U.S. Department of Agriculture
Office of Inspector General
Financial and IT Operations
Audit Report

Numerous Accounting Weaknesses Impact the Reliability of U.S. Department of Agriculture's Working Capital Fund Consolidated Financial Statements For Fiscal Year 1999

Report No. 50401-36-FM
November 2000

UNITED STATES DEPARTMENT OF AGRICULTURE
OFFICE OF INSPECTOR GENERAL
Washington, D.C. 20250

DATE: November 9, 2000

REPLY TO
ATTN OF: 50401-36-FM

SUBJECT: Numerous Accounting Weaknesses Impact the Reliability of U.S. Department of Agriculture's Working Capital Fund Consolidated Financial Statements For Fiscal Year 1999

TO: Sally Thompson
Chief Financial Officer
Office of the Chief Financial Officer

This report presents the results of our audit of the U.S. Department of Agriculture's Working Capital Fund (WCF) financial statements for the fiscal year ended September 30, 1999. The report contains our adverse opinion and the results of our assessment of WCF's internal control structure and compliance with laws and regulations.

OCFO's written comments to the draft report were considered in finalizing the report. Based on the response to the subject audit, we have concurred with management decisions for all of the recommendations with the exception of Recommendations Nos. 2, 7, 8, 14, 19, 20, and 22. In order to reach management decision on these recommendations, we need estimated final action dates and/or additional detail as to what actions are to be taken. Your response and our comments are summarized in the Findings and Recommendations section of the report. Please follow your internal policies for forwarding information for final action.

Please furnish a reply within 30 days showing specific corrective actions taken or contemplated for Recommendations Nos. 2, 7, 8, 14, 19, 20, and 22 as well as the estimated timeframe for completing the actions described.

Please note that, as required by Departmental Regulation 1720-1, final action should be completed within 1-year of the date of the management decision to preclude being listed in the Secretary's management report.

/s/
ROGER C. VIADERO
Inspector General

EXECUTIVE SUMMARY

NUMEROUS ACCOUNTING WEAKNESSES IMPACT THE RELIABILITY OF U.S. DEPARTMENT OF AGRICULTURE'S WORKING CAPITAL FUND CONSOLIDATED FINANCIAL STATEMENTS FOR FISCAL YEAR 1999 AUDIT REPORT NO. 50401-36-FM

PURPOSE

Our audit objectives were to determine whether (1) the financial statements present fairly, in all material respects, in accordance with generally accepted accounting principles, the assets, liabilities, and net position; net costs; changes in net position; budgetary resources; and reconciliation of net costs to budgetary obligations; (2) the internal control structure provides reasonable assurance that the internal control objectives were met; (3) the Working Capital Fund (WCF) complied with laws and regulations for those transactions and events that could have a material affect on the financial statements; and (4) the information in the Overview of the Reporting Entity and Supplemental Financial Information sections was materially consistent with the information in the financial statements.

We conducted our audit at the WCF Headquarters located in Washington, D.C., and the National Finance Center (NFC) located in New Orleans, Louisiana. We also performed site visits to selected WCF activity center offices.

RESULTS IN BRIEF

We issued an adverse opinion on the fiscal year 1999 WCF financial statements based on (1) inaccurate and inconsistent applications of accounting principles and standards used to prepare the financial statements; (2) scope restrictions due to the incomplete, inaccurate, or insufficient accounting records and supporting documentation for certain line-items; (3) errors and omissions in various account balances contained in WCF's financial statements; (4) failure to correct material financial accounting and reporting deficiencies noted in prior audit reports[1]; and (5) failure to provide final financial statements, with all

[1] Audit Report Nos. 50099-2-FM, "Audit of the National Finance Center Cost Allocation and Billing Process," dated January 1996 and 50099-9-FM, "Working Capital Fund Operations – Phase II," dated August 1997.

necessary adjustments, in a timely manner. As a result, WCF revenues of $248 million and assets of $118 million contain material misstatements.

The financial management systems established and/or used by the WCF are not designed to enable it to either meet current accounting standards, or provide reliable financial information critical for managing its operations. Despite advising WCF officials on five occasions dating to December 1995, that major improvements in financial systems and operations must be made, WCF had not taken sufficient actions to assure system changes and/or internal control processes and procedures were developed to enable the WCF to complete reliable, timely financial statements that were free from material misstatement. As a result, WCF officials have not correctly reported on the monies collected, the cost of operations, or any other meaningful measure of financial performance. In addition, users of information reported or taken from the financial statements or related financial reports risk making wrong decisions because they relied on questionable information in making decisions. Also, WCF officials cannot provide reasonable assurance that it has properly safeguarded government funds from loss and/or unauthorized use.

The WCF needs to substantially improve its control structure to correct the errors, omissions, and inconsistencies contained in the fiscal year 1999 financial statements. Our audit found that financial reports are inaccurate, accounting operations are not effectively performed and basic controls are not in place for WCF operations.

During our audit, we identified the following material internal control weaknesses that impacted WCF's operations.

- WCF failed to develop and implement formal accounting and operating procedures requiring that all WCF operations follow generally accepted accounting principles. We initially reported this problem in December 1995. We concluded, in 1995, that it was essential that adequate written guidance be provided to activity center managers, who may have limited accounting background, to ensure consistent and accurate handling of the financial activities of the fund. We believe that sound application of generally accepted accounting principles and financial management practices could have precluded many of the material misstatements and weaknesses noted during our audit of the fiscal year 1999 financial statements.

- WCF personnel prepared its fiscal year 1999 financial statements directly from its general ledger[2]. However, WCF officials failed to monitor the general ledger account balances, or perform necessary reconciliations and analyses to ensure the yearend account balances were accurate. As a result, our audit identified over $90 million in adjustments that needed to be made to the initial WCF fiscal year 1999 financial statements, and numerous account balances were unsupported and/or contained significant, abnormal amounts. For example, the Federal accounts receivable line-item contains a negative "unbilled receivable" totaling over $17 million, dating to fiscal year 1995. This material income adjustment reduces the financial statement line-item total to about $26 million, or 39 percent of the line-item total. Netting these abnormal, unsupported receivables against valid receivables results in a material misstatement. These problems were created because WCF "adjusts" income at fiscal yearend to approximate expenses for selected activity centers without research or supporting documentation. These "adjustments" have been reported as improper by the Office of the Inspector General (OIG), since December 1995, when we first identified this problem.

- Fiscal year 1999 collections recorded in one accounting system were about $7 million greater than revenue reported on the financial statements. WCF officials performed no analyses of this critical relationship, and do not know whether this significant difference relates to collections processed in error, duplicate billings, misstatement of revenue, or any other reason.

- WCF officials have failed to establish a methodology for determining an appropriate allowance for doubtful accounts, or that monies due from other Federal agencies, in some cases due for 6 years, represent valid receivables. Thirty-nine percent or $3 million of the (billed) accounts receivable balance as of September 30, 1999, was 90 days or more delinquent. In addition, WCF officials netted a prior year's bad debt expense, totaling $1.2 million, against current year's revenue without recognizing a bad debt expense. This error causes a material misstatement of the fiscal year 1999 WCF financial statements.

- There is an overall absence of WCF compensating/complementary controls to aid in ensuring the accuracy and reliability of data processed through the Central Accounting System (CAS). For

[2] In the past, WCF prepared the financial reports it relied on from the Budget Cost system. This system does not recognize fiscal year designators. As a result, transactions were recorded in the current year's operating statement without regard to the fiscal year to which the transaction applied.

example, accounts payable included an unknown carryover balance of $1.6 million that was not supported or researched.

- There is a lack of sufficient and proper internal controls over the fiscal year 1999 WCF billing process to ensure timely and/or accurate billings of its customers. As a result, WCF customers were billed twice for services totaling over $425,000, resulting in duplicate revenue recognition for the WCF and contributed to the out-of-balance Fund Balance With Treasury (FBWT) conditions. In addition, for fiscal year 1999, over 60 percent of initial "Greenbook" billings did not occur until June 1999, or 9 months into the fiscal year.

- There is a lack of oversight by WCF management for period-end estimates. We reviewed 19 period-end estimates totaling over $4.2 million and noted 6 estimates that were inaccurate by almost $1 million, and 6 estimates totaling $1.1 million that were unsupported.

- We identified an absolute value difference of over $30 million between the personal property general ledger accounts and balances in the personal property feeder system. In addition, we were unable to substantiate whether the WCF financial statements were free from material misstatement for personal property valued at over $50 million because out of 216 personal property items selected for review, we were unable to locate 190 of the items, accounting for more than $8.4 million.

In addition, despite the significance of the problems we disclosed, the Department failed to report any of these problems in the Office of the Chief Financial Officer's (OCFO), Federal Managers Financial Integrity Act (FMFIA) Report, the Office of Management and Budget (OMB) Circular A-130 reviews or other internal control reviews performed by OCFO/National Finance Center (NFC), departmental administration, or any other departmental agency.

In our Report on Compliance with Laws and Regulations, we reported significant noncompliance with the Federal Financial Management Improvement Act (FFMIA).

Achieving the reforms required by recent financial management legislation is essential because WCF officials need accurate financial information to effectively and efficiently manage its $248 million in revenues. Until WCF officials implement their new accounting system, the Foundation Financial Information System (FFIS), scheduled for fiscal year 2002, WCF does not have all of the necessary financial information to support its decision-making process, know the cost of all of its operations or many other meaningful measures of financial performance. In essence, poor accounting and financial reporting obscures facts. As a result, users of information reported or taken from the underlying accounting systems, as a whole, risk making errant decisions – whether for budget purposes or operationally.

KEY RECOMMENDATIONS

Because of significant overall operational and internal control weaknesses we recommended the following:

- Develop and implement sound financial management policies and procedures in compliance with generally accepted accounting principles for the Federal Government.
- Establish a management structure within the WCF that will assure the problems noted in this report are corrected in a timely manner.
- Immediately discontinue adjusting revenues to equal expenses. Research within the next 90 days and prepare appropriate adjusting entries to reflect the reconciliation of past revenue adjustments.
- Release and assure each activity center adheres to the WCF accounting manual, as well as established accounting standards.
- Establish operating procedures to require appropriate reconciliations and other accounting relationship tests are performed throughout the fiscal year and at fiscal yearend.
- Perform an analysis within the next 90 days to age the accounts receivable and accounts payable. Make necessary adjustments to reflect write-offs and/or allowance for doubtful accounts.
- Develop and implement appropriate compensating and complimentary internal controls to assure the control weaknesses noted in this report are corrected to the extent possible.
- Assure the material weaknesses identified throughout this report are included in the OCFO's FMFIA report, OMB Circular A-130 reviews or other internal control reviews, as applicable.
- Develop an automated process that will enable timely and accurate billings of WCF users.

- Assure reconciliations of all WCF billings and collections to the WCF revenue and FBWT are performed monthly and take prompt action to research and resolve all problems.

- Perform a risk assessment of the billing process and establish controls and procedures. Strengthen the oversight so that errors noted in this report do not recur.

- Develop procedures to ensure that agencies entitled to refunds, are notified and actually receive the refund in a timely manner.

- Provide additional guidance to WCF activity centers regarding period-end estimates to assure conditions noted above do not recur and perform a review of supporting documentation for all significant period-end estimates before submission.

- Require accountable officers to validate the recorded value of property in the system to supporting documentation and assure necessary accounting adjustments are made to correct errors noted during this validation.

- Reconcile the personal property asset and depreciation general ledger accounts to balances in Personal Property Management System (PROP), research all differences, and assure all necessary adjustments are processed in a timely manner.

- Develop a policy for establishing an allowance for doubtful accounts.

AGENCY POSITION

WCF officials advised that they recognize the significance of the material weaknesses identified in this report. They indicated that they would immediately develop a detailed, time-phased, corrective action plan and monitor the corrective actions with OIG to ensure that all milestones are met. This corrective action plan would specifically address the following:

- Maintenance of supporting documentation for all income adjustments.

- Correction of all prior year income adjustments.

- Establishment of controls and procedures for the WCF billing process.

- Documentation and implementation of procedures to ensure FFIS agencies receive refunds in a timely manner.

- Documentation of detail subsidiary ledger and/or aging reports to support the Direct Premium Remittance System (DPRS) balance.

- Correction of the miscoding of billing numbers processed through Program Billings and Collections Systems (BLCO) on behalf of several non-USDA Federal customers.

- Revision of yearend closing procedures for all WCF activity centers.

- Coordination with WCF activities to implement additional controls for significant period-end estimates.

- Requirement of the biennial inventory and all necessary adjustments.

- Validation of the recorded value of property in the PROP by each accountable officer and all necessary adjustments.

- Distribution of the final WCF Budget and Accounting Manual.

- Reopening of any recommendations reported in past WCF audits where corrective action is incomplete and/or ineffective.

