USDA

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

COMMODITY CREDIT CORPORATION'S FINANCIAL STATEMENTS FOR FISCAL YEAR 2002

OFFICE OF INSPECTOR GENERAL • USDA •

Audit Report No.
06401-15-FM
December 2002

USDA

UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington D.C. 20250

DATE: DEC 26 2002

REPLY TO
ATTN OF: 06401-15-FM

SUBJECT: U.S. Department of Agriculture
Commodity Credit Corporation's Financial Statements for
Fiscal Year 2002

TO: Board of Directors
Commodity Credit Corporation

ATTN: Kristine Chadwick
Controller
Commodity Credit Corporation

The report presents the auditors' opinion on the Commodity Credit Corporation's (CCC) principal financial statements for the fiscal year ending September 30, 2002. Reports on CCC's internal controls structure and its compliance with laws and regulations are also provided.

KPMG Peat Marwick LLP, an independent certified public accounting firm, conducted the audit. We monitored the progress of the audit at all key points, reviewed the workpapers, and performed other procedures, as we deemed necessary. We determined the audit was conducted in accordance with generally accepted auditing standards, Government Auditing Standards (issued by the Comptroller General of the United States), and the Office of Management and Budget's Bulletin No. 01-02, "Audit Requirements for Federal Financial Statements."

It is the opinion of KPMG Peat Marwick LLP, that the financial statements present fairly, in all material respects, CCC's financial position as of September 30, 2002, and its net costs, changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations for the year then ended, in conformity with generally accepted accounting principles. We concur with that opinion. The KPMG Peat Marwick LLP report on CCC' s internal control structure over financial reporting identified five reportable conditions that it also considered material weaknesses. Specifically, KPMG identified material weaknesses in CCC's:

- Information security controls;
- Financial system functionality and related processes;

- Funds control mechanisms;
- Financial accounting and reporting processes and procedures; and
- Budgetary accounting and reporting policies and procedures.

The results of KPMG's tests of compliance with laws and regulations disclosed instances of noncompliance with the laws and regulations identified below:

- The Computer Security Act of 1987;
- The Government Information Security Reform Act;
- The Debt Collection Improvement Act of 1996; and
- The Federal Financial Management Improvement Act of 1996.

In accordance with Departmental Regulation 1720-1, please furnish a reply within 60 days describing the corrective actions taken or planned, including the timeframes to address the reports' recommendations. Please note the regulation requires a management decision to be reached on all findings and recommendation within a maximum of 6 months from report issuance.

Richard D. Long

RICHARD D. LONG
Assistant Inspector General
for Audit

UNITED STATES DEPARTMENT OF AGRICULTURE
COMMODITY CREDIT CORPORATION

September 30, 2002

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INDEPENDENT AUDITORS' REPORT

2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report

To the Inspector General
U.S. Department of Agriculture

To Commodity Credit Corporation

We have audited the accompanying consolidated balance sheet of the Commodity Credit Corporation (CCC) as of September 30, 2002, and the related consolidated statements of net cost, changes in net position and financing; and the combined statement of budgetary resources (hereinafter referred to as the "consolidated financial statements") for the year then ended. The objective of our audit was to express an opinion on the fair presentation of these consolidated financial statements.

The financial statements of CCC as of September 30, 2001 were audited by the U.S. Department of Agriculture, Office of Inspector General (OIG) whose report, dated February 26, 2002, expressed an unqualified opinion on the consolidated balance sheet, statement of net cost, and statement of changes in net position, and a disclaimer of opinion on the combining statements of budgetary resources and financing, because CCC was not able to provide sufficient and competent evidential matter to support material line items on those statements.

In connection with our audit, we also considered CCC's internal control over financial reporting and tested CCC's compliance with certain provisions of applicable laws and regulations that could have a direct and material effect on its consolidated financial statements.

SUMMARY

As stated in our opinion on the consolidated financial statements, we concluded that CCC's consolidated financial statements as of and for the year ended September 30, 2002, are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America.

Our consideration of internal control over financial reporting resulted in the following conditions being identified as reportable conditions:

- Improvement needed in information security controls;
- Improvement needed in financial system functionality and related processes;
- Improvement needed in funds control mechanisms;
- Improvement needed in financial accounting and reporting policies and procedures; and
- Improvement needed in budgetary accounting and reporting policies and procedures.

We consider all of the reportable conditions above to be material weaknesses. The results of our tests of compliance with certain provisions of laws and regulations disclosed instances of noncompliance with the following laws and regulations that are required to be reported under *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements:*

- *Computer Security Act of 1987* and *Government Information Security Reform Act* (GISRA);
- *Debt Collection Improvement Act of 1996*; and
- *Federal Financial Management Improvement Act of 1996* (FFMIA).

The following sections discuss our opinion on CCC's consolidated financial statements, our consideration of CCC's internal control over financial reporting, our tests of CCC's compliance with certain provisions of applicable laws and regulations, and management's and our responsibilities.

OPINION ON THE CONSOLIDATED FINANCIAL STATEMENTS

We have audited the accompanying consolidated balance sheet of the Commodity Credit Corporation as of September 30, 2002, and the related consolidated statements of net cost, changes in net position and financing; and the combined statement of budgetary resources, for the year then ended.

The financial statements of CCC as of September 30, 2001 were audited by the U.S. Department of Agriculture, Office of Inspector General whose report, dated February 26, 2002, expressed an unqualified opinion on the consolidated balance sheet, statement of net cost, and statement of changes in net position, and a disclaimer of opinion on the combining statements of budgetary resources and financing because CCC was not able to provide sufficient and competent evidential matter to support material line items on those statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of CCC as of September 30, 2002, its net costs, changes in net position, reconciliation of net costs to budgetary obligations, and budgetary resources, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The information in the Management's Discussion and Analysis, Required Supplementary Stewardship Information and Required Supplementary Information sections is not a required part of the consolidated financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America or OMB Bulletin No. 01-09, *Form and Content of Agency Financial Statements*. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The Other Accompanying Information included in Schedules 4 and 5 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. We did not audit this information and, accordingly, we express no opinion on it..

INTERNAL CONTROL OVER FINANCIAL REPORTING

Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect CCC's ability to record, process, summarize, and report financial data consistent with the assertions by management in the consolidated financial statements.

Material weaknesses are reportable conditions 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 consolidated 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.

In our fiscal year 2002 audit, we noted certain matters, described in Exhibit 1, involving internal control over financial reporting and its operation that we consider to be reportable conditions. We believe that all of the reportable conditions presented in Exhibit 1 are material weaknesses. Certain matters noted in Exhibit 1 were not reported by CCC in its fiscal year 2002 internal control self assessment, conducted under the *Federal Managers' Financial Integrity Act of 1982* (FMFIA).

* * * * *

We also noted other matters involving internal control over financial reporting and its operation that we have reported to the management of CCC in a separate letter dated December 13, 2002.

COMPLIANCE WITH LAWS AND REGULATIONS

Our tests of compliance with certain provisions of laws and regulations, as described in the Responsibilities section of this report, exclusive of the FFMIA, disclosed two instances of noncompliance with the following laws and regulations that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 01-02, and are described below.

Computer Security Act of 1987 and GISRA. The *Computer Security Act of 1987,* requires that Federal agencies implement acceptable information security practices, such as mandatory periodic training for all system users, to improve the security and privacy of sensitive information maintained in Federal computer systems. More recently, GISRA was passed as part of the *Defense Authorization Act of 2000,* and mandates that Federal agencies implement processes and controls to maintain an effective information security program, including planning, risk assessment, training, and evaluations in such a manner to comply with policy guidance contained in OMB Circular A-130, *Management of Federal Information Resources*. We noted that the Farm Service Agency (FSA)/CCC needs to improve its level of compliance with the Computer Security Act and GISRA by implementing additional controls and processes supporting its entity wide security program and operating device security. These matters are described in Exhibit 1.

Debt Collection Improvement Act. The *Debt Collection Improvement Act of 1996* (DCIA) is intended to significantly enhance the Federal Government's ability to service and collect debts. Under the DCIA, Treasury assumes a significant role for improving government-wide receivables management. The DCIA requires Federal agencies to refer eligible delinquent non-tax debts over 180 days to U.S. Treasury for the purpose of collection by cross-servicing or the offset program. The results of our tests of compliance with DCIA disclosed instances where CCC was not in compliance with certain provisions of the Act. Specifically, we noted that some eligible debts were not forwarded to Treasury for cross-servicing or the offset program. These matters are described in Exhibit 1.

The results of our tests of compliance with other laws and regulations, exclusive of FFMIA, disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 01-02.

* * * * *

FFMIA. The results of our tests of FFMIA disclosed instances, described in detail in Exhibit 1, where FSA/CCC's financial management systems, did not substantially comply with Federal financial management systems requirements, Federal accounting standards, or the United States Government Standard General Ledger at the transaction level.

FFMIA mandates that Federal financial management be advanced by ensuring that Federal financial management systems can and do provide reliable, consistent disclosure of financial data, and that they do so on a basis that is uniform across the Federal government from year to year consistently using accounting principles generally accepted in the United States of America. Federal agencies need to comply with FFMIA by adhering to policies established by OMB, such as OMB Circular A-127, *Financial Management Systems*, and OMB Circular A-130.

A summary of the instances of FFMIA non-compliance noted in Exhibit 1 follow:

- FFMIA requires that Federal agencies implement information security controls and contingency planning capabilities in accordance with OMB Circular A-130. As noted above, FSA/CCC needs to improve in these areas to be in compliance with Circular A-130.

- FFMIA requires that Federal agencies implement financial systems controls in accordance with OMB Circular A-127. We noted several areas where FSA/CCC can improve the controls and processes over financial systems to better comply with Circular A-127. For example, interfaces between FSA/CCC's core financial system and financial feeder systems can be improved to provide for more efficient financial processing; the level of training for financial management systems users can be improved.

- FFMIA requires that Federal agencies' comply with the Federal accounting standards using the United States Government Standard General Ledger at the transaction level. We noted that CCC's financial systems and processes for posting transactions can be improved. For example, we noted that budgetary entries recorded for cash collections from inventory sales were recorded incorrectly, as the program code used to record collections for certain types of inventory sales posted an expenditure refund instead of a revenue collection.

RESPONSIBILITIES

Management's Responsibilities

The *Government Management Reform Act of 1994* (GMRA) requires each Federal agency to report annually to Congress on its financial status and any other information needed to fairly present its financial position and results of operations. To meet the GMRA reporting requirements, CCC prepares annual consolidated financial statements.

Management is responsible for:

- Preparing the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America;

- Establishing and maintaining internal controls over financial reporting, preparation of the Management's Discussion and Analysis (including the performance measures), the required supplementary information, and the required supplementary stewardship information; and

- Complying with laws and regulations, including FFMIA.

In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies. Because of inherent limitations in internal control, misstatements, due to error or fraud may nevertheless occur and not be detected.

Auditors' Responsibilities

Our responsibility is to express an opinion on the fiscal year 2002 consolidated financial statements of CCC based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* and OMB Bulletin No. 01-02. Those standards and OMB Bulletin No. 01-02 require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit includes:

- Examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements;

- Assessing the accounting principles used and significant estimates made by management; and

- Evaluating the overall consolidated financial statement presentation.

We believe that our audit provides a reasonable basis for our opinion.

