chief Financial Officer on the basis of the Working Group's review results.

---

[1]Annual costs for the use-based activities are estimated on the basis of the prior year's usage, which have been adjusted to reflect anticipated changes in users' workload for the current year. These cost estimates are provided to the user agencies at the beginning of the fiscal year, and the agencies are billed during the fiscal year on the basis of the estimates. Throughout the year, the activity managers monitor their actual costs. If the costs are greater than estimated at the beginning of the year, user agencies are billed for the difference. If the costs are less than estimated, excess funds are to be returned to the user agencies. For activities reimbursed on a cost-allocation basis, WCF uses staff years as the basis for allocating costs.

[2]The Office of Management and Budget's approval of each WCF activity is required by 7 U.S.C. 2235.

Third, the WCF Controller (who is the USDA Associate Chief Financial Officer) and a staff of seven monitor the WCF activities during the year to ensure that their budgets are properly executed. They do this by reviewing monthly reports from each activity on planned vs. actual expenditures for operating and capital expenditures. The WCF Controller issues three summary reports (midyear, third-quarter, and final) on the budget execution for WCF activities.

Finally, USDA's Office of the Inspector General (OIG) has a staff of 14 auditors dedicated to reviewing WCF activities. Additional audit staff may be assigned to this work as necessary. Over the past 2 years, the OIG has released nine reports related to NFC and WCF. The OIG also has 15 ongoing or planned audit efforts related to NFC and WCF in fiscal year 1998. The OIG reported a number of concerns relating to NFC and WCF,[3] including control weaknesses in the accounting system NFC uses to prepare WCF financial statements—an issue that will be highlighted in the OIG's second 1997 Semiannual Report to the Congress, according to OIG officials. According to the WCF Controller, NFC's accounting system is in the process of being replaced, and the new system and other actions taken by the Office of the Chief Financial Officer will correct weaknesses identified by the OIG reports. The OIG, however, did not fully concur in the corrective action proposed for its recommendation to develop and implement a WCF capital planning and investment control process.

MAP PROJECTS: STATUS AND ACCOMPLISHMENTS

The MAP Program, formally created in November 1992, is directed at streamlining USDA's administrative work by eliminating unnecessary procedures and paperwork, streamlining remaining policies and procedures while ensuring adequate management control, and using information technology to support those streamlined processes. Specifically, the program was charged with developing and implementing modern administrative processes that would help USDA share resources across agency lines where appropriate, reduce the cost of transacting its business, and make effective use of technology. From fiscal year 1993 through fiscal year 1997, the MAP Program spent $13 million. It is funded through USDA's WCF with

---

[3]Audit of the NFC Cost Allocation and Billings Process (Report no. 50099-2-FM, January 1996 and Working Capital Fund Operations (WCF) - Phase II (Report no. 50099-9-FM, August 1997).

reimbursement from USDA and non-USDA agencies.[4] The program's projects have focused on procurement, information resources management, human resources management, and civil rights.

Although the program was originally expected to terminate at the end of fiscal year 1999, USDA's Acting Assistant Secretary for Administration (who oversees the program) told us that he terminated the MAP Program Office at the end of fiscal year 1997 because he believed that the program had had only limited accomplishments. The official decided that he could not see any benefits in allowing the program to continue as a separate organizational unit. The program will officially cease to exist as a separate entity as of November 15, 1997. However, its WCF funding activity may continue to exist at least through fiscal year 1998, and several of its projects will likely continue under other USDA organizations.

Prior to its termination, the program had seven active projects to improve USDA's administrative functions: (1) Purchase Card/Convenience Check, (2) Procurement System Modernization, (3) Human Resources Management (personnel system) Modernization, (4) Time and Attendance, (5) Telecommunications Services, (6) Information Resources Management Analysis, and (7) EEO Complaints. The Purchase Card project (an automated system for tracking, reconciling, and paying government credit card purchases up to $2,500) had begun implementation USDA-wide and is to be completed by March 1999.[5] Pilot testing of the Telecommunications Services project (to automate and consolidate USDA's telecommunications needs to allow central billing, reconciling, and equipment inventory management) is expected to begin in February 1998. The remaining five projects had not reached the pilot test phase when the MAP Program was discontinued.