The WCF is committed to implementing timely corrective action to correct the material weaknesses identified in this report. OIG has agreed to assist the WCF in correction of these problems.

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REPORT OF THE OFFICE OF INSPECTOR GENERAL

TO: Sally Thompson
Chief Financial Officer
Office of the Chief Financial Officer

We have audited the accompanying Consolidating Balance Sheet of the Working Capital Fund (WCF) as of September 30, 1999, and the related Consolidating Statements of Net Cost, Changes in Net Position, Budgetary Resources and Financing for the fiscal year then ended. These financial statements are the responsibility of WCF management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed below, we conducted our audit in accordance with the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 98-08, "Audit Requirements for Federal Financial Statements," as amended. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The lack of consistent and accurate application of acceptable accounting principles and standards caused the information on the financial statements to be unreliable, misstated or misleading. Some of the more material problems we detected included the following:

- We were unable to substantiate the "Fund Balance with U.S. Treasury (FBWT)," totaling over $41 million, because reconciliation procedures, until recently, were not sufficient. Unidentified differences, first identified in the Department's fiscal year 1992 audit, between departmental records and U.S. Treasury records went uncorrected, in some instances, in excess of 10 years. The Chief Financial Officer (CFO) has initiated a corrective action plan to address this serious problem and is making progress in fixing this long-standing problem as noted in Audit Report No. 11099-14-FM, "OCFO Actions to Correct Its Fund Balance With Treasury Accounts," issued September 2000.

In addition, we noted that WCF's FBWT was overstated by more than $290,000 as a result of duplicate billings of the Foundation Financial Information System (FFIS) user agencies.

- We were unable to obtain sufficient and competent evidential matter to support the Statements of Changes in Net Position, and Budgetary Resources and Financing. The material misstatements discussed throughout this report also impact the general ledger account balances used to prepare these statements. The statements are also impacted by the OCFO/National Finance Center (NFC) Central Accounting Systems (CAS) inability to meet prescribed standards in many material aspects. As a result, the statements were prepared using a combination of proprietary and budgetary accounts that contained incomplete and/or unreliable data. Until WCF officials resolve this problem through (1) full implementation of FFIS, scheduled for fiscal year 2002, (2) other accounting system enhancements, and/or (3) development of compensating and complimentary internal controls; we will be unable to opine on this information.

- Numerous significant accounting and management problems reported in prior WCF audits remain uncorrected (see Finding 7). These problems continue because WCF officials improperly reported to departmental officials that the problems had been corrected. As a result, these material weaknesses contributed significantly to our adverse opinion on the fiscal year 1999 WCF financial statements.

- We were unable to substantiate "Earned Revenues" totaling $248 million because WCF officials continue to make material unsupported adjustments to revenue at fiscal yearend. This problem, which we first reported in December 1995, creates material misstatements in the revenue, accounts receivable, and other line-items. For example, at fiscal yearend WCF officials made almost $70 million (absolute value) of current year income adjustments, and over $17 million (absolute value) of prior year income adjustments. These prior year income adjustments go back as early as fiscal year 1995. These income adjustments are simply "plugs" so that selected activity centers' revenues approximate their expenses. In addition, WCF personnel netted a prior year's bad debt expense, totaling $1.2 million, against current year's revenue without recognizing a bad debt expense. Accounting procedures require that expenses be matched to their related revenue.

- There were insufficient supporting records to enable us to verify "Accounts Receivable" totaling over $26 million because of material and known problems in the existing CAS general ledger and its subsidiary records[3]. For example, the detailed subsidiary ledger did not reconcile to the general ledger accounts. In addition, subsidiary ledger detail did not exist for $18 million in "unbilled" accounts

[3] We have reported this material weakness since our initial audit of the Department's fiscal year 1991 financial statements. CAS is being replaced by FFIS. WCF is scheduled to implement FFIS in fiscal year 2002. WCF implementation of FFIS will resolve many of the weaknesses disclosed in this report.

receivables because WCF officials “adjusted” revenue to equal expenses (the offsetting debit/credit is affected to accounts receivable). We were unable to tell from whom the receivable was due or ascertain the validity of the amount included on this financial statement line-item.

- We also noted that the fiscal year 1999 collections recorded in one accounting system were about $7 million greater than the revenue reported on the financial statements. WCF officials performed no analyses of this critical relationship, and do not know whether this significant difference relates to collections processed in error, duplicate billings, misstatement of revenue, or any other reason.

- We were unable to substantiate "General Property, Plant and Equipment, Net," totaling over $50 million. Of 216 personal property items selected for confirmation, valued at $8.9 million, we were unable to locate records for 190 of the items, valued at more than $8.4 million. Examples of items missing included such things as Information Technology (IT) equipment. In addition, there were significant unidentified differences between the general ledger accounts and subsidiary records and material errors in recording and depreciating personal property.

- WCF uses the OCFO/NFC CAS as its primary financial information system. For the last 9 years, we have reported numerous material internal control weaknesses in CAS. For example, we reported that CAS does not conform to the U.S. Government Standard General Ledger (SGL); general ledger accounts were not always appropriately crosswalked to the financial statements as required by SGL, and the audit trail from the general ledger to supporting documentation, in some cases, was nonexistent. Also, material weaknesses continued to exist in the areas of accounting adjustments and reconciliations within the CAS. These problems should be eliminated when the WCF converts its accounting operations to FFIS.

In our opinion, because of the effects of the matters discussed in the preceding paragraphs, the financial statements referred to above do not present fairly, in conformity with generally accepted accounting principles, the financial position of WCF as of September 30, 1999, or the results of its operations, as well as its net costs, changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations for the fiscal year then ended.

The Overview and Supplemental Information (OSI) provides explanatory analysis for the users of WCF’s financial statements and it summarizes fiscal year 1999 results. Some of this information is produced from the same financial systems as the financial statements. Because of the problems discussed above, we are unable to provide any assurances on the OSI. In addition, the WCF Overview did not include discussion of the WCF Government Performance and Results Act (GPRA) performance measures as required by OMB Bulletin 97-01, Form and Content of Agency Financial Statements.

We have also issued a report on WCF's internal control structure which includes seven reportable conditions and a report on WCF's compliance with laws and regulations which includes one instance of noncompliance.

/s/
ROGER C. VIADERO
Inspector General

September 15, 2000

REPORT OF THE OFFICE OF INSPECTOR GENERAL ON INTERNAL CONTROL STRUCTURE

TO: Sally Thompson
Chief Financial Officer
Office of the Chief Financial Officer

We have audited the accompanying financial statements of the Working Capital Fund (WCF), as of, and for the fiscal year ended September 30, 1999, and have issued our report thereon dated September 15, 2000. Except as discussed in our opinion, we conducted our audit in accordance with the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States; and the Office of Management and Budget (OMB) Bulletin No. 98-08, "Audit Requirements for Federal Financial Statements," as amended.

In planning and performing our audit of the financial statements, we considered its internal controls over financial reporting by obtaining an understanding of the internal controls, determined whether the internal controls had been placed in operation, assessed control risk, and performed tests of controls in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal controls over financial reporting. Consequently, we do not provide an opinion on internal controls.

In addition, we considered WCF's internal controls over Required Supplementary Stewardship Information by obtaining an understanding of the internal controls, determined whether these internal controls had been placed in operation, assessed control risk, and performed tests of controls as required by OMB Bulletin 98-08, "Audit Requirements for Federal Financial Statements," and subsequent issuances, and not to provide assurance on these internal controls. Accordingly, we do not provide assurance on such controls.

The Overview and Supplemental Information (OSI) provides explanatory analysis for the users of WCF's financial statements and it summarizes fiscal year 1999 results. Some of this information is produced from the same financial systems as the financial statements. Because of the problems discussed above, we are unable to provide any assurances on the OSI. In addition, the WCF Overview did not include discussion of the WCF Government Performance and Results Act (GPRA) performance measures as required by OMB Bulletin 97-01, "Form and Content of Agency Financial Statements".

MANAGEMENT'S RESPONSIBILITY FOR INTERNAL CONTROL STRUCTURE

The management of WCF is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of the internal control structure policies and procedures. The objectives of an internal control structure are to provide management reasonable, but not absolute assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with the entity's prescribed basis of accounting. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

OIG'S EVALUATION OF WCF'S INTERNAL CONTROL STRUCTURE

For the purpose of this report, we have classified WCF's significant internal control structure policies and procedures into the following categories:

- Administrative Costs - consists of policies and procedures associated with disbursing funds for salaries and administrative expenses.

- Treasury - consists of policies and procedures associated with disbursing and collecting cash, reconciling cash balances, and managing debt.

- Financial Reporting - consists of policies and procedures associated with processing accounting entries and preparing WCF's financial statements.

- Property and Inventory - consists of policies and procedures associated with acquisition, maintenance and disposition of property and/or inventory.

For each of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation. We assessed control risk and performed tests of WCF's internal control structure.

In making our risk assessment, we considered the Department's Federal Managers Financial Integrity Act (FMFIA) reports, Office of the Inspector General (OIG) audits and other independent auditor reports on financial matters and internal accounting control policies and procedures. We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants (AICPA). Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to have reasonable assurance that the following objectives are met:

(1) Transactions are properly recorded and accounted for to permit the preparation of reliable financial statements and to maintain accountability over assets;

(2) Funds, property, and other assets are safeguarded against loss from unauthorized use or disposition; and,

(3) Transactions, including those related to obligations and costs, are executed in compliance with (a) laws and regulations that could have a direct and material effect on the Principal Statements, and (b) any other laws and regulations that OMB, U.S. Department of Agriculture, or we have identified as being significant for which compliance can be objectively measured and evaluated.

Our consideration of the internal controls would not necessarily disclose all internal control matters that might be material weaknesses under standards by the AICPA and OMB Bulletin No. 98-08, as amended. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited or material to a performance measure or aggregation of related performance measures may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Matters that we consider to be material weaknesses are presented in the "Findings and Recommendations" section of this report.

FINDINGS AND RECOMMENDATIONS

I. FINANCIAL MANAGEMENT PROCEDURES AND SYSTEMS NEED IMPROVEMENT

The financial management systems established and/or used by the WCF are not designed to enable it to either meet current accounting standards, or provide reliable financial information critical for managing its operations. Despite advising WCF officials on five occasions dating to December 1995, that major improvements in financial systems and operations must be made, WCF has not taken sufficient actions to assure system changes and/or internal control processes and procedures were developed to enable the WCF to complete reliable, timely financial statements that were free from material misstatement. As a result, WCF officials have not correctly reported on the monies collected, the cost of operations, or any other meaningful measure of financial performance. In addition, users of information reported or taken from the financial statements or related financial reports risk making wrong decisions because they relied on questionable information in making decisions. Also, WCF officials cannot provide reasonable assurance that it has properly safeguarded government funds from loss and/or unauthorized use. The WCF had revenues of $248 million in fiscal year 1999.

FINDING NO. 1

WCF Financial Management Must Improve Its Financial Operations

The WCF needs to substantially improve its control structure to correct the errors, omissions, and inconsistencies contained in the fiscal year 1999 financial statements. Our audit found that financial reports are inaccurate, accounting operations are not effectively performed and basic controls are not in place for WCF operations. For example, we found the following material problems:

- WCF failed to develop and implement formal accounting and operating procedures requiring that WCF operations follow generally accepted accounting principles. We reported, as far back as December 1995, that there was only limited written guidance provided to the activity centers regarding the appropriate handling of accounting issues. In addition, many of the activity center managers had limited expertise and training in financial and accounting matters. We concluded that it was essential that adequate written guidance be provided to help ensure consistent and accurate handling of the financial activities of the fund and to improve the overall financial reporting. WCF provided us with a draft accounting manual during March 2000; however, WCF officials had not yet distributed the procedures to activity center officials and financial management staff. We believe that sound application of generally accepted accounting principles and financial management practices could have precluded many of the material misstatements and weaknesses noted during our audit of the fiscal year 1999 financial statements.

WCF indicated it would distribute the final WCF Budget and Accounting Manual to activity centers by October 19, 2000.

- WCF personnel prepared its fiscal year 1999 financial statements directly from its general ledger. However, WCF officials failed to monitor the general ledger account balances or perform necessary reconciliations and analyses to ensure the yearend account balances were accurate. As a result, our audit identified over $90 million in adjustments that needed to be made to the initial WCF fiscal year 1999 financial statements. In addition, numerous account balances were unsupported and/or contained significant, abnormal amounts. For example, the Federal accounts receivable line-item contains a negative “unbilled receivable” totaling over $17 million. This material amount is spread over 5 fiscal years and is not identified to which agencies “owe” the money. This material income adjustment reduces the financial statement line-item total to about $26 million, or 39 percent of the line-item total. Netting these abnormal, unsupported receivables against valid receivables results in a material misstatement. These problems occurred because WCF adjusts income at fiscal yearend to approximate expenses for selected activity centers without research or supporting documentation. These adjustments have been reported as improper by OIG, since December 1995, when we first identified this problem.