In planning and performing our fiscal year 2002 audit, we considered CCC's internal control over financial reporting by obtaining an understanding of CCC's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 01-02 and *Government Auditing Standards*. We did not test all internal controls relevant to operating objectives as broadly defined by FMFIA. The objective of our audit was not to provide assurance on internal control over financial reporting. Consequently, we do not provide an opinion thereon.

As required by OMB Bulletin No. 01-02, we considered CCC's internal control over required supplementary stewardship information by obtaining an understanding of CCC's internal control, determining whether these internal controls had been placed in operation, assessing control risk, and performing tests of controls. Our procedures were not designed to provide assurance on internal control over required supplementary stewardship information and, accordingly, we do not provide an opinion thereon.

As further required by OMB Bulletin No. 01-02, with respect to internal control related to performance measures determined by management to be key and reported in the Management's Discussion and Analysis, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions. Our procedures were not designed to provide assurance on internal control over performance measures and, accordingly, we do not provide an opinion thereon.

As part of obtaining reasonable assurance about whether CCC's fiscal year 2002 consolidated financial statements are free of material misstatement, we performed tests of CCC's compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of consolidated financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 01-02, including certain provisions referred to in FFMIA. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws and regulations applicable to CCC. Providing an opinion on compliance with laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

Under OMB Bulletin No 01-02 and FFMIA, we are required to report whether CCC's financial management systems substantially comply with (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA Section 803(a) requirements.

DISTRIBUTION

This report is intended for the information and use of CCC's management, the USDA Office of the Inspector General, OMB and the U.S. Congress, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

December 13, 2002

INTRODUCTION

The internal control weaknesses discussed in this report, and the Commodity Credit Corporation's (CCC) progress toward correcting these weaknesses, are discussed in the context of CCC's existing statutory and organizational structure. We recognize that any recommended information technology (IT) control enhancements pertaining to CCC operations cannot be implemented solely by CCC, because CCC applications are in many cases hosted on systems managed by the United States Department of Agriculture (USDA) and the USDA Farm Service Agency (FSA). As a result, several of the IT control weaknesses identified in this report will require the combined effort of USDA, FSA/CCC management.

Exhibit 1 describes the reportable conditions, all of which are considered to be material weaknesses as of and for the year ended September 30, 2002, and our recommendations. CCC management's response is presented in Exhibit 2.

MATERIAL WEAKNESSES

The material weaknesses in FSA/CCC's internal control, as of and for the year ended September 30, 2002, are summarized below.

1. IMPROVEMENT NEEDED IN INFORMATION SECURITY CONTROLS.

Information security management is a critical component in protecting sensitive and critical FSA/CCC information resources and financial data. The citizens of the United States entrust the stewardship of Federal government financial resources and assets to government financial and program managers. Without effective information security controls over financial systems and supporting systems, there is substantial risk that the resources under stewardship may be exposed to unauthorized modification, disclosures, loss, or impairment.

Information security weaknesses have been identified in FSA/CCC's processing for several years by the USDA Office of Inspector General (OIG). In response, FSA/CCC has recently undertaken several initiatives to improve its information security program capabilities. For example, during fiscal year 2002, FSA/CCC:

- Performed an Office of Management and Budget (OMB) Circular A-127, *Financial Management Systems*, self assessment of CORE, the primary FSA/CCC financial system, which identified the need for several improvements, including improvements related to information security;

- Initiated a system risk assessment process using an automated software tool; and

- Performed periodic tests of network and system devices to help identify potential vulnerabilities.

These accomplishments are commendable, but more needs to be done to ensure appropriate levels of confidentiality, integrity, and availability of sensitive and critical information systems and resources. Specifically, we noted several areas, detailed below, where improvements are needed in establishing and maintaining sustainable and repeatable information security controls affecting FSA/CCC's financial systems environment as well as other sensitive/mission critical systems and processes.

Entity-wide Information Security Program Management

FSA/CCC lacks a complete information security management program that can be applied to its general support systems and its various financial systems. Specifically:

- FSA's information security risk assessment process needs to be improved. FSA's current risk assessment policies and practices do not provide for a consistent, agency-wide approach for performing information security risk assessments. Although FSA has had risk assessments performed for some of its systems, several different vendors and processes have been used, leading to some inconsistency in the process and analysis of the findings. Risk assessment is an initial, and critical, step in determining the level of security protections needed for general support systems and computer applications. FSA recognizes it needs to improve in this area, and plans to use more consistent policies and approach for performing future risk assessments. FSA plans to perform risk assessments for 60 applications and general support systems by the end of fiscal year 2003.

- We noted that FSA's general support system security plans and a sample of specific application security plans do not consistently meet requirements established in Office of Management and Budget (OMB) Circular A-130, *Management of Federal Information Resources*. For example, the plans did not consistently describe the system/application rules of behavior, and reviews of general support systems and application security controls were not performed for each system within the three year timeframe required by OMB Circular A-130. A contributing factor to this issue is that policies for updating USDA security plans have been under development by the USDA Office of the Chief Information Officer (OCIO). Recently the USDA CIO issued the final policy guidance for the development of security plans, and USDA agencies are now updating security plans to be consistent with the guidance. FSA plans to update all its security plans by June 2003 in accordance with the new USDA OCIO guidance.

  Maintaining consistent and complete security plans is a critical component of an organization's entity-wide security program. FSA/CCC program managers should rely upon the accuracy and completeness of system security plans to make a determination of whether to accept the security risks associated with organization's systems. Without complete security plans, security responsibilities and controls may not be adequately documented, leading management to inadvertently rely on security controls that could be insufficient to fully ensure system and resource integrity, confidentiality, and availability.

- Policies and practices are not in place to ensure the consistent sharing of information between FSA offices regarding terminated employees. This has contributed to terminated employees maintaining access to FSA systems. For example, we reviewed a listing of 83 terminated FSA employees for the period March 23 to August 24, 2002, and found that 23 (28%) still had active FSA system accounts. In addition, periodic employee reinvestigations are not consistently performed. Such efforts are needed to ensure that terminated employees cannot still access FSA systems.

  Protection from unauthorized access by personnel who best understand an organization's systems is just as important, if not more important, than ensuring protection from hackers/crackers[1] who attempt unauthorized access over the Internet. Information security industry information shows that although

[1] We define a hacker as a person who tries to break into computer systems, but not for malicious purposes. We define a cracker as a person who breaks into computer systems for malicious purposes.

external hackers/cracker attempts gain the most media attention, the majority of successful, and most damaging attacks, are performed by personnel who best understand the systems and business processes, such as terminated employees who still have system access.

The USDA OIG has identified similar weaknesses in prior audits of FSA/CCC internal controls, but this matter has not yet been corrected because the coordination between all necessary FSA offices has not been sufficient to improve the necessary policies and practices.

- During our audit work at the Vernon County (Missouri); Mississippi County (Missouri); and Lauderdale County (Tennessee) County Offices, we noted the lack of consistent and up to date information security awareness training for county office personnel. While we were able to identify previous security awareness training sessions performed for FSA/CCC Kansas City office personnel, security awareness training for county office personnel was not substantiated. Additionally, we noted that new county office employees were not consistently provided with security training. Although security training for all employees is important, it is especially so for FSA county office personnel, as these personnel initiate many of the transactions supporting the FSA/CCC mission. FSA recognizes that the security training efforts for county office personnel have not been effective, primarily because the training has only consisted of reading materials. During fiscal year 2003 FSA is planning to use an interactive Internet security training program recently made available USDA-wide to improve the training efforts for all FSA employees.

- A key information security requirement in OMB Circular A-130 relates to the completion and testing of system and application contingency plans. Such efforts are important not only to maintain adequate information security over systems and resources, but also to maintain processing operations during an outage. We identified the following examples where FSA/CCC's contingency planning efforts need improvement:

  - A Continuity of Operations Plan (COOP) specifies the actions necessary to accomplish a smooth transition to an alternative site and resumption of business operations. A COOP consists of two parts: a disaster recovery plan (DRP) developed by the IT function and a Business Resumption Plan (BRP) developed by the core business area. An organization's contingency planning capabilities are based primarily on the effectiveness of the COOP. FSA/CCC's COOP was last updated for the Year 2000 contingency planning efforts, and although several aspects of it are still current, other elements of it are not

  - During our test work at three county offices: Vernon County (Missouri); Mississippi County (Missouri); and Lauderdale County (Tennessee), we noted that documented and tested contingency plans for the offices were not prepared.

  - Results from a recent disaster recovery exercise for the FSA/CCC CORE accounting system, and several key feeder systems, indicated that necessary system data elements were not identified as critical components of the recovery testing effort.

  A contributing factor to these issues is that the policies and practices for consistently updating and maintaining contingency plans need to be improved. FSA/CCC management recognizes this, and plan to complete a revised contingency planning policy by January 2003. After the completion of the policy, FSA/CCC is planning to update the necessary organizational contingency plans.

Information Security Weaknesses with Operating Devices

During our testing we noted significant security weaknesses existed on FSA/CCC network and system devices[2]. The weaknesses resulted from insufficient device password practices and vulnerable operating system configurations. The identified weaknesses could be exploited by unauthorized personnel to attack and penetrate FSA/CCC's IT environment to ultimately gain access to sensitive financial processing devices and applications. We also noted weaknesses with system password use at county offices and the lack of a current remote access policy. Because of the sensitivity of these weaknesses, the details on these issues are not included in this report, and were provided directly to the FSA Security Office. Many of these vulnerabilities have been identified by the USDA OIG in prior audits, but have not been fully addressed because of weaknesses in policies and practices related to securing IT devices.

The device vulnerabilities were identified through the use of a combination of commercial security assessment tools and freeware software tools available to the public over the Internet. Several of the vulnerabilities did not require significant technical expertise to exploit. The device testing that was performed under this audit was: 1) performed under a specific window of time, 2) performed with the knowledge of FSA/CCC IT personnel, and 3) halted when a certain level of compromise was obtained. Hackers/crackers do not operate under such controlled circumstances. If they identify vulnerabilities they are free to continue probing organization networks and systems whenever they choose. Many hackers/crackers will gain unauthorized access to system and network devices, then wait several days or months before attempting further access.

Consequently, FSA/CCC should not interpret the security weaknesses identified during this audit only as a point in time assessment. Rather, FSA/CCC should, as part of the entity-wide security program and risk management process, use the results of the audit and the periodic vulnerability scans performed by the FSA Security Office, to develop technical guidelines for securing network and system devices. This is also important because any newly implemented network and system devices, or changes to existing devices, can significantly alter the security posture of the organization. In addition, the information security community is constantly identifying new vulnerabilities that must be reviewed and considered for potential impact on the organization.

Recommendations:

The above issues significantly reduce the overall information security controls for FSA/CCC's financial systems processing environment, as well as for other sensitive and mission critical FSA/CCC applications. Therefore, we recommend the following actions to improve FSA/CCC's overall infrastructure security environment. FSA/CCC management should:

1. Clearly articulate via policy executive management commitment and support for defining and maintaining information security goals and objectives that must be followed by all FSA offices. This is an initial step by management that is needed to establish clear internal control objectives and techniques (e.g., security risk assessment process, use of strong technical security controls, etc.) for maintaining security for its IT environment.

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2 Network devices and software are relevant to an agency's financial internal control structure because, as guided by OMB Circular A-127, a financial system includes any process by which data about financial events is collected or transmitted.

