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**Farmers Home
Administration**

**Half-Billion Dollar ADP
Modernization Lacks
Adequate Planning and
Oversight**

Statement of
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Mr. Chairman and Members of the Committee, thank you for inviting me here to discuss our review of the Farmers Home Administration's (FmHA) \$520-million modernization of its information systems. I will focus on the agency's effectiveness in planning and oversight because these functions need to be properly carried out for the modernization to succeed.

As you know, FmHA provides credit to rural Americans who cannot obtain credit elsewhere at affordable rates and terms. Its \$58-billion loan portfolio includes loans to farmers, homeowners, communities, and businesses. These loans are very risky. Since 1987, FmHA has written off about \$8 billion in loans that could not be collected.

FmHA set up the modernization program to help the agency reduce loan losses. The agency is trying to build a modern information technology environment by 1995 to improve program and administrative management, accounting and financial management, agencywide productivity, and customer service. This includes developing new information systems, redesigning existing systems, buying new equipment, and sharing information among various FmHA systems. The attached table lists FmHA's modernization projects and their estimated time frames and costs.

A HISTORY OF FAILURE

This is FmHA's third modernization attempt since the mid-1970s. Inadequate planning, combined with ineffective management and ineffective oversight, led to the failure of the previous two efforts.

FmHA's first modernization program, which began in 1974, was terminated in 1979 because the contractor missed several deadlines and requested additional funds. We supported this termination because the system being developed would not meet user needs.¹

FmHA's second modernization attempt began in 1982, and ended in 1986 when FmHA cancelled the planning and design contract. According to the Department's Office of Inspector General, many of the systems problems stemmed from FmHA's acceptance of inadequate design documents from one contractor and its inadequate management of a second contractor.

On the basis of our review of the current modernization, we have concluded that FmHA has yet to resolve its longstanding planning and oversight problems. This raises serious doubts about whether FmHA can successfully implement the current modernization.

¹Farmers Home Administration Needs to Better Plan, Direct, Develop, and Control Its Computer-Based Unified Management Information System (CED-78-68, Feb. 27, 1978), and Farmers Home Administration's ADP Development Project--Current Status and Unresolved Problems (CED-80-67, Feb. 19, 1980).

I will now talk about how the lack of direction and effective oversight are hampering the modernization, and the actions we believe FmHA must take to minimize the risks inherent in its modernization. These matters are discussed in more detail in our report, which is being issued today.²

SYSTEM MODERNIZATION LACKS DIRECTION

Modernization efforts should be based on an agency's business plan and information systems plan. Business plans identify the long-term critical issues facing an agency and discuss the agency's strategy, objectives, and integrated programs for accomplishing those objectives. This business plan, in turn, serves as the foundation for an information systems plan, which specifies the information and information systems needed to transform the business vision into reality. However, FmHA's modernization is not based on such plans.

In addition, changes are occurring in FmHA's organizational structure and loan programs that are not reflected in the agency's modernization. These changes are occurring as a result of congressional actions, such as the passage of legislation authorizing the Rural Development Administration to administer FmHA's \$4 billion community and business program.

Other changes could occur in response to GAO's recommendations that the Department of Agriculture consolidate its operations into fewer locations and restructure those operations to provide a more flexible, integrated field organization.³ Still other changes could result from actions FmHA is considering to improve service delivery. For example, FmHA may consolidate hundreds of field offices in an effort to streamline loan management functions. Until FmHA determines how these changes affect the modernization, the agency risks acquiring technology and developing information systems that it does not need or cannot effectively use.

Modernizing without a clear, future-oriented vision is risky. Basically, the agency is gambling that it can develop technology-based solutions that would allow the agency to respond to fundamentally new and different ways of doing business. If the systems cannot be retrofitted to meet FmHA's mission or borrowers' needs, then it may cost millions to replace or redesign them.

In a September 19, 1991, memorandum responding to our draft report on that issue, the Administrator of FmHA stated that an

²ADP Modernization: Half-Billion Dollar FmHA Modernization Lacks Adequate Planning and Oversight (GAO/IMTEC-92-9, Oct. 29, 1991).