- Fiscal year 1999 collections recorded in one accounting system were about $7 million greater than revenue reported on the financial statements. WCF officials performed no analyses of this critical relationship and do not know whether this significant difference relates to collections processed in error, duplicate billings, misstatement of revenue, or any other reason.

- WCF officials have failed to establish a methodology for determining an appropriate allowance for doubtful accounts, or that monies due from other Federal agencies, in some cases due for 6 years, represent valid receivables. Thirty-nine percent or $3 million of the (billed) accounts receivable balance as of September 30, 1999, were 90 days or more delinquent. In addition, WCF officials netted a prior year's bad debt expense, totaling $1.2 million, against current year's revenue without recognizing a bad debt expense. Accounting procedures require that expenses be matched to their related revenue. This error causes a material misstatement of the WCF fiscal year 1999 financial statements.

- WCF officials have failed to establish and implement compensating/complementary controls to aid in ensuring the accuracy and reliability of data processed through Central Accounting Systems (CAS). For example, accounts payable included an unknown balance of $1.6 million that was not supported or researched.

In addition, these weaknesses have not been reported in the Office of the Chief Financial Officer's (OCFO) FMFIA report, OMB Circular A-130 reviews or the internal control reviews performed by OCFO/NFC, departmental administration, or any other departmental agency.

RECOMMENDATION NO. 1

Develop and implement sound financial management policies and procedures in compliance with generally accepted accounting principles for the Federal Government.

OCFO Response

OCFO concurs with this recommendation. WCF Staff will continue coordination of its efforts among the NFC Accounting Reporting Branch and WCF activities to improve accounting reporting and processes during the Foundation Financial Information System (FFIS) implementation phase; WCF will complete FFIS implementation by October 1, 2001.

Actions needed to address this recommendation are noted elsewhere among recommendations under the audit report findings. WCF management regards all responses to all recommendations made in the audit report as relevant to this recommendation

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OIG Position

We concur with the management decision.

RECOMMENDATION NO. 2

Establish a management structure within the WCF that will assure the problems noted in this report are corrected in a timely manner.

OCFO Response

In the spring 2000, WCF published an announcement for an accounting team leader to manage and oversee day-to-day accounting operations and activity accounting support. The accounting team leader position will be filled as soon as possible. This is an essential first step in reestablishing a day-to-day accounting management presence in the WCF. WCF has also dedicated accounting support at the NFC (reporting to the Director, WCF Division) to support accounting operations.

Further actions have not yet been identified, but the WCF will, in cooperation with OIG, develop an action plan to take corrective actions to address recommendations in the audit report as an interim, ad hoc step for the fiscal year 2000 financial statements. Remedies will be developed by December 31, 2000, and will be shared with OIG for comment.

OIG Position

We were unable to concur with the management decision. A detailed, time-phased, corrective action plan should be provided before we can concur with management decision.

RECOMMENDATION NO. 3

Immediately discontinue adjusting revenues to equal expenses. Research within the next 90 days and prepare appropriate adjusting entries to reflect the reconciliation of past inappropriate revenue adjustments and/or correct the conditions noted.

OCFO Response

Such adjustments will no longer be made until fully researched and appropriately supported. Research/adjusting entries will be performed by December 15, 2000, for the fiscal year 2000 financial statements.

OIG Response

We concur with the management decision.

RECOMMENDATION NO. 4

Release and assure each activity center adheres to the WCF accounting manual, as well as established accounting standards.

OCFO Response

The WCF Budget and Accounting Manual has been issued to activity centers. WCF will work with activity centers on an ad hoc basis to strengthen the activities' understanding of budget and accounting requirements and appropriate standards. Meetings will be held with selected activity centers on a periodic basis (most likely monthly) to discuss accounting issues and their underlying application to standards so as to ensure continuing compliance with established accounting standards. It is anticipated that these meetings will be completed by November 30, 2000.

OIG Position

We concur with the management decision.

RECOMMENDATION NO. 5

Establish operating procedures to require appropriate reconciliations and other accounting relationship tests are performed throughout the fiscal year and at fiscal yearend.

OCFO Response

These requirements will be reflected in further editions of the WCF Budget and Accounting Manual.

Reconciliations will be performed by WCF monthly; the requirement will be featured in year-end closing procedures. These steps will be taken to ensure that staff and activity centers are in agreement with respect to steps necessary to ensure appropriate accounting tests are performed. It is anticipated that these actions will be completed by September 30, 2001.

OIG Position

We concur with the management decision.

RECOMMENDATION NO. 6

Perform an analysis within the next 90 days to age the accounts receivable and payable. Make necessary adjustments to reflect write-offs and/or allowance for doubtful accounts.

OCFO Response

The analysis and accompanying adjustments will be completed by December 15, 2000.

OIG Position

We concur with the management decision.

RECOMMENDATION NO. 7

Develop and implement appropriate compensating and complementary internal controls to assure the control weaknesses noted in this report are corrected to the extent possible.

OCFO Response

As noted in footnote 5 to the draft OIG report, the OCFO initiated corrective action to address this problem. Other problems associated with the CAS will be addressed by the implementation of the WCF into FFIS on October 1, 2001.

The WCF staff is working with the NFC Billing and Collection Unit to address the requirement for detailed subsidiary ledgers or aging reports to support the Direct Premium Remittance System (DPRS) balances.

OCFO will work with OIG to determine acceptable alternatives in preparing the Statement of Net Cost by December 31, 2000.

OIG Position

We were unable to concur with the management decision. A detailed, time-phased, corrective action plan should be provided before we can concur with management decision.

RECOMMENDATION NO. 8

Assure the material weaknesses identified throughout this report are included in the OCFO's FMFIA report, OMB Circular A-130 reviews or other internal control reviews, as applicable.

OCFO Response

WCF has drafted language to be included in the OCFO FMFIA report identifying weaknesses reflected in the audit report. As appropriate, material weaknesses will be reported in OMB Circular A-130 reviews and/or other internal control reviews.

OIG Position

We were unable to concur with the management decision. An estimated completion date is necessary before we can concur with management decision.

FINDING NO. 2

Financial Management Systems Need Improvement

Internal control problems, reported at the OCFO/NFC and WCF operations since 1995, materially impact the integrity of financial data provided to departmental officials on the operations of the WCF. WCF uses the OCFO/NFC CAS as its primary financial management system: however, management has not established and implemented complimentary and/or compensating controls to aid in ensuring the accuracy and reliability of the data processed through CAS. As a result, WCF officials function without reliable, accurate, and consistent financial information on its operations, and other administrative expenses processed by the OCFO/NFC that exceeded $250 million for the fiscal year.

Financial management systems problems identified at the OCFO/NFC that affect the financial management data provided to WCF officials include the following:

- The accounting systems at the OCFO/NFC do not comply with Joint Financial Management Improvement Program requirements and cannot provide timely, accurate, and consistent financial information. This serious problem impairs the quality of financial management information needed to make informed decisions.

- Since 1992, we have reported problems in the OCFO/NFC's ability to reconcile Fund Balance with Treasury (FBWT) with U.S. Treasury records[4]. The FBWT account is an asset account

[4] The OCFO has initiated a corrective action plan to address this long-standing problem and is making progress in fixing the problem.

representing the future economic benefit of monies that can be spent for authorized transactions.[5]

- The Program Billing and Collections System detail subsidiary ledger did not reconcile to the general ledger as of fiscal yearend. As a result, the fiscal year 1999 WCF financial statements misclassified Federal accounts receivable as non-Federal accounts receivable by $4 million.

  WCF officials advised that they have worked with NFC to identify the source of the above problem as an incorrect billing code. In addition, WCF stated that they anticipate all bill numbers would be corrected by November 30, 2000.

- The DPRS is a centralized automated system that bills and collects premiums from eligible non-Federal enrollees who elect to participate in the Federal Employees Health Benefits Program. WCF officials were unable to provide any detail subsidiary ledger or aging reports to support the DPRS balance reported in the financial statements.

  WCF officials indicated that they would work with NFC to obtain detail subsidiary ledger and/or aging reports to support the DPRS balance included in the financial statements.

- Documentation for older administrative systems is incomplete and for many applications documentation is poor. To address this problem, OCFO/NFC initiated efforts to obtain Capability Maturity Model (CMM)[6] "Level 2" status. This discipline would address previously reported control weaknesses and improve software development and related project management control practices for existing and new applications. CMM "Level 2" progress was halted to address the Year 2000 issue. The current plan is to have all new systems compliant by fiscal year 2001.

- There are numerous methods of making accounting adjustments to the general ledger and related subsidiary records. We have

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[5] Fund Balance with Treasury Reconciliation Procedures, A Supplement to the Treasury Financial Manual (TFM), I TFM 2-5100, dated August 1999.

[6] CMM is a recognized process that establishes a framework for an effective software process. The CMM has five levels and covers "practices" for planning, engineering, and managing software development and maintenance. When followed, the CMM practices will improve the ability of organizations to meet goals for cost, schedule, functionality, and product quality in software development. The OCFO/NFC goal is to achieve a "Level 2" in the CMM. This level would assure and institutionalize effective management processes for software projects. A "Level 1" agency does not have controls in place that allow for effective management of software development.

reported that control processes and procedures at the OCFO/NFC fail to provide reasonable assurance that the adjustments affected the correct accounts, were properly authorized, adequately computed, and processed accurately. These material weaknesses lessen, substantially, the reliance that can be placed on the OCFO/NFC general ledger and related financial management data and reports.

- We also reported additional Information Technology problems during our audits of the Office of Chief Information Officer/National Information Technology Center's (NITC) Internal Control Structure, Audit Report No. 88099-1-FM, dated December 10, 1999, and Security Over Departmental Data Transmissions in Audit Report No. 23099-1-FM, dated March 30, 2000. Our reviews disclosed material internal control weaknesses that could impact WCF operations, such as the need for a strengthened network security monitoring and intrusion detection program, use of data encryption, and improved controls over access authorities for authorized users.

- The CAS general ledger does not provide financial information at the WCF activity center level. As a result, the fiscal year 1999 WCF Statement of Net Cost is not presented in the proper reporting format, as required by the OMB Bulletin 97-01, "Form and Content of Agency Financial Statements." This Bulletin requires that the statement of net cost and related supporting schedules classify revenue and cost information by suborganization or responsibility segment.

Achieving the reforms required by financial management legislation is essential because WCF officials need accurate financial information to effectively and efficiently manage its operations. Until the WCF implements its new accounting system, FFIS, scheduled for fiscal year 2002, WCF does not have all of the necessary financial information to support its decision-making process, know the cost of its operations or many other meaningful measures of financial performance. In essence, poor accounting and financial reporting obscures facts. As a result, users of information reported or taken from the underlying accounting systems, as a whole, risk making errant decisions whether for budget purposes or operationally.

WCF has Business Process Review Sessions scheduled during the week of October 23, 2000 with the FFIS Project Office to begin the implementation of FFIS.

RECOMMENDATION NO. 9

Assure supporting records and necessary documentation is maintained for accounting transactions posted to the general ledger for DPRS activity.

OCFO Response

Records and documentation will be maintained by WCF staff and updated monthly. These actions will be completed by November 30, 2000.

OIG Position

We concur with the management decision.

RECOMMENDATION NO. 10

Research and correct the error in classification of Federal and non-Federal accounts receivable. It is anticipated that these actions will be done by October 1, 2001.

OCFO Response

Billings number not yet corrected for miscoding are being corrected.

OIG Position

We concur with the management decision.

II. BILLING PROCESS NEEDS SUBSTANTIAL IMPROVEMENT

FINDING NO. 3

The WCF did not perform timely and/or accurate fiscal year 1999 billings of its customers. This significant problem occurred because a risk assessment had not been performed, and sufficient and proper internal controls had not been established to take into account the use of a new accounting system for several USDA agencies. As a result, WCF customers were billed twice for services totaling over $425,000, resulting in duplicate revenue recognition for WCF and out-of-balance FBWT conditions[7]. In addition, we have no assurance as to the accuracy of the $41 million in FBWT or the $248 million of revenue reported on the fiscal year 1999 WCF financial statements.

WCF uses two procedures to bill its customers. For one method, WCF estimates monthly customer bills based on estimated costs[8]. The other WCF activity centers bill customers based on actual usage[9]. NFC then either (1) processes the bills (transfers the spending authority from the agencies to the WCF) through the Miscellaneous Payments System (MISC) for CAS agencies,[10] or (2) forwards an NFC-675, "Request for Billing," to the Administrative Billings and Collections System (ABCO) for FFIS customers. ABCO personnel then process the FFIS customer bills. These billing systems both send information to the general ledger.