2. In concert with USDA guidance and requirements, continue efforts to develop, implement, and monitor an agency-wide information security risk assessment process, to include the completion of the 60 risk assessments planned for FY 2003.

3. Ensure consistency in completion of system security plans, using appropriate Federal and USDA OCIO guidance.

4. Implement enhanced policies and practices regarding removal of system access for terminated employees. It is very important that this issue be addressed not only from a system security perspective, but also from a personnel management perspective. Consequently, FSA's Security Office, Human Resources Division, and operating unit offices need to work together closely to ensure this issue is addressed.

5. Update existing information security training policies and practices to address the use of enhanced information security training mechanisms, such as the interactive Internet training program planned for fiscal year 2003.

6. Ensure that the planned efforts to update FSA/CCC's contingency planning policy by January 2003, and the subsequent contingency planning documents, are completed, that critical recovery elements, both data and system related, are addressed in contingency planning strategy, and that the contingency planning strategy is sufficiently tested. These efforts should also include the county office systems and business processes.

7. Ensure immediate resolution to the device security weaknesses communicated during the audit.

8. Use the technical device weaknesses identified during this audit and prior OIG audits, results of FSA Security Office vulnerability scans, and current industry security guidance to develop stronger policies and technical guidelines for securing network and system devices. Communication by executive management regarding adherence to the policies and guidelines, as noted in Recommendation No.1, is a critical step for ensuring compliance.

2. IMPROVEMENT NEEDED IN FINANCIAL SYSTEM FUNCTIONALITY AND RELATED PROCESSES.

Maintaining quality Federal financial management system functionality is critical to increasing the accountability of financial and program managers, providing better information for decision-making, and increasing the efficiency and effectiveness of services provided by the Federal government. Proper and reliable financial management systems must provide for:

- *Accountability*. Inform taxpayers, Congress, and agency personnel in terms they can readily understand, on how the Nation's tax dollars are spent, and how Federal assets are protected.

- *Efficiency and Effectiveness*. Provide efficient and effective service to the Federal agency's internal and external customers (e.g., individuals, contractors, partnerships, state and local governments, other Federal agencies/organizations, the military, and foreign governments).

- *Better Decision-Making*. Provide to Congress, agency heads and program managers, timely reports linking financial results and program data so that financial and program results of policy and program decisions can be identified, tracked, and forecasted more accurately[3].

FFMIA mandates that Federal financial management be advanced by ensuring that Federal financial management systems and accounting standards be implemented to provide reliable, consistent disclosure of financial data. OMB Circular A-127 sets forth policies for establishing and maintaining Federal financial management systems in accordance with FFMIA.

We noted examples where FSA/CCC's financial systems processing environment could be improved to better support CCC's financial processes and comply with FFMIA requirements and OMB A-127 policy guidance. Specifically, we noted the following:

- CCC's financial accounting consolidation and reporting system, Hyperion, needs to have improved system controls and documentation. Specifically, we noted that:
  - System access control management needs improvement. User passwords can be as few as two characters, and the process for adding new users and modifying existing user access levels is not consistently documented. This condition elevates the information security risk for the system, as potential unauthorized users could more easily compromise the system. According to National Institute of Standards and Technology (NIST) guidelines, system passwords should be a minimum of six alpha-numeric characters, and the process for managing user access should be well documented.
  - There are limited policies and procedures to support the system. For example, there is no system user's guide. Should CCC experience employee turnover, the lack of such documents will make the management of the system more difficult and could jeopardize system and financial processing. Also, there are no change management procedures to ensure that any new accounting requirements, software upgrades, or other changes are approved, tested, and implemented in a controlled manner.

  These controls are important for Hyperion, as the system is used to consolidate and generate CCC's annual financial statements, and track post year-end close adjusting entries. Consequently, data loss from unauthorized access or system processing issues could negatively impact CCC's financial reporting process. Contributing factors to these issues include: 1) the lack of a strong entitywide security program, as noted earlier in this report, and 2) the primary focus of the Hyperion implementation being on system functionality, with less of a focus on implementing information security controls and developing supporting system policies and other documentation.

- As reported in prior years by the OIG, FSA/CCC does not have a collection of financial systems and processes that are capable of fully monitoring and controlling budgetary resources for all programs. For example, as reported by the OIG in its fiscal year 2001 CCC financial audit report, FSA/CCC did not effectively utilize available funds control data to timely suspend the disbursement of 2001 Market Loss Assistance payments prior to exceeding the $4.6 billion limitation. This occurred, in part, because FSA/CCC does not have an integrated system to track and govern the status of obligations and administrative limitations established by legislation or agency policy and is dependent upon

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[3] From the Joint Financial Management Improvement Program (JFMIP) *Core Financial System Requirements*, dated November 2001.

manual processes. The use of manual processes and reconciliations to manage budgetary accounts subjects CCC's overall funds control process to significant control risk.

- We noted that several FSA/CCC personnel were familiar with CORE financial system processes. In addition, FSA/CCC has strived to establish processes so that accounting personnel have a thorough knowledge of the overall financial process as well as having accountants with specific knowledge in each of the main accounting areas; such as debt management, cash management, and general ledger processing. However, as the OIG has noted in prior year audits, we also noted the need for FSA/CCC accountants to improve their knowledge of financial system and process operations. For example, we noted the need to provide additional training to personnel responsible for posting accounting entries in accordance with the U.S. Government Standard General Ledger (SGL), including the budgetary/proprietary relationships. We also noted that the budgetary entries recorded for cash collections from inventory sales were recorded incorrectly, as the program code used to record collections for certain types of inventory sales posted an expenditure refund (by debiting account 4902 Delivered Orders-Obligations Unpaid) instead of a revenue collection (by debiting account 4266 Other Actual Business-Type Collections from Non-Federal Sources). As a result of our audit work, CCC posted an adjusting journal entry for over $46.8 million after the general ledger had been closed.

- Interface controls between feeder systems and CORE can be improved. For example:
  - Insufficient system change controls and testing controls with the Processed Commodity Inventory Management System (PCIMS) resulted in approximately $3.5 million in milk product being listed in PCIMS but not in CORE. Upon notification of the condition by the financial audit team, FSA/CCC issued an emergency change request to correct the problem and also began attempting to identify the full extent of the problem and the impacted transactions. Ultimately, the transactions that were impacted were not reentered into CORE, but were accounted for with a summary journal entry. Although the dollar amount is not significant to CCC's financial statements, the lack of sufficient change controls and testing controls that contributed to this issue elevate concerns with FSA/CCC's overall system control environment.
  - Legacy systems in operation at county offices contribute to financial processing problems. For example, in September 2002, as CCC was performing financial year-end processing, there were significant processing delays caused by the magnitude of data transmitted from county offices to CORE. FSA/CCC is aware of the problems being caused by the legacy county office systems, and is planning to upgrade many county office systems during fiscal year 2003 as part of the Common Computing Environment (CCE) initiative.

- Because of the financial systems challenges FSA/CCC faces, several of which are noted in this report, during fiscal year 2002 FSA/CCC performed an FFMIA self assessment to identify specific areas of improvement. This assessment highlighted FSA/CCC's substantial non-compliance with FFMIA in the areas of Federal financial system requirements and Federal accounting standards. Specific areas of improvement noted in the FFMIA self assessment include the need:
  - For more complete implementation of various feeder systems interfaces with CORE. For example, needed interface enhancements were noted for the CORE financial system and the General Sales Manager (GSM) system.
  - To perform a self assessment for all CCC financial feeder systems to identify areas of improvement.

- To automate the current manual oriented financial accounting entry process with additional system functionality.

FSA/CCC has developed a corrective action plan to address the identified FFMIA weaknesses, and the plan includes action steps for implementing a new GSM system and related interface to CORE, and implementing an E-Funds control system to help address current manually oriented funds control processes.

- During fiscal year 2002 FSA/CCC also performed an OMB Circular A-127 self assessment for CCC-CORE. This self assessment effort is commendable, but we noted areas where the assessment process could be enhanced. For example:

  - Although the CCC-CORE OMB Circular A-127 self assessment was conducted in accordance with FFMIA checklists provided by the General Accounting Office (GAO), the review was not fully focused on assessing how the CCC-CORE financial system is being operated to support existing CCC financial business processes. In several cases the financial systems review team noted that although CCC-CORE is capable of meeting FFMIA and Joint Financial Management Improvement Program (JFMIP) requirements, CCC does not use the mandatory system capabilities to support existing business processes.

    For example, the GAO checklist question was as follows: "does the system incorporate both proprietary and budgetary accounts in the system, and maintain the relationships between accounts as described in the SGL?" CCC answered in the affirmative. However, during recent OIG audits it has been noted that proper budgetary and proprietary accounting relationships were not maintained within CCC-CORE. In addition, CCC acknowledged in its standard operating procedures for its CCC-CORE account analysis that differences do exist between budgetary and proprietary accounts and, in some cases, these differences existed since the inception of CORE. CCC personnel stated that the CCC-CORE system provides for this function, and they are reviewing current business practices to fully incorporate the system functionality. Consequently, the reviews do not provide a fully accurate depiction of the system capabilities as being used by FSA/CCC. Such a review methodology makes it difficult for CCC to adequately plan for additional functionality that is mandatory per FFMIA and JFMIP requirements.

  - The CCC-CORE self assessment did not fully address prior year audit findings. For example, in the fiscal year 2001 CCC financial audit report, the OIG noted concerns with the CORE posting models. However, the financial systems review team did not address posting model issues raised by the OIG. Although there are other mechanisms by which CCC tracks prior year OIG findings, such as the monthly *Major Management Initiatives* report, prior year OIG findings were not specifically addressed in the CCC-CORE OMB Circular A-127 self assessment. This is important to ensure that all relevant financial issues and findings are being addressed by the self assessment reviews.

  - The CCC-CORE self assessment, conducted from February 2002 through May 2002, did not take into account the most current applicable system guidance. For example, the review was based on the February 2000 GAO FFMIA checklist, which references the February 1999 JFMIP *Core Financial System* requirements. However, in November 2001 JFMIP issued an updated version of the *Core Financial System* requirements. For future reviews, CCC should complement the use of the GAO checklist with any relevant new guidance.

We noted that these issues occurred because although guidance was established by FSA/CCC for performing the CCC-CORE self assessment, the guidance could be made more specific to encompass the above issues.

Recommendations:

We recommend that FSA/CCC:

9. Require Hyperion user passwords to have a minimum of six alpha-numeric characters, consistent with OMB Circular A-130 and NIST guidance, and implement a documented policy for managing Hyperion access.

10. Develop and document policies related to the guidance, control, and monitoring of the Hyperion application, such as a system user guide and system change control policies and procedures. This should also include policies and procedures relating to system changes regarding accounting requirements (i.e., changing the mapping of accounts to financial statement line-items).

11. Continue to take steps to provide CORE cross training, sharing of knowledge, and the documentation of key CORE system processes, as recommended by the OIG in its fiscal year 2001 audit report. Such efforts would not only provide additional training and knowledge to staff, but will also help address continuity of knowledge if staff turnover occurs. For example, training efforts could be enhanced in regards to SGL accounting.
12. Implement improved change control and system testing policies to help prevent future issues similar to the PCIMS processing problem.

13. Continue with plans to implement the CCE initiative to help address financial processing problems caused by legacy county office systems.

