

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

TESTIMONY ON
IMPROVEMENTS MADE BY FEDERAL AGENCIES
IN FINANCIAL MANAGEMENT

JUNE 10, 2003

Mr. Chairman and members of the Subcommittee, thank you for the opportunity to continue to work together on improving financial management in the Federal Government.

My remarks today focus on the two elements specified in your invitation to me to testify today. First, I will describe briefly the valuable results we have achieved at the Department of Agriculture (USDA). Second, I will offer insights for your consideration about the management changes we made that in turn resulted in USDA's first unqualified audit opinion of its financial statements.

1. Valuable Financial Management Results at the Department of Agriculture

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 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.

George Bernard Shaw, the British playwright, believed great innovation starts with an unreasonable person. USDA was fortunate to have such people at the Agriculture Department when I started in October 2001. The result these unreasonable people sought was to have sufficient internal control and data integrity to achieve the first clean, or unqualified, audit opinion ever at Agriculture. In every year since audits began to be conducted in 1991, the Office of the Inspector General was unable to express any opinion on Agriculture's financial statements because the value of assets, liabilities, budgetary resources, net costs and related items could not be determined. This outcome on an audit is termed a disclaimer. There are four categories of opinions expressed on financial audits --- unqualified (clean), qualified, disclaimer, or adverse.

In short, Agriculture, one of the largest enterprises in America, had never produced timely financial statements free of significant errors or misstatements in its entire 140-year history. Just over a year later, in December 2002, 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. All that was needed was a little unreasonableness.

The results that culminated in achieving the goal of sufficient internal control and data integrity to receive a clean audit opinion, included:

- Revamping business, financial management and accounting processes and completing 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 in a timely manner more than \$100 billion in annual cash receipts and disbursements in 393 Treasury accounts;
- Intensely and effectively transforming the Forest Service's financial management activities;
- 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 the Department of Agriculture.

So, one can see massive changes are required to produce real results.

This work is on-going --- improvements are a continuous process, not an event. There is always the prospect of unforeseen challenges and additional barriers to overcome.

Once rudimentary foundations are in place, even higher value comes from better management information and decision-making, more informed allocation of resources (as in President Bush's Management Agenda Budget and Performance Integration Initiative), and clearer accountability.

In addition, we also seek more cost-effective financial management and accounting operations over time as processes are further re-engineered and information technology is renovated and integrated.

II. Insights On Management Changes We Made Resulting in USDA's First Unqualified Audit Opinion of Financial Statements

Four principles guide our actions to create valuable breakthroughs involving massive change. One, we focus on real results ---while sound process is important, we are relentless in achieving tangible results. Two, we behave as owners in taking full responsibility to complete any task. Three, we operate at a constructively aggressive pace. Speed is important and usually contributes to better outcomes. Four, we value leadership and talent ---individual excellence and collective success are attributes of most successful teams, and talent will out-perform methodology in many "turnaround" situations. Bureaucracies produce results with leaders who instill laser-like clarity of ownership, or individual accountability, and create change by substituting valuable successes in place of rhetoric or business as usual. Immediate modest successes are fabulous substitutes for existing poor practices and give everybody something positive to talk about over the weekend. Leaders who challenge existing settings are simply purveyors of hope. Ultimately, people are the only source of a sustainable competitive advantage ---and I believe in people.

Particularly effective in this instance are the leadership and talent of my partners at the Department of Agriculture, including Patricia Healy, deputy chief financial officer; Jesse King, corporate controller; Wendy Snow, associate chief financial officer, financial systems; Joe Marshall, associate chief financial officer, financial policy and planning; John Brewer, associate chief financial officer, financial operations; Jerry Lohfink, acting director, National finance Center; and numerous outstanding branch managers and associates in our Controller Operations Division in New Orleans.

We all have received excellent support from Secretary Ann Veneman, Agriculture's sub-cabinet officials, agency administrators and their related finance, accounting and budget staffs, as well as personnel in the Office of the Inspector General. All these "unreasonable" people decided to have sufficient internal control and data integrity to receive the first clean audit opinion on behalf of the American taxpayer as part of President Bush's Management Agenda.