WCF failed to perform a risk assessment of their current operational processes to determine the impact that the implementation of the FFIS would have at the agency and on WCF operations. The following conditions could have been prevented with a risk assessment, and the establishment of sufficient and proper internal controls.

- Duplicate/Inappropriate Billings
  From our review of all activity center billings, we identified 27 instances where billing documents totaling over $425,000 for FFIS agencies were inappropriately processed through both the MISC and ABCO, resulting in excessive revenue being recorded by WCF.

[7] This was a systemic problem that resulted in reporting the revenue twice.
[8] Greenbook charges are estimated and allocated based on historical usage information; each agency should be billed monthly, one-twelfth of the total estimated processing costs.
[9] Actual usage may be computed by monthly or quarterly cycles.
[10] CAS agencies are primarily USDA agencies that have not yet converted in the FFIS.

As a result, misstatements were made throughout the various financial statements.

- <u>FFIS Agencies Did Not Always Receive The Refunds They Were Entitled To</u>
  Eleven of the 20 WCF activity centers should have refunded excess revenue to customers for fiscal year 1999. Since WCF customers used two accounting systems during the FFIS implementation, different refund processes were necessary depending on which accounting system the agencies' data resided on. Because WCF staff did not reengineer its processes for the FFIS agencies, we noted that FFIS agencies did not receive the refunds they were entitled to.

  To test the refund process, we reviewed the refund process for 2 of the 11 activity centers for all agencies that used the FFIS. We identified 6 instances for the 4 agencies, totaling over $102,000, where refunds were due, but not provided to the agencies. We attributed this problem to a lack of controls and coordination between two NFC sections that are involved in the billing process.

  WCF officials have indicated that they would document and implement procedures to ensure FFIS agencies actually receive refunds and receive any refunds in a timely manner.

- <u>Billing Not Timely</u>
  We noted that the initial "Greenbook" user bills have extensive delays. This has occurred because of a lack of effective operating procedures, a complicated rate setting process and the need for better oversight. As a result, users are not provided with timely billing information.

  WCF activity center bills are to be processed on a monthly basis, with the exception of 3 activity centers that bill quarterly. The following table depicts the month that the October 1998 bills were processed for each activity center. For fiscal year 1999, over 60 percent of the initial Greenbook billings did not occur until June 1999, or 9 months into the fiscal year.

Activity Center	Actual Month Processed
National Finance Center	March 1999
NITC – Mainframe Operations	November 1998
NITC - Agency Applications	November 1998
Telecommunications Business Services	June 1999
Computer Services Unit	April 1999
Network Services Division	June 1999
Telephone Service Operations	June 1999
Copier Service	March 1999
Duplication Services	July 1999
Departmental Mailing List Service	July 1999
Mail Distribution Unit	June 1999
Central Supply Forms - Agency Forms	June 1999
Standard Forms	June 1999
Transportation	September 1999
Central Supply Stores (quarterly)	May 1999
Central Shipping and Receiving	April 1999
Central Excess Property-Excess Property	May 1999
Rehab Furniture	September 1999
Central Imprest Fund	June 1999
Agricultural Contract Automation System	May 1999
Video and Teleconferencing (quarterly)	March 1999
Design Center (quarterly)	March 1999
Executive Secretariat	June 1999

We identified one activity center where all agencies using the FFIS accounting system were not billed for fiscal year 1999 activity, as of the end of the fiscal year. NFC personnel responsible for processing this activity center's billings had not reengineered its processes to consider the impacts the FFIS would have on its operations, and; therefore, were not able to process these agency's bills.

For those WCF activity centers that issued refunds to the agencies, we noted the refunds for fiscal year 1999 did not occur until after the end of the fiscal year 1999. The timing of these rebates could, in effect, eliminate for agencies with a single year appropriation, the ability to use the money refunded to them. For example, several activity centers had recognized profits of about $3.8 million, as of fiscal yearend. However, final billings and related refunds were not completed until November 8, 1999. Therefore, agencies using single year appropriations lost the ability to use up to $3.8 million for other valid purposes.

The problems noted in this finding would have been prevented or corrected in a more timely manner, if WCF Staff had: (1) properly completed timely reconciliations of the billings and collections, (2) performed a risk assessment of NFC operations as they relate to the FFIS accounting system, and (3) established sufficient and proper internal controls over its billing process. Some of these problems have been reported by OIG in fiscal years 1996 and 1997.

WCF officials advised that in fiscal year 2000 WCF staff would assume responsibility for the processing of all WCF billings. WCF officials indicated that this process would allow them to prepare detailed monthly billings that can be reconciled to income amounts in the general ledger. If reconciliations are completed monthly as indicated, this would prevent the need for prior year income adjustments at fiscal yearend.

RECOMMENDATION NO. 11

Develop a process that will enable timely and accurate billings of WCF users.

OCFO Response

OCFO concurs with this recommendation. In fiscal year 2000, WCF staff assumed responsibility for the processing of CAS agencies' billings for WCF activities, allowing the WCF staff to control the timing of the billings and to maintain control over the billing documents.

WCF staff implemented changes in procedures for billings to non-CAS agencies. WCF staff will prepare Requests for Billings for all WCF activities except for the OCFO/NFC and the OCIO/NITC WCF activities. OCFO/NFC and the OCIO/NITC activities will assign bill numbers prior to submitting them to the ABCO personnel for processing for control purposes.

WCF will develop an automated billing process as an ingredient of the WCF FFIS application. WCF should be implemented into FFIS as of October 1, 2001.

OIG Position

We concur with the management decision.

RECOMMENDATION NO. 12

Assure reconciliations of all WCF billings and collections to the WCF revenue and FBWT, are performed monthly and take prompt action to research and resolve all problems.

OCFO Response

The WCF staff developed procedures to research and correct the prior year income adjustments with the necessary supporting information. During fiscal year 2000 WCF staff worked with NFC Financial Systems Division to obtain on-line access to the necessary accounting records to research the income adjustments effectively. WCF will employ this process in fiscal year 2001 to reconcile the remaining income adjustments, and make adjustments and/or write-offs, as necessary.

WCF will employ dedicated support at the NFC to perform necessary research. Identification of personnel will be completed by November 30, 2000.

OIG Position

We concur with the management decision.

RECOMMENDATION NO. 13

Perform a risk assessment of the billing process and establish controls and procedures. Strengthen the oversight so that errors noted in this report do not recur.

OCFO Response

While a formal risk assessment was not made, the WCF has taken actions to establish controls and procedures for the billing process.

In fiscal year 2000, the WCF staff took over the responsibility for the processing of all WCF billings. This gives the WCF control over the detailed billing records and the processing of Requests to Bill for USDA FFIS users and Non-USDA customers.

WCF will develop billing procedures for WCF operations, taking advantage of the functionality of the new accounting/budget execution system, as part of the FFIS implementation plan. These actions will be completed by October 1, 2001.

OIG Position

We concur with the management decision.

RECOMMENDATION NO. 14

Develop procedures to ensure that agencies entitled to refunds, are notified and actually receive the refund in a timely manner.

OCFO Response

OCFO concurs with this recommendation. Problems associated with refunds were for non-CAS agencies only, and were related to the transition of these agencies to the FFIS accounting system. As agencies transition to FFIS, they must be billed through the ABCO system, but ABCO could not be used to process a refund.

If it is necessary for a non-CAS agency to receive a refund at yearend or during the fiscal year, a Request for Billings will be prepared on behalf of the agency due the refund. This procedure will be documented and coordinated with the recipient agencies to assure that it is processed correctly.

Outstanding FFIS user refunds have been prepared and forwarded to NFC for processing. In the future, these actions will be processed at the same time as refunds to CAS agencies.

Automated refund capability will be addressed in FFIS implementation.

WCF staff will develop a methodology to estimate yearend billings for each activity center based on billing history (e.g., 5 years), thereby minimizing differences between costs incurred and amounts billed, and ensuring that the need for refunds at yearend is minimized.

It is estimated that the above actions will be completed by December 15, 2001.

OIG Position

We were unable to concur with the management decision. The estimated completion date must be within 1 year of the management decision date.

III. WCF ADJUSTMENT PROCESS IS FLAWED AND NEEDS SUBSTANTIAL IMPROVEMENT

FINDING NO. 4

Material Yearend Income Adjustments are Unsupported

Despite repeated recommendations made by OIG dating back to December 1995, WCF officials continue to make material adjustments to revenue at fiscal yearend without appropriate research or supporting documentation. As a result, WCF revenue reported on the financial statements totaling approximately $248 million, in our opinion, is materially misstated. In addition, these weaknesses have not been reported in the OCFO's FMFIA report.

We reported in prior WCF audit reports[11] that the WCF did not reconcile the revenue collected through its billing process with the income reflected on its operating statements. In response to our audit recommendations, WCF officials reported to OIG and OCFO that actions have been taken to correct reported problems in accordance with OIG's recommendations. These statements are incorrect.

The methodology followed by WCF officials to adjust revenue to equal expenses is as follows:

- For the WCF activity centers that bill their customers on a fee-for-service basis, WCF officials adjusted the income to equal what the activity center had reported as its fiscal year estimated revenues. For the WCF activity centers that bill on a predetermined usage percentage "Greenbook," WCF officials adjusted income to equal the difference between what the activity center had reported as current year expenses and the collections. For example, if the system showed that an activity center had made a profit, WCF officials would decrease revenue to reduce the reported revenue. Conversely, if an activity center shows a loss, WCF officials would increase revenue to equal expenses.

During our fiscal year 1999 financial statement audit, we identified current year income adjustments of almost $70 million (absolute value) or 28

[11] Audit Report Nos. 50099-2-FM, "Audit of the NFC Cost Allocation and Billing Process," dated January 1996 and 50099-9-FM, "Working Capital Fund Operations – Phase II," dated August 1997.

percent of current year income. WCF officials had not researched the adjustments and have failed to provide adequate supporting documentation to enable us to validate the appropriateness of these material adjustments.

We also identified over $17 million (absolute value) of prior year income adjustments that are reflected in the fiscal year 1999 financial statements. Some of these adjustments date back to fiscal year 1995.

The following table details the income adjustments reflected in the WCF fiscal 1999 financial statements.

REVENUE ADJUSTMENTS MADE BY WCF OFFICIALS

WCF ACTIVITY CENTER	FY 95	FY 96	FY 97	FY 98	FY 99	Total
Video and Teleconferencing					$1,236,535	$1,236,535
Design Center				$(774,884)	2,059,535	1,284,651
					103,434	103,434
Executive Secretariat				486,267	(27,623)	458,644
					(9,004)	(9,004)
Agricultural Contract Automation System			$(7,077)		(89,230)	(96,307)
NITC-Mainframe					3,565,845	3,565,845
					(3,956,680)	(3,956,680)
NITC-Agency Applications					510,630	510,630
Telecommunications Business Services					(201,765)	(201,765)
Computer Service Unit		$(123,678)		(78,634)	(175,754)	(378,066)
					10,565	10,565
Telephone Service Operations		(117,689)	(74,390)	(585,091)	(31,136)	(808,306)
					76,781	76,781
Network Service Division	$(66,031)	(415,037)		(78,632)	(446,928)	(1,006,628)
					(334,907)	(334,907)
Central Supply Stores				1,043,960	176,496	1,220,456
Central Supply Forms	(1,281,697)	(1,561,375)	(657,537)		(2,401,777)	(5,902,386)
Central Shipping & Receiving				410,954	(232,558)	178,396
Central Excess Property			(501,404)	144,632	476,582	119,810
					135,684	135,684
Central Imprest Fund	(36,656)	(38,655)			(102,540)	(177,851)
Mail Distribution Unit				(1,603,613)	1,574,731	(28,882)
					326,223	326,223
Duplication Services					204,778	204,778
					128,500	128,500
Copier Service		(424,274)			727,747	303,472
Departmental Mailing List					51,819	51,819
Foundation Financial Information System		89,836	(166,562)	541,529		464,803
				(541,528)		(541,528)
MAP Reimbursement		241,591	(1,685,486)	1,137,569	(367,331)	(673,657)
			844,743	(34,284)		810,459
National Finance Center			(1,230,463)			(1,230,463)
					33,505,458	33,505,458
					(234,280)	(234,280)
					197,986	197,986
					(9,915,970)	(9,915,970)
					547,528	547,528
					(3,130,217)	(3,130,217)
					(1,652,918)	(1,652,918)
					(734,270)	(734,270)
					269,467	269,467
TOTAL	**$(1,384,384)**	**$(2,349,281)**	**$(3,478,175)**	**$68,245**	**$21,841,436**	**$14,697,840**
ABSOLUTE VALUE TOTAL	**$1,384,384**	**$3,012,135**	**$5,167,661**	**$7,461,577**	**$69,931,213**	**$86,956,971**

These adjustments appear improper because they continue to be made in subsequent years without documentation that the prior years adjustments were ever billed and collected. The lack of documentation indicating that the estimates were actually collected brings into question the validity of the initial and subsequent year revenue estimates. For example, during fiscal year 1999, WCF officials made income adjustments relating to current and prior year activity, dating as far back as 1995, for the Central Supply Forms activity center. These adjustments reduced reported revenue by over $5.9 million.