14. Continue with plans to implement action items from its FFMIA remediation plan, such as the as implementation of the GSM system and E-Funds control system. As the E-Funds control system is further implemented, FSA/CCC should ensure that JFMIP's *Core Financial Management System Requirements*, especially those related to funds management, are applied to the system. If the E-Funds control system is further delayed, FSA/CCC should explore other methods to implement integrated system controls to ensure that the total of disbursements made and obligations incurred do not exceed the applicable legislative or agency funding authority at the time a transaction is recorded. The controls should ensure that responsibility for authorizing transactions is well documented and proper accountability for obligation and disbursement transactions is maintained.

15. Ensure that future financial system reviews are based on the actual capabilities of the systems under review, taking into account existing CCC business processes. The reviews should also be designed to take into account steps to address prior year audit findings, including any remaining CORE posting model issues, and be based on the most current information available.

3. IMPROVEMENT NEEDED IN FUNDS CONTROL MECHANISMS.

As reported in prior years, FSA/CCC does not have a collection of financial systems and processes that are capable of fully monitoring and controlling budgetary resources for all programs at the transaction level. As reported by the USDA OIG in its fiscal year 2001 report, FSA/CCC did not effectively utilize available funds control data to timely suspend the disbursement of 2001 Market Loss Assistance payment prior to exceeding the $4.6 billion limitation. This occurred, in part, because FSA/CCC does not have an integrated system to track and govern the status of obligations and administrative limitations established by legislation or agency policy and is dependent upon manual processes.

During fiscal year 2002, FSA/CCC took action to improve this process, however, many reports are prepared manually because the data sources exist in several different systems which are not interfaced. For example, FSA/CCC:

- Developed a manually prepared daily funds tracking report for review by program and agency managers. As new programs are funded, they are included in the report and released to program managers on a weekly basis.
  In relation to this funds tracking mechanism, CCC developed and implemented an authorized payment process for National Program managers to use to authorize payments when funds are within 15 percent of the budget threshold. This authorized payment process is implemented for any program that reaches the 15 percent threshold and still has payments due. It allows program managers to specifically identify where the remaining funds are being expended; and to monitor payments to ensure funds are not disbursed in excess of legislative or agency limitations.

- Utilized a manual tracking report for reimbursable agreements that monitors disbursements against apportionments in order to determine funds are not disbursed in excess of the related apportionments.

- Developed user requirements for an E-Funds control system and planned to implement the system by the end of fiscal year 2002. However, the system implementation was delayed due to other priorities. The first phase of the implementation was completed in November 2002, and the full implementation is scheduled for later in fiscal year 2003. The E-Funds control system, as currently designed, plans to offer functionality with regards to funds allocation, allotment, and management. The E-Funds control system is also designed to include security features to ensure that accountability for obligation and disbursement transactions is maintained.

FSA/CCC is currently managing funds control for all programs with manual analysis and reconciliation, meant to partially mitigate the risks associated with the lack of an integrated obligating system. However, the use of manual processes and reconciliations subjects CCC's overall funds control objective to significant control risk.

Funds control is a vital component of any Federal government operation. It requires that an obligation be recorded prior to disbursement of funds. When a disbursement is processed the systems' funds control function will compare the amount to be disbursed to the remaining amount of the obligation to ensure funds remain available. Only when funds remain available will funds be disbursed. In addition, the *Anti-Deficiency Act* provides, in part, that an office or employee of the United States Government may not (a) make or authorize an expenditure or obligation exceeding an amount available in an appropriation or fund for the expenditure or obligation; (b) involve the government in a contract or obligation for the payment of money before an appropriation is made unless authorized by law. Section 1517a.2., of this Act further provides that an agency may not exceed the available amount of an administrative subdivision officially directed by the agency.

In accordance with part 4 of OMB Circular A-11, the purpose of funds control is to:

- Restrict both obligations and expenditures from each appropriation or fund account to the lower of the amount apportioned by OMB or the amount available for obligation and/or expenditure in the appropriation or fund account.
- Enable CCC's management to identify the person responsible for any obligation or expenditure exceeding the amount available in the appropriation or fund account, the OMB apportionment or reapportionment, the allotments of sub-allotments made by CCC, and statutory limitations, and any other administrative sub-division of funds made by CCC.

In addition, the Joint Financial Management Improvement Program (JFMIP) *Core Financial System Requirements*, dated November 2001, require agency core financial systems to support the budget execution process by:

- Providing the capability to compare actual amounts (e.g., commitments and obligations) against the original and revised budgeted amounts consistent with each financial planning level;
- Providing the ability to manage and control prior year funds in the current year, including the capability to identify prior year and current year de-obligations separately;
- Providing control features that ensure that the amounts reflected in the fund control structure agree with the related general ledger account balances at the end of each update cycle; and
- Verifying that funds distributed do not exceed the amount of funds available for allotment or sub-allotment at each distribution level.

Therefore, an agency must have an automated funds control system to monitor and control the entire process. Such control mechanisms must account for all apportionments/appropriations for each program/fund as well as the related allotments, obligations and disbursements.

Recommendation:

16. We recommend that FSA/CCC continue with plans to implement the E-Funds control system. As the E-Funds control system is further designed and planned, FSA/CCC should ensure that JFMIP's *Core Financial Management System Requirements*, especially those related to funds management, are applied to the system. If the E-Funds control system is further delayed, FSA/CCC should explore other methods to implement integrated system controls to ensure that the total of disbursements made and obligations incurred do not exceed the applicable legislative or agency funding authority at the time a transaction occurs. The controls should ensure that responsibility for authorizing transactions is well documented and proper accountability for obligation and disbursement transactions is maintained.

4. IMPROVEMENT NEEDED IN FINANCIAL ACCOUNTING AND REPORTING POLICIES AND PROCEDURES.

Although FSA/CCC has taken steps to reduce the number of post closing entries, we noted that numerous adjustments were made to the consolidated financial statements after the general ledger was closed for fiscal year 2002. As the OIG reported in prior years, CCC's financial accounting and reporting policies and procedures should be strengthened to ensure that errors are prevented or identified and corrected during the fiscal year. During our audit, we noted the following:

- CCC's current policy for recording liabilities for commodity acquisition is based on receipt of invoices, rather than receipt of the commodity inventory. We noted that CCC did not accrue liabilities at year-end for grain commodities purchased and received prior to year-end. Also, no accrual entry was recorded for processed commodities purchased and received prior to year-end if the invoices were not received. During our audit, we noted that the related accruals for commodities purchased should have been recorded as follows at September 30, 2002:

  - The accrual for grain commodities purchased should have been approximately $53 million. Further, related donation expenses for the Section 416 donations and the P.L. 480 sales/donations were understated by $26.2 and $26.8 million respectively. We also noted that during fiscal year 2002, CCC recorded approximately $31 million for grain commodities purchased and received in fiscal year 2001.

  - The accrual for processed commodities should have been approximately $36.1 million. As a result, inventory, donation expenses for the Section 416 donations, and the P.L. 480 sales/donations were understated by $7.6, $13.8, and $14.7 million, respectively. We also noted that during fiscal year 2002, CCC recorded approximately $52 million for processed commodities purchased and received in fiscal year 2001.

  As a result of our audit, CCC recorded an adjustment, after the general ledger was closed, to properly recognize $89.1 million as a liability for commodities payable and the related effect on inventory and expenses at September 30, 2002.

- CCC needs to correct certain transaction posting models, as follows:

  - The budgetary entries recorded for cash collections from inventory sales were recorded incorrectly, because the program code used to record collections for certain types of inventory sales posted an expenditure refund (by debiting account 4902 Delivered Orders-Obligations Paid) instead of a revenue collection (by debiting account 4266 Other Actual Business-Type Collections from Non-Federal Sources). As a result, CCC's obligations incurred and spending authority from offsetting collections on its Statement of Budgetary Resources were understated. CCC posted an adjusting journal entry, after the general ledger was closed, for over $46.8 million.

  - CCC did not record obligation entries for open contracts with undelivered orders in its general ledger for inventory purchasing activities. As a result of our audit, CCC posted an adjusting journal entry, after the general ledger was closed, for undelivered orders on open grain and processed commodity contracts for approximately $130 million and $24 million at September 30, 2002 and 2001, respectively, and increased the obligations incurred in the Statement of Budgetary Resources by $106 million.

- Although reconciliations were being performed between the subsidiary systems and the CORE general ledger, we noted that the current procedures are not effective to ensure that reconciling items identified were appropriately followed up and cleared on a timely basis. Specifically, we noted the following:
  - The reconciliations of the Grain Inventory Management System (GIMS) to CORE included several carry-forward reconciling items related to warehouse-stored local sales that had occurred primarily during fiscal year 1999. The warehouse-stored local sales transactions were not posted in CORE at the time they occurred due to SCOAP capacity limitations when the system was initially implemented in 1999. Some of these transactions were manually recorded in CORE upon the receipt of the source documentation from the County Offices (Cos). However, due to inadequate documentation from the Cos, not all of the sales transactions were recorded as of September 30, 2002. As a result of our audit, CCC recorded an adjusting entry for these transactions, after the general ledger was closed, which accounted for $4.2 million in sales revenue, $5.3 million in cost of goods sold, and $1.1 million in realized losses from appropriations.
  - The PCIMS to CORE reconciliation informal policy allows for a 'reasonable' variance between the general ledger quantities and the quantities recorded in the subsidiary system. However, no official threshold guidelines were established. Consequently, there is a lack of consistency in the degree of precision used in preparing the PCIMS to CORE reconciliation and potential material differences could go undetected and uncorrected. During our audit, we noted that an unreconciled difference of $18.6 million on the December 31, 2001 milk reconciliation was not investigated by CCC because it was not considered material. This difference was cleared in January 2002.

- CCC's policies for calculating the allowance for losses against commodity inventories and commodity loans should be reviewed. Specifically, we noted the following:
  - CCC does not maintain policies and procedures describing the theory, assumptions, methods, and source data used to forecast realizable unit values for the outstanding direct commodity loans and inventory on hand. CCC economists were unable to provide model outputs or other documentation in support of the forecasted amounts utilized in calculating the allowance for loan and inventory losses at September 30, 2002. Further, there is no documentation to indicate the method of loan redemption (i.e., via forfeiture, repayment at principal and interest, or repayment at the market value). Therefore, it was necessary for us to hold numerous meetings with CCC's economists to obtain sufficient substantive information with which to gain an understanding of the basis for the economic assumptions used by CCC management to calculate the loss reserves.
  - The estimated unit rates used in the calculation of the allowance for inventory and loan losses are often based on the mid-point of a price range forecasted by the Interagency Commodity Estimate Committee (ICEC). Given the volatility of agricultural commodity prices and the difficulties inherent in economic predictions, it is expected that commodity prices will often fall below the mid-point of the range forecasted by ICEC, therefore, the dollar impact could vary significantly from year to year.
  - The form regularly e-mailed to the economists and commodity experts to collect their forecasts of unit rates should be reviewed. Confusion results from the form's content, incorrect labeling, and insufficient direction. During our audit, we noted that the economists and commodity experts responsible for developing unit rates were not aware of the purpose for which they were providing this information to the Financial Management Division (FMD). Further, although most of them were familiar with the estimates in the August 31, 2002 'Estimated Losses Relating to

Inventories' and 'Estimated Losses Relating to Commodity Loans' worksheets, they were not familiar with the unit rates utilized in the allowance calculation at September 30, 2002.

