

**STATEMENT OF  
EDWARD R. MCPHERSON  
CHIEF FINANCIAL OFFICER  
U.S. DEPARTMENT OF AGRICULTURE**

**BEFORE THE SUBCOMMITTEE ON GOVERNMENT EFFICIENCY AND  
FINANCIAL MANAGEMENT  
OF THE  
HOUSE COMMITTEE ON GOVERNMENT REFORM**

**TESTIMONY ON  
FINANCIAL MANAGEMENT INITIATIVE OF  
PRESIDENT BUSH'S MANAGEMENT AGENDA**

**MARCH 26, 2003**

Mr. Chairman and Members of the Subcommittee, thank you for the opportunity to represent this administration discussing results of the Financial Management Initiative of President Bush's Management Agenda.

I am particularly honored to appear before Chairman Platts' Subcommittee on Government Efficiency and Financial Management as I was raised in your district in Gettysburg, Pennsylvania, where we still have our family home built there by my great-grandfather 130 years ago.

My remarks today focus on two elements. First, let's look briefly at selected results thus far of the President's Financial Management Initiative across the Federal government.

Second, I will describe the valuable results we have achieved at the Department of Agriculture as a way of providing the Subcommittee with a practical sense of what is possible in financial management for the benefit of the American taxpayer.

I. Selected Financial Management Results Across the Federal Government

As the members of this Subcommittee know, the President has made improving financial performance a key initiative of his management agenda. He has set common sense standards for all agencies to meet and assesses their progress against those standards each quarter. Although the President's initiative has only been in place for a year and a half, there has been demonstrable progress across government, not just at the Department of Agriculture. To give just a few examples of our progress government-wide:

- Twenty-one of the government's 24 CFO Act agencies received clean opinions on their audited financial statements.
- The Department of Education, FEMA, and NASA reclaimed the clean audit they had recently lost.
- The Department of the Treasury and the Social Security Administration produced audited financial statements by November 15<sup>th</sup>, implementing two years early the Administration's goal to have audited financial statements 45 days after the end of the fiscal year.
- The Departments of Energy and Labor have improved their status scores and the Department of Energy successfully addressed major management challenges identified in its most recent Performance and Accountability report. Labor addressed problems with its financial management systems and is aggressively working to reduce erroneous Unemployment Insurance payments.

We are by no means out of the woods, Mr. Chairman. The Department of Defense is still unable to produce audited financial statements, and the Small Business Administration's status deteriorated because its auditor found inconsistencies between the budget and accounting for asset sales.

The Improved Financial Performance Initiative is making a difference. Accelerating the deadline for producing audited financial statements from February 28<sup>th</sup> to November 15<sup>th</sup> is forcing agencies to reengineer the way they collect and manage financial information. The president's initiative also forces agencies to demonstrate that they are using financial information to manage their programs more efficiency *and*

effectively. The president's initiative, with the help of this Committee, is also shining light on the extent of erroneous payments made by the government and driving agencies to reduce them. As a member of the President's financial management team, I can assure you that this initiative is bringing renewed focus on improving the government financial management and it shows real promise.

## II. Valuable Financial Management Results at the Department of Agriculture

Now let's focus on valuable results at the Department of Agriculture as a way of providing the Subcommittee with a practical sense of what is possible in financial management for the benefit of the American taxpayer.

As context, at the Department of Agriculture, I am responsible for the financial leadership of an enterprise which, were it in the private sector, would be one of the largest companies in the United States. With \$72 billion in annual spending, 112,705 full time equivalent staff years, and \$123 billion in assets, the Department of Agriculture is exceeded generally in size in the private sector by only four companies – General Motors, Ford, Exxon and Wal-Mart – so we are roughly equivalent in size and diversity of lines of business to General Electric or Citigroup.

In addition, through our National Finance Center in New Orleans, Louisiana, we operate item processing and record-keeping services in executing payroll for one-third of all Federal employees and providing administrative services for more than 120

government entities, including the Thrift Savings Plan (TSP) that has three million participants with \$100 billion in investment assets. Last year alone, the National Finance Center processed \$26 billion in payroll disbursements and \$12 billion of retirement plan contributions.

Here is a description of what it is possible to achieve in financial management:

1. The U.S. Department of Agriculture, and all of its agencies, including the Forest Service, for the first time received unqualified or “clean” opinions on annual financial audits from the Office of the Inspector General in fiscal year 2002. An unqualified audit opinion indicates that the information reported in the financial statements is free of significant errors or misstatements. In all previous audits, the Office of Inspector General was unable to express any opinion on USDA’s consolidated financial statements because the value of assets, liabilities, budgetary resources, net costs and related items could not be determined--an outcome termed a disclaimer, one of the four categories of opinions expressed on financial audits that include unqualified or “clean”, qualified, disclaimer, or adverse. In short, Agriculture, one of the largest enterprises in America, had never before produced timely financial statements free of significant errors or misstatements in its entire 140-year history.