WCF officials state that they intend to research and correct all prior year income adjustments with necessary supporting documentation.

In addition, we noted where one activity center provided WCF with a spreadsheet that inaccurately reported fiscal year 1999 income. As a result, income reported on the WCF fiscal year 1999 financial statements was understated by almost $1 million. This error would have been detected had a monthly reconciliation of the general ledger to actual billings and collections been done.

Recommendations to address this finding have been made in Chapter I of this report and we are making no further recommendations at this time.

FINDING NO. 5

Period-End Estimates

Material problems exist in the WCF period-end estimate process. These problems exist because of the lack of adequate research performed at the WCF activity centers prior to submitting estimates and the lack of oversight by WCF management. Period-end estimates are important to ensure that valid WCF revenue and expense amounts are properly included in the fiscal yearend financial statements. We identified six estimates, totaling $1.3 million, that were in error by almost $1 million and six other estimates, totaling $1.1 million, that were not supported.

Annually, the WCF Director sends a letter to all WCF activity centers requiring the submission of period-end estimates to WCF staff for transmission to NFC. This letter requests an explanation to be included for each estimate so that supporting documentation can be easily obtained. We reviewed all WCF (with the exception of NFC), period-end estimates over $100,000. This included 19 estimates totaling over $4.2 million from a total universe of 859 period end estimates with an absolute value of $11.7 million. From our review of these 19 period-end estimates, we noted 12 estimates totaling over $2.4 million that were inaccurate or not supported. In addition, we reviewed a sample of period-end estimates from NFC and did not find any material discrepancies.

WCF officials advised that they would supplement the fiscal year 2000 closing procedures issued by NFC with additional requirements for WCF activity centers. The instructions would establish requirements for additional levels of review by each WCF activity center to improve the accuracy of period-end estimates. In addition, WCF staff will work with WCF activities to implement additional controls for significant period-end estimates to assure that the documentation is provided to support these estimates.

RECOMMENDATION NO. 15

Provide additional guidance to WCF activity centers regarding period-end estimates to assure conditions noted above do not recur.

OCFO Response

OCFO concurs with this recommendation. WCF staff supplemented the yearend closing instructions issued by NFC will additional requirements for WCF activities. Fiscal year 2000 instructions established requirements for additional levels of review by each WCF activity to improve the accuracy of period end estimates. In addition, WCF staff will work closely with activities noted by OIG to avoid inaccuracies in the future. Final action will be completed by August 1, 2001.

OIG Position

We concur with the management decision.

RECOMMENDATION NO. 16

Require a review, by the WCF staff, of supporting documentation for all significant period-end estimates before submission.

OCFO Response

WCF staff reviews all period-end estimates for WCF activities before they are submitted to the NFC for processing.

For fiscal year 2000 yearend closing, WCF staff is working with WCF activities to implement additional controls for significant period-end estimates to assure that the documentation is provided to support these estimates. The WCF staff has also requested that additional support information be provided by the WCF activities for period-end estimates exceeding $100,000. This request was included in the fiscal year 2000 yearend closing instructions.

OIG Position

We concur with the management decision.

IV. OPERATIONAL AND SYSTEMIC PROBLEMS EXIST IN ACCOUNTING FOR PERSONAL PROPERTY

FINDING NO. 6

Material internal control problems exist in the accountability and valuation of personal property at WCF activity center locations and at the OCFO/NFC. These weaknesses exist because of the lack of established corporate internal control procedures and processes relating to personal property and the personal property system. Because of these weaknesses, we were unable to substantiate whether the WCF financial statements were free from material misstatements for personal property valued around $50 million. In addition, these weaknesses have not been reported in the OCFO's FMFIA report.

The OCFO/NFC maintains the Personal Property Management System (PROP) that is used to record personal property information and track capitalized and non-capitalized personal property, depreciation, etc. We reviewed the internal control procedures and processes in the PROP system and personal property controls at various WCF activity center offices. We found the following material internal control weaknesses:

- Agriculture Property Management Regulation AG 5109 Part 104-51.106, dated January 1997, requires that physical inventories of all accountable personal and real property, except land, shall be taken by each agency every 2 years. Our review of the PROP system disclosed that there are over 90 WCF accountable officers as of December 7, 1999. From this review, we identified 28 accountable officers that were either delinquent in performing physical inventories, or had never recorded that an inventory had been performed. The delays in recording a physical inventory ranged to over 7 years.

  WCF officials advised that the Office of Procurement, Property and Emergency Preparedness (OPPEP) would request that each accountable officer conduct/record the required biennial inventory by September 18, 2000. In addition, WCF officials indicated that NFC and NITC, Mainframe Operations have completed a physical inventory subsequent to our audit and will be completing any adjustments that may be necessary.

- During our reviews at selected activity center offices, we identified numerous instances where accountable officers were unable to locate personal property that was shown in the PROP inventory. Out of 216 personal property items totaling about $8.9 million, we were unable to locate 190 of the items, accounting for more than $8.4 million.

  We noted a lack of documentation or inaccurate documentation supporting the recorded acquisition value of the personal property. We requested documentation to support the acquisition amount in PROP for 149 personal property items totaling $4.3 million. The WCF activity centers failed to provide documentation to support the acquisition amount for 77 items totaling $1.5 million.

  WCF officials advised that the OPPEP would request all agencies to validate the recorded value of property in the PROP to supporting documentation.

- We determined that WCF staff are not currently performing reconciliations between personal property general ledger accounts and balances in the personal property feeder system. As of September 30, 1999, we identified an absolute value difference of over $30 million for WCF. This problem, first reported to the Department in fiscal year 1992, has remained uncorrected.

Failure to perform required inventories, missing property noted in our field tests, and the failure to update the system makes this system highly vulnerable and calls into question the reliability of $50 million reported for personal property in the fiscal year 1999 WCF financial statements.

RECOMMENDATION NO. 17

Require each accountable officer who has failed to perform/record the required biennial inventory, to perform a complete inventory within 90 days, and assure necessary accounting adjustments are made to correct errors noted during this inventory.

OCFO Response

OCFO concurs with this recommendation. The NFC and NITC completed a property inventory and are completing those adjustments that may be required. Documentation of results will be sent to OIG under separate cover.

WCF staff will provide to WCF activity managers a list of accountable property officers recorded in the system; managers will inspect the list and either make changes or validate the accuracy of the list. This will be completed by November 30, 2000.

Activity managers will be provided with training materials for each of their accountable property officers defining their duties and responsibility. This will be completed by November 30, 2000.

WCF staff will notify the remaining WCF activity managers by November 30, 2000 that they must perform a complete inventory by February 28, 2001.

OIG Position

We concur with the management decision.

RECOMMENDATION NO. 18

Require accountable officers to validate the recorded value of property in the system to supporting documentation and assure necessary accounting adjustments are made to correct errors noted during this validation.

OCFO Response

OCFO concurs with this recommendation. Accountable officers will be required, as part of the inventory process, to validate the recorded value of property in the system to supporting documents. OCFO will work with the Office of Procurement, Property, and Emergency Preparedness and with activity centers to complete this task concurrently with target date for completion of inventory (February 28, 2001).

OIG Position

We concur with the management decision.

RECOMMENDATION NO. 19

Reconcile the personal property asset and depreciation general ledger accounts to balances in PROP, research all differences, and assure all necessary adjustments are processed in a timely manner.

OCFO Response

OCFO concurs with this recommendation. An action plan will be developed during the first quarter of fiscal year 2001 to address the inventory valuation and reconciliation of the Property System to the general ledger. OCFO will work with OIG and NFC in developing this plan.

The NFC completed the reconciliation of the Property Feeder System and the Property General Ledger for all WCF activities as of April 30, 2000. NFC staff has made the adjusting entries to bring the records into balance as of that date for all activities, with the exception of OCFO. The final adjustments are still pending for OCFO. NFC is continuing this reconciliation as an ongoing process.

OIG Position

We were unable to concur with the management decision. A detailed, time-phased, corrective action plan should be provided before we can concur with management decision.

V. SIGNIFICANT PROBLEMS REPORTED IN PRIOR YEARS REMAINED UNCORRECTED AND RESULTED IN MATERIAL MISSTATEMENTS TO THE FINANCIAL STATEMENTS

FINDING NO. 7

Numerous significant accounting and management problems reported in prior WCF audits remain uncorrected, despite assurances of WCF officials that the problems had been corrected. As a result, material weaknesses, reported as corrected, have contributed to the adverse opinion issued on the fiscal year 1999 WCF financial statements.

We identified the following issues where corrective action had not been taken or was incomplete and/or ineffective.

- <u>Reconciliations</u>
  OIG Audit Report No. 50099-2-FM, "Audit of the NFC Cost Allocation and Billing Process," issued January 1996, noted that NFC did not reconcile the revenue collected through its billing process with the income being reflected on its operating statements. WCF officials agreed to reconcile the revenues shown on the operating statements, the revenue billing spreadsheets, and the amounts actually billed and collected and resolve any differences. WCF officials reported that all actions were completed for this recommendation in March 1998.

  OIG Audit Report No. 50099-9-FM, "WCF Operations – Phase II," issued August 1997, noted that WCF officials did not reconcile the income shown on the operating statements with the amounts being billed and collected. WCF officials reported in October 1999 that all actions for this recommendation have been implemented.

  As noted throughout this report, we identified material income adjustments processed at fiscal yearend without any research or supporting documentation. These income adjustments go back as early as 1995. If reconciliations were ongoing and complete as WCF officials attested, fiscal yearend income adjustments would have been adequately supported.

  WCF officials agreed that the above recommendation should not have been closed since the reconciliations had not yet been completed at the time the recommendation was closed. In addition, WCF officials stated that they would develop an action plan to address the completion of the income reconciliation.

- Allowance for Doubtful Accounts
  WCF officials had failed to provide a policy to establish an allowance for doubtful accounts. In response to OIG correspondence in 1997 relating to this problem, WCF officials stated they were currently working to develop an accounts receivable policy that would address WCF's position with regard to establishing an allowance account for accounts receivables. It should be noted that federal accounting principles have been established for this area since 1993.

  WCF officials advised that they had begun to review and work with the activity centers and the OCFO/NFC to determine the collectibility of outstanding receivables. As of September 30, 1999, WCF had not identified any accounts as uncollectible. However, during our review of the accounts receivable balance, as of September 30, 1999, we identified individual accounts that were over 6 years past due. In addition, 39 percent or $3 million of the billed accounts receivable balance as of September 30, 1999 was 90 days or more delinquent.

  In addition, WCF officials netted a prior year's bad debt expense, totaling $1.2 million, against current year's revenue. Accounting procedures require that expenses be matched to their related revenue. This error causes a material misstatement of the fiscal year 1999 WCF financial statements.

- Accounting and Funding of Leave Liability
  WCF officials had failed to properly accrue compensatory leave for all activity centers. Accounting principles require compensatory leave to be accrued for when earned.

- Network Services Division (NSD) Cost Recovery Method
  OIG Audit Report No. 58099-21-FM, "Review of Management and Security Over Local Area Network (LAN)," issued September 1991, found that the LAN costs were allocated to agencies on the basis of agency Full Time Equivalents (FTE) within the Washington, D.C. four-building metropolitan complex. We recommended that a more equitable cost allocation method be developed (e.g., based on actual usage) and implemented.

  OIG Audit Report No. 50099-9-FM, "WCF Operations – Phase II," issued August 1997, continued to find that the old cost allocation methodology was used. WCF officials agreed to perform an analysis of the LAN cost allocation process in order to identify methodologies that provide an equitable distribution of costs based on the services received rather than by agency FTE's. The process was to be completed September 30, 1998. Final action was reported as complete for this recommendation in October 1999 based on WCF officials certifying that LAN has developed new procedures for tracking usage of LAN services as of September 30, 1999.

While NSD had developed a new cost allocation process, this new methodology will not be implemented before fiscal year 2001. NSD costs totaled about $700,000 in fiscal year 1990, and have risen to almost $4 million in fiscal year 1999. This growth, in addition to reduced agency budgets, magnifies the need for a more equitable cost allocation methodology for the LAN activity.

WCF officials agreed that a new cost allocation process for NSD has not been implemented and this recommendation should be reopened. In addition, WCF officials advised that a contract is pending.

- <u>WCF Budget and Accounting Manual</u>
  OIG Audit Report No. 50099-9-FM, "WCF Operations – Phase II," issued August 1997, recommended that WCF develop formal accounting and operating procedures for all WCF operations. The estimated completion date was September 30, 1998. Final action was reported as complete in October 1999 based on WCF officials certifying that the WCF Budget and Accounting Manual had been prepared and would be distributed by September 30, 1999.