As a result of our audit, CCC recorded an adjustment, after the general ledger was closed, to increase the allowance for losses against commodity inventories and loans by $648 million and $18 million, respectively, in order to bring CCC's inventory and commodity loan balances to the audited estimated net realizable value.

- CCC's policy for monitoring receivables should be improved to ensure that delinquent debts are closely monitored to ensure compliance with the Debt Collections Improvement Act of 1996. As reported by the USDA OIG in its fiscal year 2001 report, FSA/CCC was not in substantial compliance with one provision of DCIA, and receivables older than 60 days were not always converted by the field office personnel to claim status and reported to FSA/CCC's centralized debt servicing system.

  During our audit, we noted that field office personnel did not comply with the timeliness requirements for following up on outstanding debts as follows:

  - For 35 of the 68 claims reviewed, notification or demand letters were not sent within the time frame established by FSA/CCC policy. DCIA requires that proper due process be given a debtor prior to referral to Treasury for cross-servicing or the offset program.
  - For 9 of the 68 claims reviewed, we noted that receivables older than 60 days were not converted to claims status. At September 30, 2002, we noted that CCC had more than 8,400 receivables for over $25 million older than 60 days that were not converted to claim status.
  - For 10 of the 96 claims reviewed, we noted proper due process was not performed by field office personnel to ensure that eligible delinquent debts were transferred to Treasury for cross-servicing. At September 30, 2002, we noted that approximately 3,829 receivable balances, totaling approximately $17.6 million, were over 180 days past due and could be subject to immediate referral to Treasury for cross-servicing or the offset program if they were converted to claim status, and determined eligible.

- CCC's policy for recording liabilities on producer payment programs should be formalized and documented in a policies and procedures manual. During our audit, we noted that there was no documentation prepared by CCC to identify which programs required accruals at September 30, 2002. As a result of our audit, CCC recorded the following adjusting entries, after the general ledger was closed:

  - $155 million of annual rental payments for Conservation Reserve Programs to be disbursed to eligible producers who were enrolled in the program prior to September 30, 2002.
  - $34 million of Loan Deficiency Payments disbursed in fiscal year 2003, but approved in fiscal year 2002;
  - $75 million of Apple Market Loss Assistance Program disbursements made in fiscal year 2003 to eligible program participants enrolled in fiscal year 2002;
  - $15 million of payments made in fiscal year 2003 under the Bioenergy Program for production levels that the companies achieved during the 4th quarter of fiscal year 2002.

Recommendations:

We recommend that FSA/CCC:

17. Revise its liability recognition policy to record liabilities for commodities purchased on the same date the commodities are received, to ensure that all liabilities are recorded in the proper period.

18. Review and revise the general ledger posting logic, where necessary, to ensure that all required budgetary entries are posted correctly when the corresponding proprietary entries are made.

19. Continue to investigate and resolve differences identified on the reconciliations between the feeder systems and CORE in a timely manner. Once the cause is identified, applicable adjustments should be promptly recorded in the CORE general ledger, supporting documentation should be maintained for all adjustments made, and the cause should be rectified to prevent further errors.

20. Formalize its PCIMS reconciliation policy to include a threshold for resolving differences identified between the CORE general ledger quantities and the quantities recorded in PCIMS.

21. Compile documentation describing the theory, assumptions, methods, and data used to forecast expected dispositions and realizable unit rates for the outstanding direct commodity loans and inventory. Additionally, we recommend that economists retain for their records calculations, model output, and notes that explain their methodology and forecasts.

22. Evaluate the risk of using mid-point estimates, as it relates to CCC's financial integrity and to the reliability of its financial statements. If unexpected losses and forfeitures are significant, we recommend that CCC implement more conservative estimation routines, including the use of the low end of the estimated price range.

23. Review the form and content of the document e-mailed to the economists for obtaining their estimates, to determine if it fulfills its purpose effectively. Units and unit labels should be specified on the form. Further, the form should be accompanied with an explanatory note, which documents the nature and purpose of the request. The directions provided by FMD should draw the economist's attention to the sections and fields requiring their attention. Additionally, the economists and commodity experts should provide updated unit rate estimates in early October before the fiscal year estimates are finalized. Further, we recommend that the economists, commodity experts, and their supervisors review the unit rates prior to submission to FMD to ensure that the process is understood and the rates are reasonable.

24. Reports should be generated to identify which delinquent receivables have not been sent a demand letter on a monthly basis to ensure proper notification is provided to the producers, and identify which balances are eligible to be transferred to claim status or to Treasury for cross-servicing or the offset program. In addition, the policy should be revised to ensure that these reports are reviewed on a timely basis by senior management to ensure that the field offices are following CCC's policies to ensure compliance with DCIA.

25. Formalize its proprietary and budgetary accounting policies through the development and routine maintenance of a comprehensive policies and procedures manual for all CCC programs that is based on current accounting standards. Additionally, an analysis of programs should be prepared annually to identify which programs require year end activity cut off adjustments (e.g., unrecorded liabilities and undelivered orders).

5. IMPROVEMENT NEEDED IN BUDGETARY ACCOUNTING AND REPORTING POLICIES AND PROCEDURES.

During fiscal year 2002, FSA/CCC has taken steps to enhance its procedures over the budget execution process in accordance with OMB and U.S. Treasury requirements based on recommendations from the OIG, however significant control weaknesses remain. Throughout the fiscal year, CCC must be able to ensure through its internal control policies and procedures that the status of its budgetary resources is properly recorded in the general ledger (e.g., CORE) and reported to OMB on a quarterly and year-end basis. In addition, these policies must ensure that the status of budgetary resources is properly reported in the Combined Statement of Budgetary Resources and the related notes to the consolidated financial statements. The results of our audit procedures for the budget execution process indicate that procedures must be improved for CCC to ensure that accurate, complete and timely budgetary accounting entries are made, and that the year end status of budgetary resources are accurately reported. During our audit, we noted the following:

- Based on recommendations arising from the OIG's fiscal year 2001 audit, CCC developed and implemented a monthly budgetary to proprietary reconciliation process beginning in February 2002, designed to ensure that all budgetary and proprietary transactions are properly and timely recorded. These reconciliation processes are based on U.S. Treasury guidance and CCC is performing the reconciliations on a monthly basis. However, CCC does not consistently perform timely follow up to correct the causes of the differences noted and make the necessary adjustments to the general ledger. For example, we reviewed reconciliations for the months of March, June and July 2002, and noted total differences between budgetary and proprietary cash, advances and accounts payable accounts totaling $125 million, $926 million and $1.4 billion, for those months respectively, which were subsequently corrected during the year end closing process. The lack of timely follow up increases the risk that year end budgetary balances will not be properly adjusted and reported in the combined statement of budgetary resources. The lack of timely corrections also increases the risk that balances reported to OMB on a quarterly basis through the SF-133 reporting process are not properly stated. In addition, untimely follow up can also cause difficulties for the CCC accounting staff during the closing process because correcting entries are not made timely, the CCC must review and approve not only adjustments arising during the normal course of closing the general ledger, but also adjustments arising from interim period activity.

- We noted that CCC's undelivered orders (UDOs) balances were primarily supported by documentation provided by program offices as a result of CCC Kansas City Finance Office (KCFO) information requests at September 30, 2002. Certain of this documentation suggested that the program offices were not fully versed on the accounting requirements for recording unliquidated obligations. Therefore, we requested that CCC management develop estimates of its fiscal year end 2002 and 2001 UDO balances based on subsequent payment activity. As a result of performing the above audit procedures related to the 2002 and 2001 balances, it was necessary for CCC to make a downward adjustment to its UDO balances of more than $325 million.

- During our internal control test work on the budget execution process, we noted that 9 of 21 apportionments/reapportionment schedules (SF-132's) selected for testing were either erroneously recorded, not recorded, or recorded more than one month subsequent to the OMB approval date. The untimely or erroneous recording of apportionments increases the risk of inaccurate presentation and disclosure of budgetary resources and status of budgetary resources in the financial statements. In addition, if apportionments are not recorded timely, it makes it more difficult to track the status of budgeted resources and maintain funds control. Apportionments were not recorded timely due to:
  - Delays in receiving the Accounting Requirements Memo from the Financial Management Division-Financial Systems and Procedures Branch (FMD-FSPB) or in updating the CORE tables by Financial Analysis Division-General Ledger Control Branch (FAD-GLCB);
  - Receipt by the Financial Accounting Division, Financial Analysis and Reporting Branch (FAD-FARB) of SF-132s from Budget, Programs Branch (BUD-CPB), more than one month subsequent to OMB's approval date; or
  - Detailed reviews and reconciliations of apportionment transactions not being adequately performed to ensure that these transactions were recorded in the proper period.

Recommendations:

We recommend that FSA/CCC:

26. Continue to perform monthly reconciliations between its proprietary and budgetary accounts based on written procedures. However, in addition to the current practice, CCC should begin to perform timely follow-up on inconsistent or abnormal budgetary to proprietary relationships found during the review process to ensure the balances are properly adjusted and are an accurate reflection of current financial events.

27. Should enhance its CORE system capabilities as soon as is practical to record obligations as incurred and manage funds control edits at the transaction level. In the interim however, CCC should develop entity-wide polices and procedures for management to perform adequate review of all obligations, which will help to ensure that balances are accurately and timely adjusted on a monthly basis. The process should provide for central management control and review, to ensure adequate support for recorded amounts exists and that sufficient consideration is given to the legitimacy of unliquidated obligation amounts.

28. Enhance policies and procedures to ensure that a more thorough management review is performed of monthly adjustments to account balances and to assist department staff in recording apportionments in a timely manner. Changes in current policies should address the reasons documents are not processed timely or internal accounting guidance is not developed and issued on a timely basis by the responsible CCC departments. In addition, to provide management with the ability to monitor progress in this area, CCC should develop a system to track apportionments from the time they are received, to ensure timely recording of the budget authority.

29. Re-assess the roles and responsibilities of each branch office involved with the budget execution process, to ensure that appropriate resources and tools are available to timely achieve the budget execution reporting objectives established by management and authoritative guidance.

United States Department of Agriculture

Commodity Credit Corporation
1400 Independence Avenue, SW

Washington, DC 20250

Exhibit 2

DEC 23 2002

TO: U.S. Department of Agriculture
Office of Inspector General

KPMG LLP

FROM: For Kristine M. Chadwick
Controller

SUBJECT: Response to the Combined Independent Auditor's Report on the Commodity Credit Corporation's (CCC) Fiscal Year 2002 Comparative Financial Statements

We have reviewed KPMG's Combined Independent Auditor's Report dated December 13, 2002 and agree with its content. CCC will develop an implementation plan to address the findings and recommendations identified during the audit. As we consider the required corrective actions, we will continue to work with KPMG and the Office of Inspector General in identifying the specific actions that will assist us in successfully addressing the recommendations.

If you have any questions or require additional information, please contact Rafael Cotto at (703) 305-1273.

CONSOLIDATED FINANCIAL STATEMENTS

The Management's Discussion and Analysis (MD&A) is considered required supplementary information to the financial statements and provides an overview of the Commodity Credit Corporation (CCC or the Corporation). It describes the Corporation, what it does, and how well it has met its goals and objectives for fiscal year 2002. The Corporation's mission is presented, along with a description of the organizational structure through which it carries out its programs. Major programs and funding sources are described, as well as issues and challenges that are currently facing the Corporation.

This year's financial highlights are discussed, along with the results of operations, management controls, and the success in meeting selected performance goals from the Farm Service Agency (FSA) Fiscal Year 2002 and 2003 Annual Performance Plan.