Although the MAP Program has been discontinued as a separate program, several of its projects may continue under "process owners" (those organizations that would be responsible for managing the administrative

---

[4]According to MAP Program officials, non-USDA customers are billed for a share of the costs because they stand to benefit from improved administrative processes that would result from the program.

[5]Various officials provided information on project milestone dates only through interviews. Because the decision to terminate the program had just occurred when we conducted our review, future action on the MAP Program projects had not been documented.

processes being redesigned). However, USDA officials have not yet determined how the projects will be funded. According to the WCF Controller, several options are being considered by the WCF Executive Committee, including allowing the program's WCF activity to continue in order to fund the projects by reimbursing the process owners. If these WCF funds are not provided, the process owners may either fund the projects from their appropriations or discontinue them.

AGENCY COMMENTS

We provided copies of a draft of this report to USDA for its review and comments. We spoke with officials in the offices of (1) the Assistant Secretary for Administration, (2) the Chief Financial Officer, and (3) the MAP Program to obtain USDA's comments. USDA generally agreed with the report and provided clarifying and updated information, which we have incorporated as appropriate.
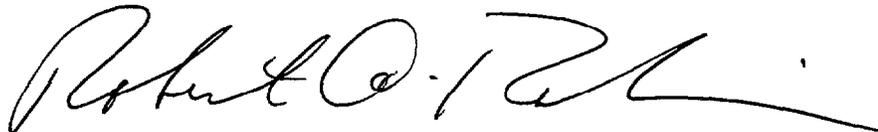
SCOPE AND METHODOLOGY

We interviewed cognizant USDA officials, including the Acting Assistant Secretary for Administration, the Acting Chief Financial Officer, the Director of the MAP Program, and staff from various USDA agencies that worked on the MAP Program's seven projects. We reviewed WCF documents, MAP Program studies, USDA budget submissions, and OIG reports concerning WCF operations.

We performed this work from July through October 1997 in accordance with generally accepted government auditing standards.

- - - - -

We are sending copies of this report to the appropriate Senate and House Committees; interested Members of Congress; the Secretary of Agriculture; the Director, Office of Management and Budget; and other interested parties. We will also make copies available to others upon request.

Major contributors to this report include Charles Adams, James Dishmon, Jr., Deborah Justice, and Rosellen McCarthy. If you or your staff have any questions, please contact me on (202) 512-5138.

Sincerely yours,

Robert A. Robinson
Director, Food and
  Agriculture Issues

Enclosures - 2

GAO   Briefing to the Senate Committee on
       Agriculture, Nutrition, and Forestry

       The U.S. Department of Agriculture's
       (USDA) Working Capital Fund (WCF) and
       Modernization of Administrative
       Processes (MAP) Program

GAO   Assignment Objectives

- What activities does USDA's WCF support, what are its funding sources, and what controls are in place to prevent inappropriate uses?

- What is the status of the MAP Program and what has it accomplished?

GAO   WCF Uses and Sources of Funds

- Supports a range of central administrative services provided to USDA and non-USDA customers.

- FY 96: $215.5 million/2,008 staff years (64% of the funds and 53% of the staff years spent for USDA customers).

- Operating costs for the 22 WCF activities reimbursed from customer agencies.

GAO WCF Activities: FY 96 Costs and Staffing

OPERATING ORGANIZATION	WCF ACTIVITY	FY 1996 costs	Staff years
Office of the Executive Secretariat	Executive Correspondence and Control	$1,604,642	17
Departmental Administration	Modernization of Administrative Processes	4,442,555	6
	Computer Services Unit	1,179,369	10
	Central Supply Stores	2,522,933	9
	Consolidated Forms, Publications, and Distribution Center	2,912,765	24
	Central Excess Property Operations	2,108,675	9
	Central Shipping and Receiving	388,007	1
	Departmental Funds Management Unit (Imprest Fund)	192,345	4
	Agriculture Contract Automation System	350,851	2
	Copier Service	4,053,906	18
	Duplicating	1,086,388	12
	Central Mail Unit	3,587,596	89
	Departmental Mailing List Service	215,642	2
	Training Center (a)	60,909	0
Office of Chief Information Officer	NITC(b) Mainframe	25,907,308	120
	NITC Telecommunications Service Operation	4,348,270	22
	NITC Applications Services Division	4,317,137	42
	Local Area Network	2,859,743	0
	Telephone Services Operation	1,517,810	2
Office of Communication	Design Center	2,394,110	12
	Video and Teleconferencing	2,399,809	13
Office of Chief Financial Officer	National Finance Center	125,523,347	1,591
	Financial Information Systems	3,785,782	3
Capital Equipment(a)	.	18,149,765	0
Total		$215,538,664	2,008