  After numerous requests, we obtained a draft Budget and Accounting Manual in March 2000; however, this manual had not been distributed to the activity centers officials and financial management staff as of September 30, 1999.

  WCF officials advised that they would distribute the final WCF Budget and Accounting Manual to the activity center managers by October 19, 2000. If the manual has been distributed and contains all the necessary WCF policies and procedures, this may prevent some of the issues identified in the report from recurring.

RECOMMENDATION NO. 20

Reopen the recommendations cited in this finding and ensure corrective action is actually completed in a timely manner.

OCFO Response

The audit recommendation concerning income reconciliations in the report was closed based on the planned completion of the fiscal year 1998 reconciliations. In retrospect, this recommendation should not have been closed by OCFO since the reconciliation had not yet been completed at the time the recommendation was closed. An action plan will be developed to address the completion of the income reconciliation. OCFO will work with NFC and OIG to develop this plan by December 31, 2000.

The audit recommendation concerning NSD's cost recovery method should be reopened and revised to require the implementation of the new billing method. The LAN activity has partially completed the work needed to develop the new cost allocation plan. Activity management reported that a contract action to complete the tracking process is pending award.

OIG Position

We were unable to concur with the management decision. All issues identified in the finding should be addressed with estimated completion dates before we can concur with management decision.

Material weaknesses are reportable conditions in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in internal controls, misstatements, losses, or noncompliance may nevertheless occur and not be detected. We believe the reportable conditions described in this report are material weaknesses.

This report is intended solely for the information and use of the management of WCF, OMB and Congress, and is not intended to be and should not be used by anyone other than these specified parties. We caution that misstatements, losses, and noncompliance may occur and not be detected by the testing performed and that such testing may not be sufficient for other purposes.

/s/
ROGER C. VIADERO
Inspector General

September 15, 2000

REPORT OF THE OFFICE OF INSPECTOR GENERAL ON COMPLIANCE WITH LAWS AND REGULATIONS

TO: Sally Thompson
Chief Financial Officer
Office of the Chief Financial Officer

We have audited the accompanying financial statements of the Working Capital Fund (WCF) as of and for the fiscal year ended September 30, 1999, and have issued our report thereon dated September 15, 2000. Except as discussed in our opinion, we conducted our audit in accordance with the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States; and the Office of the Management and Budget (OMB) Bulletin No. 98-08, "Audit Requirements for Federal Financial Statements," as amended.

The management of WCF is responsible for compliance with laws and regulations applicable to WCF. As part of obtaining reasonable assurance about whether the principal financial statements are free of material misstatement, we performed tests of the WCF's compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material affect on the determination of financial amounts and certain other laws and regulations specified in OMB Bulletin 98-08, and subsequent issuances. We tested compliance with:

- Budget and Accounting Procedures Act of 1950;
- Chief Financial Officers Act of 1990;
- Debt Collection Improvement Act of 1996;
- Federal Financial Management Improvement Act (FFMIA) of 1996:
- Federal Managers' Financial Integrity Act (FMFIA) of 1982;
- Government Performance and Results Act (GPRA) of 1993; and
- Economy Act.

As part of the audit, we reviewed management's process for evaluating and reporting on internal control and accounting systems, as required by the FMFIA, and compared the Office of the Chief Financial Officer's (OCFO) most recent FMFIA reports, with the evaluation we conducted of WCF's internal control structure. We also reviewed and tested WCF policies, procedures, and systems for documenting and supporting financial, statistical, and other information presented in the Overview section. However, providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit, and accordingly, we do not express such an opinion.

Under FFMIA, we are required to report whether WCF's financial management systems substantially comply with (1) the Federal Financial Management System Requirements (FFMSR), (2) applicable accounting standards, and (3) the SGL at the transaction level. To meet this requirement, we performed tests of compliance using the implementation guidance for FFMIA included in Appendix D of OMB Bulletin 98-08.

The results of our tests disclosed instances, described in our "Findings and Recommendations" section, where WCF's financial management systems, as a whole, did not substantially comply with the three requirements in the preceding paragraph.

Material instances of noncompliance are failures to follow requirements, or violations of prohibitions, contained in law or regulations that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the financial statements, or the sensitivity of the matter would cause it to be perceived as significant by others. Material instances of noncompliance noted during our audit are presented in the "Findings and Recommendations" section of this report.

FINDINGS AND RECOMMENDATIONS

VI. FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT REQUIREMENTS

FINDING NO. 8

We note that WCF's financial management system does not substantially comply with the three requirements of FFMIA. Under FFMIA, each entity shall implement and maintain financial management systems that comply substantially with FFMSR, applicable Federal accounting standards, and the SGL at the transaction level.

As noted throughout this audit report, the financial management system established by WCF officials was not designed to enable WCF to either meet current accounting standards or provide reliable financial information critical for managing its operations. WCF officials failed to present the Statement of Net Cost and related supporting schedules in the proper reporting format as required by OMB Bulletin 97-01, "Form and Content of Agency Financial Statements". This Bulletin requires that the statement and related supporting schedules classify revenue and cost information by suborganization or responsibility segment. WCF officials acknowledged that the CAS general ledger does not provide the information to present the statement as required; however, WCF has failed to implement other procedures to prepare the statement.

WCF officials advised that prior to implementation of FFIS, they would prepare the Statement of Net Cost in the proper reporting format using information from the Budget Cost system with reconciliations to the general ledger.

In addition, WCF officials did not include discussion of the WCF Government Performance and Results Act (GPRA) performance measures in its overview as required by the OMB Bulletin 97-01, "Form and Content of Agency Financial Statements."

In our prior Departmental audit report, "USDA Consolidated Financial Statements for Fiscal Year 1999," Audit No. 50401-35-FM, we reported

that USDA does not have a single integrated financial management system with:

- Standard data classification (definition and format) established and used for recording financial events;
- Common processes used for processing similar kinds of transactions;
- Internal controls over data entry, transaction processing, and reporting that is applied consistently; and,
- Single source data entry.

In terms of compliance with FFMIA, the Department has made progress in accomplishing its remediation plan, but has acknowledged that it does not currently comply with FFMIA requirements. WCF plans to implement the FFIS by October 1, 2001.

RECOMMENDATION NO. 21

Establish procedures to present the Statement of Net Cost by agency with appropriate supporting schedules by activity center.

OCFO Response

The issue will be addressed with the FFIS implementation on October 1, 2001; once the WCF is implemented into FFIS, then the activity level reporting for the Statement of Net Cost can be prepared from the general ledger. In the meantime, OCFO will work with OIG to determine if an acceptable alternative is available.

OIG Position

We concur with the management decision.

RECOMMENDATION NO. 22

Ensure GPRA performance measures are included in the overview.

OCFO Response

As appropriate, WCF will include OCFO performance measures in the overview for the fiscal year 2000 financial statements.

OIG Position

We were unable to concur with the management decision. OCFO must concur that all performance measures included in the strategic plan will be included in the overview as well as an estimated completion date.

We considered these material instances of noncompliance in forming our opinion on whether the fiscal year 1999 principal financial statements of WCF are presented fairly, in all material respects, and this report does not modify our adverse opinion on WCF's principal financial statements expressed in our report, dated September 15, 2000.

This report is intended solely for the information of the management of WCF, OMB and Congress, and is not intended to be and should not be used by anyone other than these specified parties. We caution that noncompliance may occur and not be detected by the tests performed and that such testing may not be sufficient for other purposes.

/s/
ROGER C. VIADERO
Inspector General

September 15, 2000

ABBREVIATIONS

ABCO	Administrative Billings and Collections System
AICPA	American Institute of Certified Public Accountants
BLCO	Program Billings and Collections System
CAS	Central Accounting System
CFO	Chief Financial Officer
CMM	Capability Maturity Model
DPRS	Direct Premium Remittance System
FBWT	Fund Balance with Treasury
FFIS	Foundation Financial Information System
FFMIA	Federal Financial Management Improvement Act
FFMSR	Federal Financial Management System Requirements
FMFIA	Federal Managers Financial Integrity Act
FTE	Full Time Equivalent
GPRA	Government Performance and Results Act
IT	Information Technology
LAN	Local Area Network
MISC	Miscellaneous Payments System
NITC	National Information Technology Center
NFC	National Finance Center
NSD	Network Services Division
OCFO	Office of the Chief Financial Officer
OIG	Office of the Inspector General
OMB	Office of Management and Budget
OSI	Overview and Supplemental Information
PROP	Personal Property Management System
SGL	U.S. Government Standard General Ledger
WCF	Working Capital Fund

U.S. DEPARTMENT OF AGRICULTURE

WORKING CAPITAL FUND

Financial Statements

and

Accompanying Footnotes

FY 1999

December 21, 1999

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Overview of Reporting Entity

MISSION AND ORGANIZATION STRUCTURE

Mission

The mission of the WCF is to provide an effective financing mechanism to support those services the Secretary, with the approval of the Director of the Office of Management and Budget, determines may be performed more advantageously as central services and to make unnecessary the maintenance of separate like services in the agencies of the Department.

Organization Structure

The WCF operates twenty activity centers. During FY 1999, the organizational structure of the activity centers was as follows:

From the Office of the Executive Secretariat:

Executive Secretariat (ES) is responsible for providing referral and correspondence control services for mail addressed to the Secretary and the Department.

From the Office of Communications:

Video and Teleconferencing is responsible for managing all facets of the production of video exhibits for Departmental agencies and manages the operations of the teleconferencing facility.

Design Center is responsible for planning, design and production of visual materials, exhibits, art and graphic materials for the Department.

From Departmental Administration:

Central Supply Stores provides for the acquisition, receipt, storage, issuance, packaging and shipment of office supplies.

Consolidated Forms and Publications Distribution Center (CFPDC) provides forms warehousing, worldwide distribution and transportation services.

Central Excess Property Operations (CEPO) coordinates receipt, rehabilitation and distribution of personal property.

Mail Distribution Unit manages the operation of mail processing services and oversees door-to-door pickup and delivery.

Departmental Mailing List Service (DMLS) provides automated maintenance, update and generation services for mailing lists of Departmental agencies.

Copier Service provides short-order and walk-up xerographic reproduction services.

The Duplication Unit provides custom duplicating services, binding, addressing and mailing services.

Central Imprest Fund is responsible for providing cash advances for small purchases, spot cash awards, travel and other similar purpose.

Agriculture Contract Automation System (AGCAS) facilitates preparation of procurement documents in accordance with the Office of Federal Procurement Policy.

Central Shipping and Receiving is responsible for processing incoming and outgoing shipments of parcels and material.

From the Office of the Chief Information Officer:

National Information Technology Center (NITC)/ Mainframe provides mainframe computer processing support.

Telecommunications Business Services manages USDA telecommunications services under the government wide FTS-2000 contract.

Applications Services functions as the focal point for USDA applications design and programming services.

Telecommunications Customer Service Center coordinates the maintenance and operation of telephone equipment for USDA offices in the Washington, DC area.

Computer Services Unit provides office automation and data processing support to the Office of the Secretary and the Departmental Staff offices.

Network Services provides telecommunications service and support for USDA offices in the Washington area.

From the Office of the Chief Financial Officer:

The National Finance Center (NFC) designs, develops, implements and operates administrative systems for agencies both inside and outside the USDA.

All WCF activities are located in the Washington, DC area with the exception of NITC/Mainframe which is located in Kansas City, MO; Telecommunications Business Services and Applications Services which are located in Fort Collins, CO; and the National Finance Center which is located in New Orleans, LA.

MAJOR CUSTOMERS

In FY 1999, the WCF had two major customers that comprised more than 15 percent of the fund's revenue. USDA's Forest Service provided revenue in the amount of $41.2 million. The Thrift Investment Board (Thrift Savings Plan) provided revenue in the amount of $40.9 million.

PERFORMANCE GOALS AND RESULTS

The performance of the WCF has been evaluated by focusing on the performance of the individual WCF activity centers rather than on the performance of the overall fund. The performance of the individual activity centers has been and continues to be presented in the WCF Report on Operations. Activity center performance is evaluated through the use of variances, between planned and actual costs, and unit costs. The individual activity center performance analysis for FY 1999 is presented in the FY 1999 Fourth Quarter Report on Operations. Requests for the WCF Report on Operations should be made to the WCF Staff.

REPORTING YEAR 2000 (Y2K) ISSUES

At the NFC, all systems have been certified Y2K compliant at a cost of $13.8 million dollars. Projected costs for FY 2000 is approximately $350,000. The risks of Y2K issues are minimal given the amount of testing already conducted as well the arrangements for hot site backup for any unanticipated problems. NFC's contingency plan as well as other information can be found on its website at www.nfc.usda.gov/y2k.