Mission

To assist in stabilizing, supporting, and protecting farm income and prices, to help maintain balanced and adequate supplies of agricultural commodities, to help in the orderly distribution of these commodities, and to assist in the conservation of soil and water resources.

About the Commodity Credit Corporation

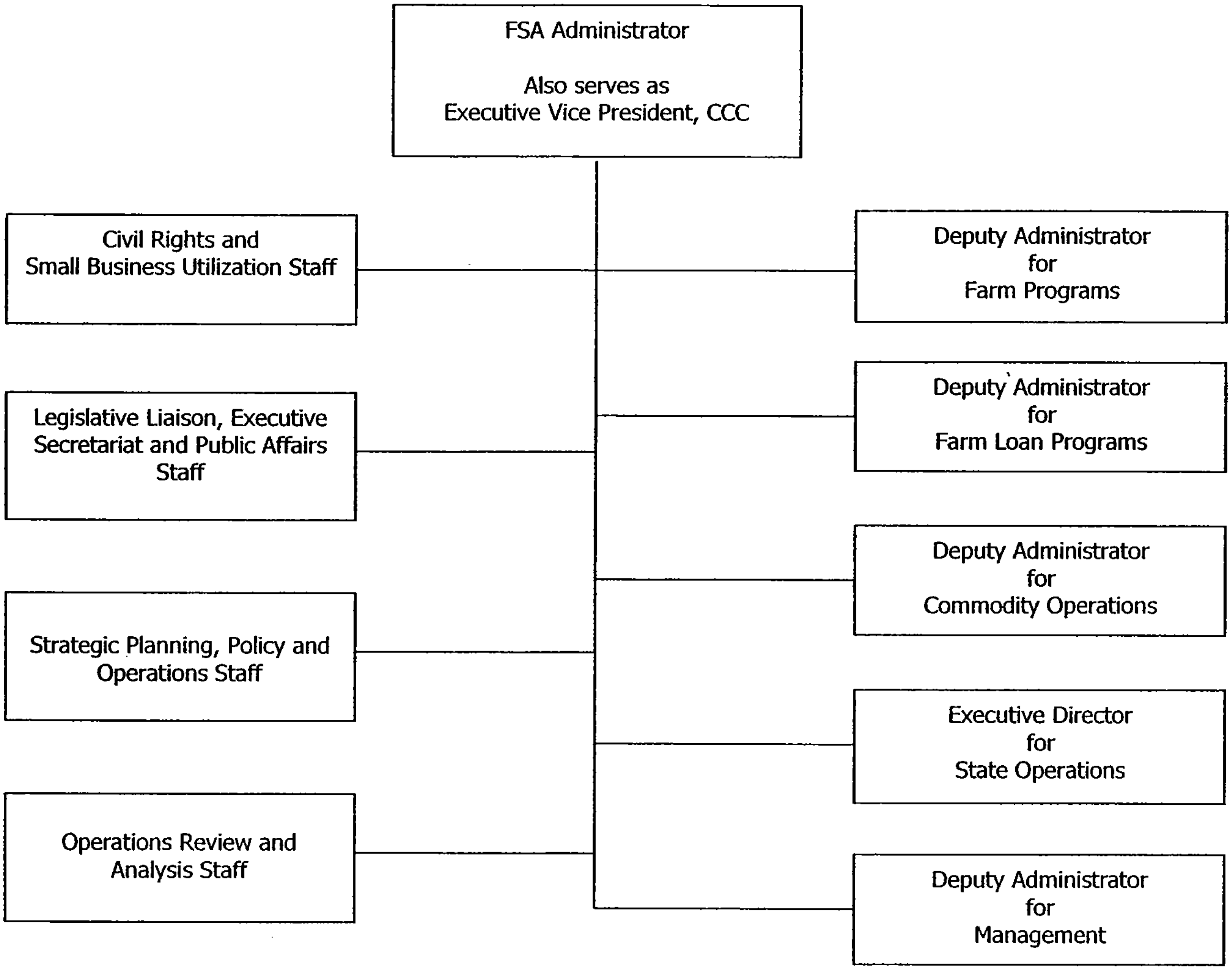
Since 1933, the CCC has been the Federal government's primary financing arm for an array of domestic and international agricultural programs. The CCC is a wholly owned government corporation within the U.S. Department of Agriculture (USDA), created to stabilize, support, and protect farm income and prices, among other activities. CCC also helps maintain balanced and adequate supplies of agricultural commodities and aids in their orderly distribution.

The Corporation helps America's farmers through commodity and farm storage facility loans, purchases, income support payments, and other operations, and makes available materials and facilities required in the production and marketing of agricultural commodities. It also provides incentives and payments to landowners to establish conservation practices on their land.

CCC provides agricultural commodities to other Federal agencies and foreign governments, as well as donates commodities to domestic and international relief agencies, and foreign countries. The Corporation assists in the development of new domestic and foreign markets and marketing facilities for American agricultural commodities.

The Corporation has no employees; it carries out the majority of its programs through the personnel and facilities of the Farm Service Agency (FSA) (see the next page for the organization chart of FSA). Most of CCC's programs are delivered through an extensive nationwide network of FSA field offices, including over 2,500 USDA Service Centers and 51 State Offices (including Puerto Rico). This network enables the Corporation to maintain a close relationship with its customers, successfully addressing their needs and continually improving program delivery.

Farm Service Agency Organization Chart



Other programs are operated with the personnel and support of such USDA agencies as the Agricultural Marketing Service (AMS), the Natural Resources Conservation Service (NRCS), and the Foreign Agricultural Service (FAS). CCC also receives support from the U.S. Agency for International Development (AID) in operating some of its international programs.

A Board of Directors manages CCC, subject to the general supervision and direction of the Secretary of Agriculture, who is an ex officio director and chairperson of the Board. As shown in Appendix A, the Board consists of seven members, in addition to the Secretary. The President of the United States, with the advice and consent of the Senate, appoints them to office. The members of the Board and the Corporation's officers are currently officials of USDA. Officers of CCC, directly or through officials of designated USDA agencies, maintain liaison with numerous other governmental and private trade operations[1].

The Corporation operates numerous domestic programs, such as income support, price support, disaster, and conservation programs. It also extends direct credits and guarantee commodity sales to foreign countries throughout the world.

CCC has its own disbursing authority rather than issuing payments through the Treasury Department. It utilizes the Federal Reserve banking system to make payments. This disbursing authority allows the Corporation to make payments quickly and get aid and financial support to America's producers without delay.

CCC has a variety of funding mechanisms (see Appendix B for a listing of CCC funds). Most of the domestic programs are operated out of a revolving fund, which has a $30 billion borrowing authority from the U.S. Treasury. This fund also receives monies from appropriated funding for costs incurred (i.e., realized losses), loan repayments, inventory sales, interest income, and fees. Additionally, the Corporation receives direct appropriations for specific programs, such as its Credit Reform programs, foreign grant and donation programs, and disaster relief.

CCC's strategic goals, objectives, and performance measures are taken from FSA's Annual Performance Plan, since the two entities are so closely related. A separately issued Annual Performance Plan (and corresponding Performance Report) is not prepared for the Corporation.

Strategic Goals

- ✓ ***To provide farm income support to eligible producers, cooperatives, and associations to help improve the economic stability and viability of the agricultural sector and to ensure the production of an adequate and reasonably priced supply of food and fiber.***
- ✓ ***To assist agricultural producers and landowners in achieving a high level of stewardship of soil, water, air, and wildlife resources on America's farms and ranches while protecting the human and natural environment.***
- ✓ ***To improve the effectiveness and efficiency of commodity acquisition, procurement, storage, and distribution activities to support domestic and international food assistance programs.***
- ✓ ***To provide effective administrative services and information technology processes.***

[1] As required by 5 U.S.C. 552 b (j), by filing this report, CCC is notifying the Congress of the United States that the CCC Board did not hold any open or closed meetings this fiscal year. Additionally, there was no litigation brought against the Board under the Government in the Sunshine Act this year. Similarly, there are no changes in policies or statutes requiring notification under this subsection.

On May 13, 2002, President Bush signed into law the 2002 Farm Bill, officially known as the "Farm Security and Rural Investment Act of 2002", Public Law 107-171. The new Farm Bill sets the Nation's farm and agriculture policies for the next six years. It impacts CCC by changing the direction of its programs and the nature of assistance it provides. As a result, numerous, innovative and far-reaching programs are being implemented, including a new system of counter-cyclical payments, and new payment programs for dairy, honey, wool, and mohair. There is a significant change to the peanut program, including a quota buyout. The bill provides a record level of support for conservation programs. While most changes in CCC programs are effective fiscal year 2003, certain provisions of the 2002 Farm Bill went into effect in fiscal year 2002. The discussion below includes information on the specifics of the new Farm Bill.

Helping America's Farmers

The CCC provides assistance to America's farmers through commodity loan programs, inventory operations, income support, and emergency assistance.

Commodity Loan Programs

CCC has several commodity loan programs. It offers price support loans for tobacco, recourse loans for mohair and honey, and marketing assistance loans on other commodities. As a result of the 2002 Farm Bill, support for peanuts was changed from a price support program with marketing quotas, to a marketing assistance loan program.

Marketing assistance and price support loans provide interim financing to eligible producers on their production and facilitate the orderly distribution of loan-eligible commodities throughout the year. Instead of selling the crop immediately at harvest, these marketing assistance loans allow producers who grow an eligible crop to store the production, pledging the crop itself as collateral. The loan proceeds help producers pay bills when they come due without having to sell the harvested crop at a time of year when prices tend to be lowest. Later, when market conditions may be more favorable, producers may sell the crop and repay their loans with the sales proceeds.

Marketing assistance loans are provided to producers of wheat, feed grains, oilseeds, upland cotton, and rice. Under the 2002 Farm Bill, marketing loan provisions were extended to peanuts, wool, mohair, and honey (in addition to other certain commodities). Loans are made for nine months, and loan rates are fixed. Per legislation, interest is charged on these loans at a rate one percentage point above CCC's cost of borrowing from the U.S. Treasury.

Marketing assistance loans are non-recourse. If market prices rise above the loan rate, the producer can repay the loan with interest, and sell the crop in the marketplace. If prices fall below the loan level, the producer can deliver the commodity to CCC in full satisfaction of the loan.

As discussed in the following paragraphs, there are several program provisions authorized to prevent delivery of loan collateral to CCC. By reducing loan collateral forfeited to the Corporation, these provisions considerably reduce the Federal government's inventory acquisition that might otherwise occur. Such inventories tend to make U.S.-produced commodities less competitive in world markets and may impose a significant taxpayer burden in the form of storage costs.

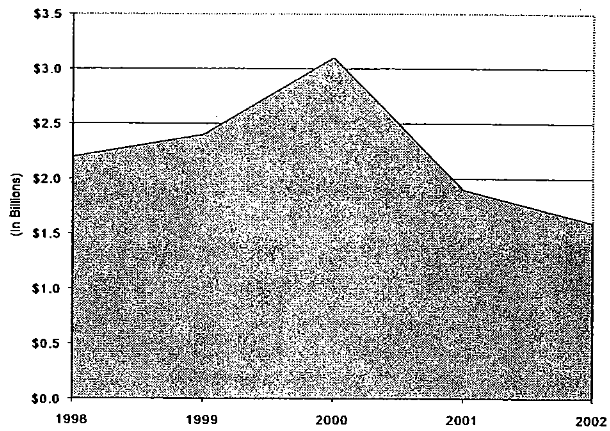
Market loan repayment provisions allow, under certain circumstances, loans to be repaid at less than principal plus accrued interest and other charges, with a portion of the principal and interest due to be waived. The portion of principal waived is considered a **marketing loan gain** for the producer. During fiscal year 2002, marketing loan gains totaled $672 million; in the prior fiscal year, they totaled $738 million.