[a]The Training Center activity was eliminated from WCF in fiscal year 1996. "Capital Equipment" is not an activity, but shows the amount of capital investment funds associated with WCF. The remaining items are the 22 current WCF activities.

[b]The National Information Technology Center (NITC) is a mainframe computer processing center that runs agency applications in support of program delivery. Operated by the Office of Chief Information Officer, the center is located in Kansas City, Missouri.

Source: Prepared by GAO from USDA's 1998 budget, Explanatory Notes for Committee on Appropriations, Vol. 1.

ENCLOSURE I

ENCLOSURE I

GAO Internal Controls: Annual Reviews of
WCF Activity Budgets

- Each WCF activity must annually justify its costs
  and proposed budget.

- Cost estimates and budget proposals are analyzed
  by the WCF Working Group.

- Additional budget oversight is provided by

  - WCF Executive Committee: Represents user
    agencies; reviews budgets and costs.

  - CFO: Approves, prepares, and transmits final
    budgets to the Secretary of Agriculture (with
    assistance from the WCF Controller and WCF
    staff).

GAO   Internal Controls: WCF Funding
          Sources/Restrictions

- All WCF operating income is derived from customer agencies that reimburse WCF for services received.

- Activities recover actual cost of operations.

- Excess funds are refunded to customers if estimates were too high.

- WCF operating funds cannot be reprogrammed among activity centers.

GAO   Internal Controls: Other

- Office of Management and Budget must approve an activity prior to its inclusion in WCF.

- WCF costs are scrutinized by USDA user representatives; inefficient/inappropriate costs subject to question.

- WCF Controller and WCF staff monitor activities during the fiscal year to ensure that budgets are properly executed.

- OIG reviews WCF activities regularly.

GAO   **Key OIG Findings From WCF Activity Reviews**

- **Control weaknesses in National Finance Center (NFC) accounting system used in preparing WCF financial statements.**[a]

- **NFC process for setting rates for services needs better documentation.**

- **Inadequate policy for determining how excess WCF revenue will be returned to customer agencies.**[b]

[a]According to the WCF Controller, NFC is in the process of installing a new accounting system known as the Foundation Financial Information System. This system includes elements to correct the control weaknesses identified by the OIG. The OIG does not fully concur in the proposed actions by the Office of Chief Financial Officer concerning the OIG's recommendation to develop and implement a WCF capital planning and investment control process.

[b]WCF officials said that this weakness involves about $5 million in retained excess revenues accumulated over more than 10 years of operations during which annual expenditures ranged from $150 to over $200 million. This affects a very small proportion of total WCF expenditures. The officials said that the significance of this OIG finding should not be considered equal to the accounting system weaknesses discussed above.

GAO MAP Program--Background

- Intended to develop and implement modern administrative processes to help USDA share resources across agency lines, reduce costs, and use technology effectively.

- $13 million spent from FY 93 through FY 97.

- Costs reimbursed by USDA agencies (~60%) and non-USDA agencies (~40%).

GAO   **Status of MAP Program Projects**
       (Accomplishments to Date)

Seven projects under development; only one has
progressed to implementation.(a)

- Purchase Card/Convenience Check (being
  implemented)
- Procurement System Modernization
- Human Resources Management (personnel
  system) Modernization
- Time and Attendance
- Telecommunications Services
- Information Resources Management Analysis
- EEO Complaints

[a]See enclosure II for a description of the goals and status of each project.