The other WCF activities are components of four agencies. Their respective agencies submitted Y2K plans to the Department. USDA's mission critical systems are Y2K compliant, as well as many of the non-mission critical systems. The worst case scenario would be delays in processing; however, the risk is minimal. For more information, please refer to the web page at www.ocio.usda.gov/y2k.

LIMITATIONS OF THE FINANCIAL STATEMENTS

The financial statements have been prepared to report the financial position and results of operations of the WCF pursuant to the requirements of 31 U.S.C. 3515 (b).

While the statements have been prepared from the books and records of the entity in accordance with the formats prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.

The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity. One implication of this is that liabilities cannot be liquidated without legislation that provides the resources to do so.

U.S. Department of Agriculture
Working Capital Fund
Consolidated Balance Sheet
For the Year Ended September 30, 1999
(in Millions)

ASSETS

1. Assets for Use by Entity:	
a. Federal	
(1) Fund Balance with Treasury (Note 2)	$41.1
(2) Accounts Receivable, Net (Note 3)	21.1
b. Total Federal	62.2
c. Non-Federal	
(1) Accounts Receivable, Net (Note 3)	5.4
(2) Inventory and Related Property, Net (Note 4)	1.2
(3) General Property, Plant and Equipment, Net (Note 5)	50.0
2. Total Assets	$118.8

LIABILITIES

3. Liabilities Covered by Budgetary Resources:	
a. Federal Liabilities	
(1) Accounts Payable	$0.5
(2) Other Liabilities (Note 6)	9.7
b. Total Federal	10.2
c. Non-Federal Liabilities	
(1) Accounts Payable	2.5
(2) Other Liabilities (Note 6)	46.8
d. Total Liabilities Covered by Budgetary Resources	59.5

U.S. Department of Agriculture
Working Capital Fund
Consolidated Balance Sheet
For the Year Ended September 30, 1999
(in Millions)

4. Liabilities Not Covered by Budgetary Resources:	
a. Federal Liabilities	
(1) Other Liabilities (Note 6)	1.3
b. Total Federal	1.3
c. Non-Federal Liabilities	
(1) Federal Employees Compensation Act Bills	5.8
d. Total Liabilities Not Covered by Budgetary Resources	7.1
5. Total Liabilities	66.6
NET POSITION	
6. Unexpended Appropriations (Note 7)	$15.9
7. Cumulative Results of Operations	36.3
8. Total Net Position	52.2
9. Total Liabilities and Net Position	$118.8

The accompanying notes are an integral part of these statements.

U.S. Department of Agriculture Working Capital Fund
Consolidating Statement of Net Cost
For the Year Ended September 30, 1999
(in Millions)

1. Program Cost	
a. Federal	$42.7
b. Non-Federal	
(1) Indemnities	(0.2)
(2) Other Program Costs	207.9
c. Total Program Production Costs	250.4
d. Less Earned Revenues (Note 9)	248.8
e. Excess Production Costs Over Revenue	1.6
f. Nonproduction Costs	0.0
g. Net Production Costs	1.6
2. Costs Not Assigned to Program	2.3
3. Less Other Earned Revenues Not Attributed to Program (Note 9)	0.0
4. Net Cost of Operations	$3.9

The accompanying notes are an integral part of these statements.

U.S. Department of Agriculture
Working Capital Fund
Consolidating Statement of Changes in Net Position
For the Year Ended September 30, 1999
(in Millions)

1. Net Cost of Operations	$3.9
2. Financing Sources (other than exchange revenues):	
a. Imputed Financing	4.6
3. Net Results of Operations	0.7
4. Net Results Not Affecting Net Position	0.0
5. Prior Period Adjustments	(7.4)
6. Net Change in Cumulative Results of Operations	(6.7)
7. Increase (Decrease) in Unexpended Appropriations	(0.6)
8. Change in Net Position	(7.3)
9. Net Position - Beginning of Period	59.4
10. Net Position - End of Period	$52.1

The accompanying notes are an integral part of these statements.

Working Capital Fund
Consolidated Statement of Budgetary Resources
For the Year Ended September 30, 1999
(in Millions)

1. Budgetary Resources:	
a. Budgetary authority (line 1)	$0.0
b. Unobligated balances - beginning of period (line 2)	25.3
c. Spending authority from offsetting collections (line 3)	248.8
d. Adjustments (line 4-6)	0.0
e. Total budgetary resources (line 7)	274.1
2. Status of Budgetary Resources:	
a. Obligations incurred (line 8)	251.5
b. Unobligated balances - available (line 9)	15.4
c. Unobligated balances - not available (line 10)	0.0
d. Total status of budgetary resources (line 11)	266.9
3. Outlays:	
a. Obligations incurred (line 8)	251.5
b. Less: spending authority from offsetting collections and adjustments (lines 3A, B, D, &4A)	248.8
c. Obligated balance, net - beginning of period (line 12)	12.0
d. Obligated balance transferred, net (line 13)	0.0
e. Less: obligated balance, net - end of period (line 14)	25.7
f. Total outlays (line 15)	($11.0)

The accompanying notes are an integral part of these statements.

Working Capital Fund

Consolidated Statement of Financing

For the Year Ended September 30, 1999

(In Millions)

1. Resources Used to Finance Operations:	
a. Budget	
(1) Budgetary Resources Obligated for Items to Be Received or Provided to Others	$251.5
(2) Less: Offsetting Collections, Recoveries of Prior-Year Authority, and Changes in Unfilled Customer Orders	248.8
(3) Net Budgetary Resources Used to Finance Operations	2.7
b. Non-Budgetary	
(1) Costs Incurred by Others Without Reimbursement	4.6
(2) Net Non-Budgetary Resources Used to Finance Operations	4.6
c. Total Resources Used to Finance Operations	7.3
2. Resources Used to Fund Items Not Part of the Net Cost of Operations	
a. Increase or (Decrease) in Budgetary Resources Obligated to Order Goods or Services Not Yet Received or Benefits Not Yet Provided	(4.5)
b. Resources Funding Expenses Recognized in Prior Periods	(0.2)
c. Resources Financing the Acquisition of Assets or Liquidation of Liabilities	27.4
d . Total Resources Used to Fund Items Not Part of the Net Cost of Operations	22.7
3. Resources Used to Finance the Net Cost of Operations	(15.4)
4. Components of Net Cost of Operations Requiring or Generating Resources During the Reporting Period	
a. Expenses or Earned Revenue Related to the Disposition of Assets or Liabilities, or Allocation of Their Cost Over Time	19.3
b. Total Components of Net Cost of Operations Not Requiring or Generating Resources During the Reporting Period	19.3
5. Net Cost of Operations	$3.9

Notes to Accompanying Financial Statements

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES.

A. Basis of Presentation

The financial statements report the financial position and results of operations of the Working Capital Fund

(WCF), a revolving fund within the U.S. Department of Agriculture, as required by the Chief Financial Officers Act of 1990. They have been prepared from the books and records of the WCF in accordance with generally accepted accounting principles and include presentations and disclosures required for federal entities under the Office of Management and Budget (OMB) Bulletin 97-01, Form and Content of Agency Financial Statements, and the USDA Financial and Accounting Standards Manual, as applicable. The statements are therefore different from the WCF Operating Statements and the Report on. Operations that are used internally for funds management purposes. The Balance Sheet, Statements of Net Cost, Changes in Net Position, Budgetary Resources, and Financing are presented on a consolidated basis. All amounts in the statements and accompanying notes are presented in millions of dollars.

B. Reporting Entity

Authority

The WCF was authorized in 1943 and later codified under 7 U.S.C. 2235. Under law, only activities approved by the Secretary and the Director of OMB may be carried out under the WCF authority. Candidates for WCF support are considered by the Department and OMB when the following criteria can be met: Centralization would result in cost savings through economies of scale, reduced overhead costs, central cost-based management and avoidance of duplication among those who might provide the service. Centralization would also offer improved service quality, availability of service to those users who could not afford them except on a centralized basis, and the ability to replace equipment on a long-term basis through the use of depreciation charges to users as a means of recovering the costs of large-scale assets over the useful life of those assets.

Funding

The WCF received an initial appropriation of $400,000 in FY 1944. Additional capital has been made available through transfers into the WCF of activities meeting the established criteria. In 1985, Congress and. the USDA embarked on a recapitalization effort which over a five year period infused the WCF with approximately $31.8 million in appropriated support. An additional $20.7 million was collected through contributions by users to growth capital.

Organization

Currently, the WCF has twenty activity centers operating within its authority. These activities are advanced operating funds and investment capital through the WCF. The activities then sell their goods and services to customer agencies, both USDA and NonUSDA, who in-turn reimburse the WCF activities for their costs. The WCF activities then reimburse the WCF for the advances.

The following table summarizes the activities operating within the authority of the WCF:

WCF Activities – FY 1999	
USDA Organization	**WCF Activity**
Office of the Executive Secretariat	Office of the Executive Secretariat (OES)
Office of Communications	Video and Teleconferencing Center
	Design Center
Office of the Chief Information Officer	National Information Technology Center (NITC)/Mainframe
	Telecommunications Business Services
	Applications Services
	Computer Services Unit
	Telecommunications Customer Service Center
	Network Services
Departmental Administration	Central Supply Stores
	Consolidated Forms and Publications Distribution Center (CFPDC)
	Central Excess Property Operations (CEPO)
	Central Shipping & Receiving (CSR)
	Central Imprest Fund
	Agriculture Contract Automation System (AGCAS)
	Mail Distribution Unit
	Duplication Unit
	Copier Service
	Departmental Mailing List Service (DMLS)
Office of the Chief Financial Officer	National Finance Center (NFC)

C. Basis of Accounting

The accompanying financial statements have been prepared on an accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash.

D. Exchange Revenue

The WCF activities sell their goods and services to customer agencies, both USDA and NonUSDA, who in turn reimburse the WCF activities for their costs. The WCF activities then reimburse the WCF for the advanced capital. The WCF activities rely entirely on reimbursement from customer agencies for operating income. No appropriations are used to subsidize the operating costs of the WCF activities.

E. Full Cost

In accordance with federal government accounting guidance, WCF measures and reports the full costs of products and services generated from the consumption of resources. Full cost is the total amount of resources used to produce a product or provide a service.

F. Imputed Pension and Other Retirement Benefits

In accordance with federal government accounting guidance, WCF recognizes the liability and associated expense for employee pensions and other retirement benefits (including health care and other post-employment benefits) at the time the employee's services are rendered.

Pension expense, retirement health benefits, and related liabilities are recorded at estimated actuarial present value of future benefits, less the estimated actuarial present value of normal cost contributions made by and for covered employees. Other post-employment benefits expense and related liability are recognized when the future outflow of resources is probable and measurable on the basis of events occurring on or before the reporting date.

G. Accounts Receivable

Current WCF procedures do not allow for the routine write-off of accounts receivable. The WCF staff is in the process of reviewing and working with activity centers and NFC to determine the collectibility of outstanding receivables. During fiscal year 2000, the review will be completed and then uncollectible accounts will be written off. In addition, the results of the review will provide a basis for determining an appropriate allowance for bad debts.

H. Operating Inventories

Operating inventories are maintained by six activities: Central Supply Store, CEPO, the Duplicating Unit, Copier Service, Mail Distribution, and DMLS. The inventory held for sale by the Central Supply Store, the Duplicating Unit, Copier Service, Mail Distribution and DMLS is valued at current market cost plus inbound transportation costs. The inventory held by CEPO, rehabilitated furniture, is valued at the cost of rehabilitation.

I. Property, Plant and Equipment

General Criteria

All capitalized investments within the WCF must meet two specific criteria. First, the total cost of the property, including computer software, must equal or exceed $5,000. The cost of the property will include all amounts paid to acquire the property less any discount, all transportation costs and installation costs. Second, the useful life of the property must equal or exceed two years. This capitalization policy is consistent with both the GAO Guidance to Federal Agencies Manual and USDA's Financial and Accounting Standards Manual.

Software

Licensed software is capitalized only when initial one-time costs ($5,000 or more) are paid. These initial costs are capitalized over the life of the license period (which must be greater than two years but not exceed five years). Software is also capitalized when the capitalization criteria has been met. However, the cost of installation may or may not be included in the total cost of the software depending upon the following criteria: (1) If the software requires modification by the contractor, those costs are added to the total cost of the software. (2) If in-house software modifications are made, those costs are not added to the total software cost. (3) If the contractor provides the basic training necessary to make the software operational, those costs are included in the total cost of the software. Any training provided after the software is operational is not included in the total cost. Foundation Financial Information System (FFIS) software development costs are capitalized and depreciated over ten years.

Capital Investment Fund Availability

Capital investment fund availability for a specific fiscal year is composed of the projected depreciation to be recovered in that year, and the unused capital investment funding availability from previous years.