Loan deficiency payments (LDP's) allow the producer to receive a payment in lieu of securing a loan from the Corporation. LDP's disbursed this fiscal year were $5,268 million, relatively level with the $5,283 million disbursed last fiscal year.

The 5-year trend of commodity loans outstanding (including marketing assistance loans) reflects a sharp decrease in loans during fiscal year 2001. Contributing to the decrease was the legislatively authorized forfeiture into inventory of $609 million of tobacco in settlement of outstanding loans. Additionally, a drop in market prices early in the year spurred an increase in sugar forfeitures to $326 million during fiscal year 2001. Decreases in commodity loans outstanding continued through 2002.

As of September 30, 2002, commodity loans outstanding were $1,600 million, compared to $1,896 million as of September 30, 2001. The majority of loans outstanding are for tobacco, wheat, corn, and cotton.

Commodity Loans Outstanding
As of September 30

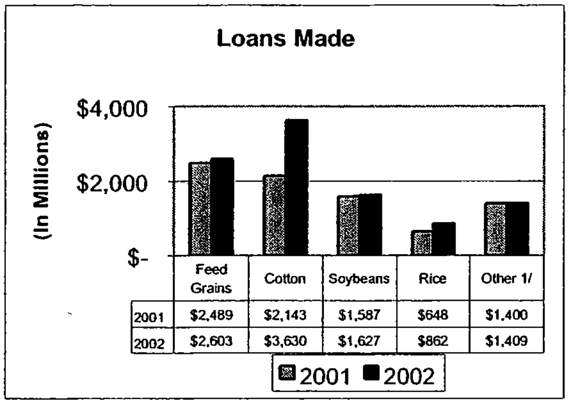


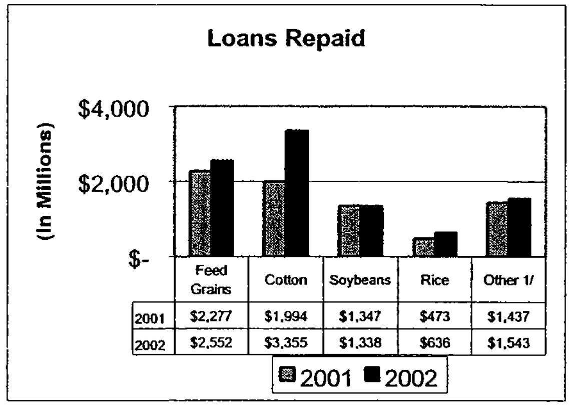
Marketing assistance loans and LDP's are a major part of the Federal government's production agriculture assistance programs. They enable payment recipients to continue farming operations without marketing their product immediately after harvest. By operating these programs, CCC is working towards its goal of providing farm income support to help improve the economic stability and viability of the agricultural sector. The table below presents CCC's performance in support of this goal.

Performance Goal and Indicator	1999 Target/ Actual	2000 Target/ Actual	2001 Target/ Actual	2002 Target/ Actual	2003 Target
Marketing Assistance Loans and Loan Deficiency Payments					
Percentage of eligible commodity production placed under marketing assistance loan or loan deficiency payment[a]:					
• Wheat, corn, sorghum, barley, oats and soybeans	N/A/77%	67%/80%	75%/90%	82%/79%	82%
• Upland cotton	N/A/85%	67%/98%	40%/97%	97%/99%	97%

[a] Based on crop year, not a fiscal year. For example, the fiscal year 2002 actual is data for crop year 2001.

Loans made through September 30 totaled $10,131 million in 2002, and $8,267 million in 2001. Loans repaid through September 30 totaled $9,424 million in 2002, and $7,528 million in 2001. The increase in activity is mostly associated with cotton loans, due to the drop in the Adjusted World Price. The charts on the next page depict the breakdown of loans made and loans repaid, by commodity.





[1/] *Includes wheat, tobacco, honey, sugar, peanuts, oilseeds, and mohair.*

The CCC tobacco price support program provides loans to eligible producers through loan associations under cooperative agreements with CCC. These programs operate at no-net-cost to the American taxpayer. As such, tobacco allotments and quotas, approved by producers in referenda, are established to help ensure a balance between supply and demand in the marketplace. Furthermore, producers and purchasers of certain tobacco incur marketing assessments for tobacco brought into the marketplace. These assessments are held by the Corporation to offset projected program losses.

During fiscal year 2001, two pieces of legislation impacted the tobacco loan program. The costs associated with these mandates were borne by the Corporation rather than by the no-net-cost program. The Military Construction Appropriation Act (P.L. 106-246) provided $76 million in tobacco loan reductions for disaster assistance. The Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act, 2001 (P.L. 106-387) authorized the $609 million forfeiture of tobacco in settlement of outstanding loans.

Maintaining a balance between supply and demand in the marketplace stabilizes the price of tobacco by helping to ensure that market prices exceed price support loan rates. When market prices exceed loan rates, producers' income improves and loans outstanding decrease, thereby lowering expenses associated with the operation of the program. These cost savings result in lower assessments for tobacco producers and purchasers. The target average assessment is $.08 per pound or less. The target average price is $1.70 per pound. CCC's performance in relation to these goals is shown in the table below.

Performance Goal and Indicator	**1999 Actual**	**2000 Actual**	**2001 Actual**	**2002 Actual**
Tobacco Price Support Program				
Average tobacco[a] assessment ($/lb.)	$.037	$.055	$.054	$.039
Average price per pound of tobacco[a]	$1.82	$1.81	$1.86	$1.90

[a] Based on crop year, not a fiscal year. For example, the fiscal year 2002 actual is data for crop year 2001.

Commodity Inventory Operations

Forfeitures under non-recourse commodity loan programs are not the only means by which CCC acquires inventory. Under the milk price support program, CCC buys surplus butter, cheese, and nonfat dry milk from processors at announced prices. These purchases help maintain market prices at the legislated support level. Originally slated to end this year, the 2002 Farm Bill extended the program's provisions through December 31, 2007.

There are several electronic systems in place to aid in the procurement and delivery of CCC commodity inventory. An electronic bid entry system receives vendor commodity bids, supporting the procurement of about $2 billion of export commodities annually. There is also a domestic electronic bid entry system that enhances the process of soliciting and receiving bids for the distribution of food assistance. It is imperative that commodities are purchased as efficiently as possible. These bid entry systems provide an electronic link between CCC and commodity vendors, thereby reducing the time required for generating contracts. Deployed last year, the Cotton On-line Processing System (COPS) is an electronic system that can be accessed by entities that store cotton owned by CCC, have cotton pledged as collateral for CCC loans, and by potential buyers that are interested in buying CCC-owned cotton. In conjunction with the COPS system, CCC has an electronic cotton sales system in which potential buyers can access CCC's cotton sales catalogs and may place offers to purchase selected lots.

Electronic Warehouse Receipts (EWRs) are similar to paper warehouse receipts in that they convey title to commodities. They contain all the information required to make up a valid warehouse receipt in an electronic format. Currently, EWRs are only available for cotton; however, in November 2000, the Grain Standards and Warehouse Improvement Act was passed and amended the U.S. Warehouse Act (USWA), providing authority for EWRs on all commodities. A final rule was issued on August 5, 2002, to allow for implementing EWRs and other changes in the USWA. EWRs allow for nearly instantaneous transfer of title to the commodity, which has greatly enhanced cotton marketing. EWRs were first made available in 1995 for cotton only, and, by 1999, nearly 90 percent of all cotton was represented by EWRs. In 1997, the cotton industry estimated that the use of EWRs results in savings of between $5 and $15 per bale.

The USWA, as amended, authorizes the Secretary of Agriculture to establish regulations allowing the use of voluntary systems for other electronic documents related to the shipment, payment and financing of agricultural products. A final rule announcing the regulatory guidelines for systems of electronic conveyance was published on August 5, 2002. Use of electronic documents is expected to eventually allow for a paperless flow of commodities from the farm to the end-user. CCC will benefit by the implementation of this paperless flow through the marketing assistance loan program, during commodity procurement processes, and as donated commodities are exported to foreign destinations.

CCC can store purchased food in over 10,000 commercial warehouses across the Nation approved for this purpose. However, commodity inventories are not simply kept in storage. CCC works to return stored commodities to private trade channels. At the FSA's Kansas City Commodity Office, located in Kansas City, Missouri, FSA merchandisers regularly sell and swap CCC inventories, using commercial telecommunication trading networks.

Beyond the marketplace, CCC commodities fill the need for hunger relief both in the United States and in foreign countries. CCC works closely with USDA's Food and Nutrition Service to purchase and deliver food for the National School Lunch and many other domestic feeding programs. U.S. farm products and food, along with donations authorized by Public Law (P.L.) 83-480, Section 416(b) of the Agricultural Act of 1949 (the 1949 Act), and the Food for Progress Act of 1985, help USDA fight hunger worldwide.

Inventory as of September 30, 2002, totaled $2,486 million, compared to $2,285 million the previous year. Most of the inventory increase is attributable to $563 million of purchases of nonfat dry milk, bringing the fiscal year 2002 ending balance of nonfat dry milk to $1,279 million. Of this amount, $505 million is expected to be donated through domestic and export donation programs, and $384 million is expected to be disposed under the feed assistance programs.

Commodity Inventory
As of September 30
(In Millions)

Commodity	2002	2001
Dairy Products	$ 1,284	$ 867
Wheat Products	370	404
Tobacco	599	609
Sugar	101	329
Other	132	76
Total Inventory	$ 2,486	$ 2,285

Income Support Programs

Fiscal year 2002 marked the last year of the **Production Flexibility Contract** (PFC) payment program. This program was authorized under the Federal Agriculture Improvement and Reform Act of 1996 (the 1996 Act). It was created to transition farmers away from price support programs, increasing their dependency on market conditions and prices. The 1996 Act authorized a total of $35.6 billion in payments to be made in contract years 1996 through 2002. Because the program operated independently of market circumstances, additional funding was provided through marketing loss assistance programs to help farmers offset heavy losses resulting from low commodity prices. During 2002, CCC issued $4,036 million in PFC payments, compared to $4,147 million in fiscal year 2001.

The PFC program payments will be replaced in fiscal year 2003 by direct and counter-cyclical payments for wheat, feed grains, upland cotton, rice, and oilseeds, as authorized in the 2002 Farm Bill. Sign-up begins for direct and counter-cyclical payments on October 1, 2002. Payment rates for **direct payments** are established by the Farm Bill and payments will be issued regardless of market prices. Producers are also eligible for **counter-cyclical payments**, but payments will be issued only if effective prices are less than the target prices set in the Farm Bill.

Direct and counter-cyclical payment rates as set forth in the 2002 Farm Bill are presented below.