With slightly more than a year’s worth of work, the Department of Agriculture and all its agencies for the first time received a clean audit opinion from the Office of the Inspector General for Fiscal Year 2002. This valuable breakthrough was achieved using existing taxpayer funding by skilled career government executives and dedicated associates

already in place. Results that led to our achieving sufficient internal control and data integrity to merit a clean audit opinion include:

- Massive revamping of business, financial management and accounting processes, and completing the installation of a standard general accounting system requiring 17 major conversions;
- Determining the program cost or present value cash flows of \$100 billion in loans;
- Reconciling accurately and timely over \$100 billion in annual cash receipts and disbursements in 393 United States Treasury accounts;
- Transforming the Forest Service financial management activities effectively;
- Correcting accounting deficiencies on \$10 billion of real and personal property;
- Implementing a unified corporate controller organization that integrates accountability for financial management processes and systems throughout USDA; and
- Reducing the number of material deficiencies by more than 40 percent – a noteworthy achievement that reflects an improving environment of internal control. We began the year with 32 material deficiencies and closed it with 19 – still far too many. Our fiscal year 2003 goal is to reduce the remaining deficiencies by half. We plan to eliminate the rest in fiscal year 2004.

2. Meanwhile, our associates in New Orleans, Louisiana, at the National Finance Center (NFC), a strategic Federal asset within USDA with a total of over four million customers, also achieved valuable results in financial management.

- The Office of Personnel Management and the Office of Management and Budget selected the NFC to serve as one of the Government's payroll providers under the President's e-Payroll initiative to consolidate federal payroll functions.
- The National Finance Center became one of four government Inaugural Agencies receiving certification to deliver trusted, secured electronic transactions through a public key infrastructure (PKI) encryption system. PKI is an important global competitive advantage in the conduct of electronic commerce.
- The National Finance Center integrated members of the uniformed services into the Thrift Savings Plan System in Fiscal Year 2002. To date, over 300,000 members of the uniformed services have enrolled in the Thrift Savings Plan.
- The National Finance Center developed the Centralized Enrollment Clearing House System to match and reconcile over 32 million insurance carrier and enrollee records annually for 4 million participants in the Office of Personnel Management's Federal Employees Health Benefits plan.

3. We have also taken effective financial management actions to improve our lending for farmers, housing and rural development in terms of transaction approval, portfolio management, and debt collection. At the end of Fiscal Year 2002, USDA had approximately \$100 billion in loans and \$29 billion in credit guarantees, or a total of \$129 billion of credit risk, about 32% of the entire debt owed to the Federal Government.

USDA'S problem credit at the end of last year totaled \$14.5 billion, consisting of \$8.3 billion of non-performing assets (loans and guarantees), \$4.9 billion of defaulted guarantees that have been restructured, and \$1.3 billion of gross charge-offs in FY 2002.

About \$10.5 billion of this \$14.5 billion relates to international sovereign risk credit in the Commodity Credit Corporation and \$4.0 billion in domestic credit that is combined from Farm Service Agency (\$2.7 billion) and Rural Development (\$1.3 billion).

During 2002, USDA collected \$944.7 million of delinquent debt, \$681.8 million through agencies using our internal tools and \$262.9 million through the Department of Treasury Administrative Offset Program and other Debt Collection Improvement Act (DCIA) techniques. In fiscal year 2002 USDA referred to the Treasury Offset Program 98 percent of the \$1.4 billion of eligible delinquent receivables and 96 percent of \$364 million of loans eligible for cross-servicing compared to only 14 percent in FY 2001.

Our lending agencies are focused on managing our loan portfolios effectively, including reviewing transaction approval processes, loan systems, collateral management and evaluating the piloting of loan sales.

In summary, I have seen during the past 18 months that bureaucracies produce results with leaders who instill laser-like clarity of ownership, or individual accountability. Ultimately, people are the only source of a sustainable competitive advantage – and I believe in people. In most every instance I have cited today, one person with courage led valuable change by substituting new successes in place of rhetoric or business as usual. I assure you, Mr. Chairman and members of the Subcommittee, that the people who produced these results are honored to serve the American taxpayer and will continue to do so as part of President Bush's Management Agenda.