³U.S. Department of Agriculture: Farm Agencies' Field Structure Needs Major Overhaul (GAO/RCED-91-9, Jan. 29, 1991).

information systems plan will be completed this year. The Administrator also said that as part of this plan, FmHA will evaluate the effectiveness of existing information systems, identify where FmHA data bases should be placed, and set up a framework for developing future systems.

EFFECTIVE OVERSIGHT NOT OCCURRING

Strong oversight helps ensure that sound information system development practices are followed--practices that are designed to minimize the risks associated with modernization. However, FmHA lacks an effective mechanism for overseeing the modernization.

FmHA established an Executive Review Board to oversee its many modernization projects. The Board is responsible for planning and determining modernization priorities and funding, as well as insuring that modernization projects comply with federal guidelines. However, the Board has been inactive for over 3 years. Board members could not explain why the Board has been inactive.

FmHA's prior modernization attempts failed in part because the agency did not effectively oversee the projects. Poor oversight practices could jeopardize completion of this modernization as well. For instance, FmHA recently purchased \$32 million in computers for its field offices without first preparing the analysis needed for effective management control. Instead FmHA waited to prepare its analysis until after the purchase and after we requested it. The analysis, prepared after the fact, lacks adequate support for estimated benefits and does not consider alternatives.

ACTIONS NEEDED TO IMPROVE THE MODERNIZATION

FmHA needs to rethink its approach to modernizing its information systems. FmHA is spending hundreds of millions of dollars to modernize systems that support its loan programs before it has clearly articulated a business vision and supporting information needs. Until the agency defines what information technology will be needed to support its mission and operations, FmHA lacks a sound basis for its modernization.

In our view, FmHA must develop an overall plan showing how its information technology projects fit together. A guiding architecture is essential to ensure that the modernization does not degenerate into a loose collection of independent systems.

FmHA also needs to establish an effective mechanism for overseeing the modernization. Strong oversight helps ensure that sound information system development practices are followed--practices that are designed to minimize the risks associated with modernization.

In conclusion, Mr. Chairman, the picture that has emerged is not reassuring. The methods used by FmHA to manage its modernization are not sound or consistent with good management practice. These shortcomings increase the risk that the modernization will fail, leaving the agency without the information technology it needs to help cut its loan losses.

In order to minimize the risks inherent in FmHA's modernization, we recommend that FmHA perform the requisite, up-front business and information system planning, and assess whether its modernization supports these plans, before beginning any new modernization projects. We also recommend that FmHA strengthen its modernization oversight process.

In an October 15, 1991, letter to me, the FmHA Administrator agreed that the agency needs better planning and oversight. Accordingly, he stated that FmHA is now developing appropriate planning documents and is assessing the effectiveness of its modernization program. He said that FmHA has stopped all future major modernization expenditures until this assessment is completed. We believe that, if successfully implemented, the actions FmHA has initiated will help address our concerns.

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Mr. Chairman, this completes my statement. I will be glad to answer any questions you or the other Members may have.

**FmHA's Estimated Time Frames and
Cost of Systems Modernization
Projects**

Dollars in millions

Project	Estimated time frame (fiscal year)	Cost
1. County office automation	1990 - 1994	\$27.7
2. District office automation	1988 - 1994	8.4
3. State office automation	1990 - 1995	7.3
4. Develop other field office software	1988 - 1995	73.3
5. Acquire hardware for field offices	1989 - 1994	290.9
6. Improve telecommunications	1990 - 1992	24.1
7. Redesign central financial systems	1992 - 1996	40.0
8. Modify central financial systems	1991 - 1995	19.0
9. Other central financial systems work	1990 - 1995	18.5
10. Develop and implement IRM plans and policies	1989 - 1995	10.5
Total Cost		\$519.7

Source: FmHA's 1990 Strategic IRM Plan and FmHA IRM officials

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