GAO   Early Termination of MAP Program
      Under Way

- The Acting Assistant Secretary for Administration (ASA) believes MAP Program has had limited accomplishments.

- MAP Program was originally scheduled to terminate at the end of FY 99; termination by ASA as a separate program entity begun 9/30/97.

- Some MAP projects may be continued under other USDA organizations.

GAO   Continued Funding of MAP Program
       Projects

- The Acting ASA considering allocating MAP
  WCF funds to continue some MAP projects
  under "owner" organizations--WCF
  Controller and Executive Committee now
  considering funding options.

- Office of Chief Financial Officer questioning
  whether funds transfer may be appropriate
  for certain projects.

- If WCF funds are not transferred, owner
  organizations may either fund from
  appropriations or discontinue the project.

GOALS AND STATUS OF MAP PROGRAM PROJECTS

Various officials provided information on project milestone dates only through interviews. Because the decision to terminate the program had just occurred when we conducted our review, future action on the MAP projects had not been documented.

Purchase Card/Convenience Check

Goals: (1) Expand purchase card use by allowing micropurchases ($\leq$ $2,500) by nonprocurement staff. (2) Combine convenience checks (used when purchase cards are not accepted) with purchase card accounts. (3) Establish a departmentwide electronic system of billing and reconciling purchase transactions.

Status: Pilot testing completed. Departmentwide implementation began October 1997– to be fully implemented by March 1999. Transferred to the Office of Procurement and Property Management.

Procurement System Modernization

Goals: (1) Develop a departmentwide electronic "acquisition toolkit" that allows processing of any purchase. Toolkit should operate on a system that incorporates one-time data entry per transaction and continuous updating with each transaction that will provide management information on all of USDA's procurement actions. (2) Link the departmentwide system to the NFC accounting system to track progress and payments for each purchase. (3) Eliminate separate acquisition systems and agency feeder systems.

Status: Final design under way; initial deployment USDA-wide expected to be completed by September 1999, with additional enhancements to the system to follow. Transferred to the Office of Procurement and Property Management.

Human Resources Management (personnel system) Modernization

Goal: Develop a USDA-wide system or family of major processes that supports recruitment, hiring, classification, promotion, pay, benefits, training, and rewards.

Status: Completed study identifying processes to be redesigned. Initial review of commercial off-the-shelf software to determine applicability to system needs completed. Transferred to the Office of Human Resources Management. No decision on possible implementation.

Time and Attendance

Goals: (1) Implement an automated system for recording employees' work hours that will eliminate duplicate approvals, reallocate timekeeping to employees and managers, and provide on-line access to leave and earnings balances. (2) Change policies to promote the use of maxi-flex scheduling.

Status: Transferred to the Office of Human Resources Management. One candidate system is ready for pilot testing. First pilot to begin in November 1997 using commercial off-the-shelf software. Pilot testing of all other candidate systems scheduled to be completed by March 1998, providing recommendations for a final implementation plan to the Office of Human Resources Management.

Telecommunications Services

Goal: Consolidate USDA's telecommunications needs to allow centralized ordering, billing, reconciling, and equipment inventory management through a single paperless, electronic system.

Status: Transferred to the Office of Chief Information Officer. New process/system developed; necessary software being acquired. Pilot testing to begin in February 1998.

Information Resources Management (IRM) Analysis

Goal: Reengineer how USDA manages its information resources. Create a departmentwide system that will facilitate IRM changes mandated by law, link business processes and organizational structure to USDA's IRM strategic plan, integrate ongoing IRM initiatives to reduce redundancy, and identify IRM initiatives that provide the greatest return on investment.

Status: Study of IRM environmental factors, customer expectations, and USDA's current business framework completed in September 1997. Project not proposed to continue in fiscal year 1998.

EEO Complaints

Goal: Reengineer how USDA processes and monitors EEO complaints to improve compliance with settlement agreements, increase confidentiality, and reduce complaint processing time.

Status: Redesign of process under way. Transferred to the Office of Civil Rights. No decision on possible implementation.

(150733)

United States
General Accounting Office
Washington, D.C. 20548-0001

Official Business
Penalty for Private Use $300

Address Correction Requested