Leasing

Capital investment requests which cannot be funded for purchase are approved for leasing as operating leases and include such items as ADP software, ADP equipment, and office equipment such as copiers. The WCF does not enter into capital leases. The operating leases are for one year terms, are renewable annually, and cancelable. Therefore, no lease liability is created beyond the current year. The lease payments are recorded as operating expenses in the accompanying financial statements.

Amortization of Capital Investments

Property, plant and equipment are stated at cost and are depreciated on the straight-line method over the estimated useful lives of the assets. The standard estimated useful lives are as follows:

Equipment - 5 years
ADP Software - 5 years & 10 years
Structures, Facilities & Leasehold Improvements - 7 years

The standard life for an asset as shown above, may be modified if the useful life of that asset is determined to be greater or less than the standard.

J. Liabilities

Liabilities represent the amount of monies or other resources that are likely to be paid by WCF as a result of a transaction or event that has already occurred.

K. Annual, Sick and Other Leave

WCF Policy

It is the policy of the WCF to accrue costs for annual leave when annual leave is earned by an employee charged to a WCF activity. WCF policy does not allow for the accrual of sick, compensatory or other leave costs. With the exception of the NFC, the WCF activity centers expense actual sick, compensatory, and other leave (i.e., sick leave, holiday, administrative and other leave such as military, jury duty, etc.) when the leave is taken. NFC initially expenses sick, compensatory and other leave on an estimated basis, but at year end NFC adjusts the estimate to reflect the actual expense. NFC does not record a liability for sick, compensatory and other leave costs. However, during FY 2000, WCF will implement a policy to accrue costs and record a liability for compensatory leave for all activity centers.

Accrual of Annual Leave

The accrued annual leave liability represents the dollar value of accumulated annual leave owed to employees. The WCF recognizes the expense and related liability for annual leave as it is earned. The WCF estimates and records the accrued liability in the general ledger as a percentage of direct labor costs. The FY 1999 percentage rate for funding the accrued annual leave liability general ledger accounts is 9.5%. This percentage is determined by the WCF Staff. The balances in the general ledger annual leave liability accounts are compared with the annual leave liability actually owed to employees as determined through the use of NFC reports.

Expensing Sick, Compensatory and Other Leave Costs

In accordance with WCF policy, sick, compensatory and other leave are not accrued by the WCF. Instead, these costs are expensed when these types of leave are taken. All WCF activity centers, with the exception of the NFC, directly expense sick, other and compensatory leave. Due to the complexity of the NFC rate structure and the cost accounting and billing data requirements, NFC expenses the costs of sick, compensatory, and other leave on an estimated basis rather than directly expensing these costs. The NFC estimates the cost of the sick, compensatory and other leave that will be taken during the fiscal year, based on the historical cost and usage of sick, compensatory, and other leave at the NFC. This cost estimate is converted to a percentage which is applied to the cost of each direct labor hour worked. This procedure allows the cost of sick, compensatory or other leave to be recovered as a part of direct labor and can be billed as a direct cost to systems and agency specific applications. However, during FY 2000, WCF will implement a policy to accrue costs and record a liability for compensatory leave for all activity centers.

L. Retirement Benefits

WCF employees participate in either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS) that became effective on January 1, 1987. Most employees hired after December 31, 1983, are automatically covered by FERS and Social Security. Employees hired prior to January 1, 1984, could elect to either join FERS and Social Security or remain in CSRS.

WCF makes matching contributions to CSRS on behalf of CSRS employees. Employees covered by CSRS are not subject to Social Security taxes, nor are they entitled to accrue Social Security benefits for wages subject to CSRS.

Under the FERS plan, WCF contributes an amount equal to one percent of the employees basic pay to the tax deferred Thrift Savings Plan and matches employee contributions up to an additional four percent of pay. FERS employees can contribute 10 percent of their gross earnings to the plan. CSRS employees are limited to a contribution of five percent of their gross earnings and receive no matching contribution from WCF.

The Office of Personnel Management is responsible for reporting the assets, accumulated plan benefits, and unfunded liabilities applicable to CSRS participants and FERS employees governmentwide, including WCF employees.

M. Workers' Compensation Liability

The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to federal civilian employees injured on the job, employees who have incurred a work-related occupational disease, and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. Consequently, WCF recognizes a liability for this compensation that is comprised of two components: (1) an accrued liability which represents money owed for claims paid through the current fiscal year, and (2) an actuarial liability which represents the expected liability for approved compensation cases beyond the current fiscal year. Claims incurred for benefits for WCF's employees under FECA are administered by the Department of Labor (DOL) and are ultimately paid by WCF.

N. Cumulative Results of Operations

Annual Profits/Losses

Departmental Working Capital Fund activities are operated to recover the full costs of the goods and services provided to users. However, in the course of normal operations, profits and losses can occur. Most of the WCF activities are operated on an usage based cost recovery. The operating costs of these activities are billed to their customer based on a predetermined usage percentage. Since only the actual cost are recovered, no profits or losses are incurred. The WCF activity centers operating on an use-based cost recovery include: OES, Mail Distribution Unit, Central Imprest Fund, CFPDC, AGCAS, Central Shipping and Receiving, Telecommunications Customer Service Center, Computer Services, and NFC (with the exception of Non-USDA customers and agency specific agreements).

There are two WCF activities in which costs are billed based on an allocation basis, which means that a distribution method rather than actual usage is used to recover costs. These activities are Network Services and CEPO (as-is furniture operations only). The costs for these two activities are distributed based on a percentage of full-time equivalents (FTE's). This method of billing does not result in profit or losses since only actual costs are recovered.

The remaining activity centers bill their customers on a fee-for-service basis, which can include a rate schedule for units of production, an hourly rate for services provided or direct cost plus overhead. The "rate centers" set their rates to recover costs for a projected level of production or service. If there are changes in anticipated expenses or changes in projected workloads, profits or losses can occur. The activity centers operating on a rate basis include: Video and Teleconferencing, Design Center, NITC/Mainframe, Telecommunications Business Services (agency specific agreements), Applications Services, Central Supply Stores, CEPO (rehabilitated furniture and other services only), Central Mail Unit (mail preparation), DMLS, Copier Service, Duplication Unit and NFC (NonUSDA customers and agency specific agreements).

During the fiscal year, the rate centers' operating statements are monitored for potential profits or losses. If it appears that a rate center is making a profit/loss, the rate center will rebate/surcharge their customers in a timely manner during the current fiscal year to eliminate the profit/loss. However, in the last quarter of the fiscal year, profits that cannot be returned through rebates will be closed to cumulative results of operations. The same rule would apply to unanticipated losses as long as cumulative results of operations are sufficient to cover such losses.

Generally, any profits or losses which are less than three percent of a rate center's total operating costs would not be rebated or surcharged to their customers in the last quarter of the fiscal year. The only exception to the general rule is NFC's profits or losses which will be limited to 1.5 percent. The cumulative results of operations balance of the WCF will be limited to ten percent of total annual revenue.

Use of Cumulative Results of Operations

It is the policy of the WCF to limit the use of the Cumulative Results of Operations to the following purposes:

Losses from current operations that cannot be offset by billing surcharges or rate changes due to activity termination, timing, insufficient workload, or because of the adverse impact on the WCF customer(s).

Corrections of an error in the WCF Combined Financial Statements of a prior period.

Extraordinary items which would distort the results of current year operations.

Note 2. Fund Balance with Treasury

	Assets for Use by Entity
Revolving Funds	
Obligated	$25.9
Unobligated - Available	15.2
Total	$41.1

The Treasury performs cash management activities for WCF. The fund balance with Treasury represents the revolving funds that are obligated and unobligated - available to pay allowable expenditures. All funds represent assets for use by the entity and are unrestricted.

Note 3. Accounts Receivable for Use by Entity

	Accounts Receivable
Federal	
Acct Receivable	$ 4.0
Revenue	17.1
Subtotal	$ 21.1
Non-Federal	
Acct Receivable	$ 0.6
Revenue	4.8
Subtotal	$ 5.4
Total Accounts Receivable	$ 26.5

Revenue represents the balance of amounts due from others for reimbursable services rendered whether billed or unbilled.

Current WCF procedures do not allow for the routine write-off of accounts receivable. The WCF staff is in the process of reviewing and working with activity centers and NFC to determine the collectibility of outstanding receivables. During fiscal year 2000, the review will be completed and then uncollectible accounts will be written off. In addition, the results of the review will provide a basis for determining an appropriate allowance for bad debts.

All accounts receivable are for use by entity.

Note 4. Inventory and Related Property

	Inventory Amount	Valuation Method
Inventory held for current sale	$ 1.2	Current Cost Rehab Cost

The inventory is primarily composed of used office equipment and furniture for resale, office supplies for resale, and raw materials for use in printing and copying. The Central Supply Store, the Duplicating Unit, Copier Service, Mail Distribution and DMLS value their inventory at current market cost plus inbound transportation costs. The furniture held by CEPO is valued at the cost of rehabilitation.

Note 5. General Property, Plant, and Equipment

Classes	Cost	Accumulated Depreciation	Book Value	Estimated Useful Life	Method of Depreciation
Equipment	$ 123.8	$ 102.0	$ 21.8	5	SL
ADP Software	53.3	26.0	27.3	5 & 10	SL
Leasehold Improvement	5.0	4.3	0.7	7	SL
Other	0.2	0.0	0.2	5	SL
Total	$ 182.3	$ 132.3	$ 50.0		

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Note 6. Other Liabilities:

A. Other Liabilities Covered by Budgetary Resources:

1. Federal	Current
Other Accrued Liabilities	$ 9.1
Accrued Funded Payroll and Benefits	0.6
Total	$ 9.7

2. Non-Federal

Other Accrued Liabilities	$29.6
Accrued Funded Payroll and Benefits	9.4
Funded Leave	7.8
Total	$46.8

B. Other Information

Other Accrued Liabilities represents the estimated liabilities to government agencies and others for goods and services not billed for at the end of an accounting period.

C. Other Liabilities Not Covered by Budgetary Resources

1. Federal

Accrued Funded Payroll and Benefits	$ 1.3

Note 7. Net Position:

A. Unexpended Appropriations:

Unobligated	
Available	$ 15.4
Unavailable	0.0
Undelivered Orders	0.5
Total	$ 15.9

Note 8. Supporting Schedules for the Statement of Net Cost:

Summary of Costs and Revenue by WCF Activity Center *(Dollars in Millions)*

Activity Center	Related Exchange Revenue	Cost of Goods and Services Provided	Excess of Costs Over Revenue
National Finance Center	160.6	160.3	-.3
Office of the Chief Financial Officer	162.9	162.5	-.4
Video & Teleconferencing Center	2.3	2.3	0
Design Center	2.2	2.2	0
Office of Communications	4.5	4.5	0
National Information Technology Ctr. Mainframe	39.7	39.2	.5
Telecommunication Business Services	5.0	5.0	0
Applications Services	5.9	6.1	.2
Telecommunications Customer Service Ctr.	1.9	1.9	0
Network Services	4.0	4.0	0
Computer Services Unit	1.4	1.4	0
Office of the Chief Information Officer	57.9	57.6	-.3
Central Supply Stores	2.9	2.9	0
Consol. Forms & Publ. Distribution Ctr.	4.5	4.5	0
Central Excess Property Operations	2.8	2.7	-.1
Central Shipping & Receiving	.5	.5	0
Central Imprest Fund	.2	.2	0
Mail Distribution Unit	4.5	4.5	0
Duplication Unit	1.2	1.3	.1
Copier Service	5.4	5.5	.1
Departmental Mailing List Service	.2	.1	-.1
Office of Operations	22.2	22.2	0
Agriculture Contract Automation System	.2	.2	0
Office of Procurement & Property Mgmt.	.2	.2	0
Office of the Executive Secretariat	1.3	1.3	0
TOTAL WCF	249.0	248.3	-.7

Currently the general ledger does not provide financial information at the activity center level. In order to approximate this information, the WCF Operating Statements were used including any ledger only adjustments. The Operating Statements are derived from the Budget Cost System.

Note 9. Earned Revenue:

Earned Revenues from Non-Federal Parties	$ 14.9
Earned Revenues from Federal Entities	233.9
Total Earned Revenues Attributed to Programs	$ 248.8
Earned Revenues Not Attributed to Programs	-0-

Note 10. Disclosures Related to the Statement of Changes in Net Position:

Prior Period Adjustments

NFC Adjustments	$ 0.2
Accounts Receivable Correction	7.2
Total	$ 7.4

Note 11. Disclosures Related to the Statement of Budgetary Resources

A. Budgetary Resources Obligated for Undelivered Orders, End of Period	$ (0.4)
B. Adjustments to Budgetary Resources Available at the Beginning of the Year	
1. Reimbursements - Accounts Receivable	(13.1)
2. Reimbursements - Collected	261.9
Total Adjustments	$248.8