	Wheat (per bu.)	**Corn (per bu.)**	**Grain Sorghum (per bu.)**	**Barley (per bu.)**	**Oats (per bu.)**	**Upland Cotton (per lb.)**	**Rice (per cwt.)**	**Soybeans (per bu.)**	**Other Oilseeds (per lb.)**
Direct Payment Rates	$0.52	$0.28	$0.35	$0.24	$0.024	$0.0667	$2.35	$0.44	$0.008
Counter-Cyclical Payment Target Prices:									
• Crop Years 2002-2003	$3.86	$2.60	$2.54	$2.21	$1.40	$0.724	$10.50	$5.80	$0.098
• Crop Years 2004-2007	$3.92	$2.63	$2.57	$2.24	$1.44	$0.724	$10.50	$5.80	$0.101

The 2002 Farm Bill also makes significant changes to the peanut program, by replacing the peanut marketing system that was established over 60 years ago. The new program provisions include direct and counter-cyclical program payments, as well as non-recourse loans with marketing loan provisions. Because of the former program and marketing structure, there is no widely reported cash prices for peanuts as for other crops, thus necessitating that USDA establish a price. Peanuts will now be marketed freely and some time will be required for prices to fully reflect the new market structure. In preparation for the new peanut program, receivables established to cover $12 million in 1999 crop year losses were charged off since the Corporation will no longer be collecting peanut marketing assessments to cover these losses. Additionally, 2001 crop year loans to the three peanut associations were closed out as of September 30, 2002, resulting in a net loss to the Corporation of $149 million. Further losses are expected. A **peanut quota buy-out program** is authorized as well, which will compensate quota owners for the lost asset value of their quota through 5 equal installments or a lump sum payment. It is estimated this program will cost $1.3 billion.

CCC provides **farm storage facility loans** (FSFL program) to assist producers in building additional on-farm storage in order to obtain high market returns, manage production inventories, and control livestock feeding costs. The FSFL program was first implemented during fiscal year 2000 and is expected to expand on-farm grain storage by 312 million bushels by 2005. Loans outstanding under the FSFL program were $144 million and $94 million as of September 30, 2002 and 2001, respectively. The table below presents CCC's performance in support of providing farm income support through the FSFL program. This performance goal was first identified in the 2002/2003 Annual Performance Plan; therefore, there are no established targets from 1999 through 2001.

Performance Goal and Indicator	1999 Target/ Actual	2000 Target/ Actual	2001 Target/ Actual	2002 Target/ Actual[a]	2003 Target
Farm Storage Facility Loan Program					
Total bushels of additional on-farm storage capacity built through the FSFL program (millions of bushels)	N/A	N/A/56.7	N/A/69.2	76.7/21.4	84.0

[a] Preliminary as of October 9, 2002.

Final data on the amount of additional storage capacity created in fiscal year 2002 will not be available until March or April of 2003 because of extensions granted to complete construction of storage facilities. Based on the preliminary data available to date, it is anticipated that the target of 76.7 million bushels of additional capacity will not be met. Demand for the program in fiscal year 2002 did not meet expected levels, in large part because of the continued difficulties in the farm economy many producers are unwilling to take on additional long-term debt. As a result, performance targets for subsequent years will be revised downward.

Other income support programs authorized by the 2002 Farm Bill and effective in fiscal year 2003 are the **Apple Market Loss Assistance Program** (AMLAP-III), and the **Milk Income Loss Contract (MILC) Program**. AMLAP-III will provide about $94 million to eligible growers for the 2000-crop apple production. Under the MILC program, dairy producers enter into contracts ending on September 30, 2005, and will receive monthly direct payments when domestic milk prices fall below a specified level.

Emergency Assistance

During fiscal year 2002, the Corporation incurred $597 million in net costs for emergency assistance programs, compared to $2,727 million a year earlier. Program costs were higher in fiscal year 2001 due to two assistance programs authorized for losses experienced by farmers during calendar year 2000. Farmers who suffered crop losses due to natural disasters during 2000 are eligible for the **2000 Crop Disaster Program** (CDP). 2000 CDP expenses totaled $1,822 million in fiscal year 2001, but were only $56 million this year. The **2000 Livestock Assistance Program** was available for eligible livestock producers who suffered grazing losses due to 2000 natural disasters. The Corporation incurred $427 million in costs for this program last year.

The **Noninsured Assistance Program** (NAP) is an ongoing program that provides financial assistance to producers for noninsurable crop losses and loss of income as a result of a natural disaster which prevented planting of crops. Producers applying for program coverage must file their application and pay a service fee. When a natural disaster strikes, producers must then apply for the NAP payment. During fiscal years 2002 and 2001, CCC incurred $182 million and $63 million in NAP program costs, respectively.

Other emergency assistance programs include the **Quality Loss** and **Pasture Recovery** programs.

Conservation Programs

The Corporation funds several conservation programs, serving to preserve and conserve the Nation's farmland for future generations. As reflected on the supporting schedule to the Statement of Net Costs, costs associated with the Corporation's conservation programs were $2,369 million this fiscal year. Last year, costs were $2,435 million. Costs are expected to increase in future years due to the increased conservation program funding provided in the 2002 Farm Bill. While continuing and expanding the programs that retire environmentally sensitive land from crop production, the 2002 Farm Bill emphasizes programs that support conservation on land in production, including livestock operations.

Under the **Farmland Protection Program,** the Corporation reimburses state and local governments for the purchase of easements to preserve productive farmland and keep it in use. This program is a voluntary program, so the location and extent of enrollment – and resultant environmental benefits – will depend on who submits bids and how these bids are selected for enrollment. Under the 2002 Farm Bill, the program will receive 10-year funding of $985 million, which represents a nearly twenty-fold increase over the $53.4 million provided since 1996.

The **Environmental Quality Incentives Program** (EQIP) was created to consolidate several conservation programs and encourage farmers and ranchers to adopt practices that reduce environmental and resource problems. The program offers technical assistance, cost sharing, and incentive payments to assist livestock and crop producers with conservation and environmental improvements. The 2002 Farm Bill phases funding for the program up to $1.3 billion annually by fiscal year 2007, a significant increase from the annual funding of roughly $200 million per year under the 1996 Farm Bill. During fiscal year 2002, CCC incurred program costs of $110 million. Due to an Office of Management and Budget (OMB) apportionment, NRCS assumed responsibility for program payments for the latter part of the year, and CCC transferred $200 million to NRCS to fund the payments. It is unclear at this time which agency will have responsibility for program payments in the future, although CCC will fund them regardless of which agency makes the actual payments to the landowners.

The Corporation also funds the **Conservation Reserve Program** (CRP), the Federal government's single largest environmental program. The purpose of the program is to safeguard millions of acres of American topsoil from erosion, increase wildlife habitat, and protect ground and surface water. CRP participants sign a contract with CCC for a period of 10 to 15 years. During the contract period, the producer agrees to convert eligible (highly erodible or environmentally sensitive) land to a conserving use. In return, the producer receives an annual rental payment. The producer can also receive cost-share assistance for establishing permanent conservation practices. Additionally, CCC can arrange for technical assistance in cooperation with the NRCS, the Forest Service, and the U.S. Fish and Wildlife Service. The 2002 Farm Bill increased the acreage cap for the program from 36.4 million to 39.2 million acres. Actual enrolled acreage will vary from year to year due to program provisions which allow for extension of existing contracts, regularly scheduled sign-up periods, early termination of contracts on less environmentally sensitive acreage, and a continuous sign-up for select environmental priority practice acreage. In fiscal years 2002 and 2001, the Corporation incurred net costs for CRP $1,831 million and $1,880 million, respectively.

The CRP and other conservation programs assist agricultural producers and landowners in achieving a high level of stewardship of soil, water, air, and wildlife resources on America's farms and ranches while protecting the human and natural environment. Appendix C presents CCC's performance in support of this goal.

Foreign Programs
CCC's foreign programs provide economic stimulus to both the U.S. and foreign markets, while also giving humanitarian assistance to the most needy people throughout the world. CCC provides the funding for these programs which are administered by FAS and AID.

Export Assistance
Several programs exist to provide export assistance.

CCC's export credit guarantee programs encourage exports of U.S. agricultural products to buyers in countries where credit is necessary to maintain or increase U.S. sales, but where financing may not be available without such credit guarantees. The Corporation underwrites credit extended by the private banking sector in the United States (or, less commonly, by the U.S. exporter) under the **GSM-102** (credit terms up to three years) and **GSM-103** (credit terms up to ten years) programs. Under these programs, CCC does not provide financing, but guarantees payments due from foreign banks. Typically, 98 percent of principal and a portion of interest at an adjustable rate are covered.

Under the **Supplier Credit Guarantee Program**, CCC guarantees a portion of payments due from importers under short-term financing arrangements (up to 180 days) that exporters have extended directly to the importers for the purchase of U.S. agricultural products.

The **Facility Guarantee Program** provides payment guarantees to facilitate the financing of manufactured goods and services exported from the United States to improve or establish agriculture-related facilities in emerging markets. These guarantees can have payment terms from 1 to 10 years.

As of September 30, 2002, the principal value of guarantees outstanding under these programs was $4,893 million, compared to $4,440 million as of September 30, 2001. This fiscal year, CCC paid $40 million on defaulted guarantees. In the prior fiscal year, CCC paid $42 million. Claims and rescheduled export credit guarantee receivables outstanding were $6,930 million and $7,147 million as of September 30, 2002 and 2001, respectively.

The **Dairy Export Incentive Program** (DEIP) is used to help exporters of U.S. dairy products compete with prevailing world prices for targeted dairy products and destinations. Through the program, sales of U.S. dairy products are made that would not otherwise be possible because of subsidized prices offered by competitor countries. In both this fiscal year and last, CCC paid $25 million in bonuses to exporters under this program. Under the 2002 Farm Bill, DEIP was extended to 2007.

The **Market Access Program** (MAP) is designed to create, expand, and maintain foreign markets for U.S. agricultural commodities and products through cost-share assistance. Under the MAP, CCC enters into agreements with eligible participants to share the costs of certain overseas marketing and promotion activities. The Corporation made $98 million in MAP payments this fiscal year, and $94 million in payments last fiscal year. The 2002 Farm Bill reauthorized the program through 2007, gradually increasing program funding each year.

Food Aid
CCC provides U.S. agricultural commodities to countries in need of food assistance through direct donations and extension of credit on concessional terms (i.e., low interest rates, payment terms of up to 30 years, and grace periods of up to 7 years). Food aid is provided through three channels: P.L. 480 programs; the Food for Progress Act; and Section 416(b) of the Agricultural Act of 1949 (the 1949 Act).

P.L. 480 is composed of three programs. Title I provides for the government-to-government financing of sales of U.S. agricultural commodities to developing countries on dollar credit terms or for local currencies. Priority goes to countries with the greatest need for food that are undertaking economic development to improve food security and agricultural development, alleviate poverty, and promote broad-based, equitable and sustainable development. As of September 30, 2002, P.L. 480 Title I direct credit receivables outstanding totaled $10,186 million, a slight decrease from last year's total of $10,479 million.

Title II provides for the donation of U.S. agricultural commodities to meet emergency and non-emergency food needs in other countries. Title III supports long-term growth in the least developed countries around the world. Under Title III, donated commodities are sold in the recipient country for local currency, and the revenue generated is used to support economic development programs. Donations under these two programs were $482 million this year, and $401 million last year.

Under the **Food for Progress Program**, CCC finances the sale and export of agricultural commodities on credit terms, or can provide commodities on a grant basis. The purpose of the program is to support developing countries and countries that are emerging democracies and have made commitments to introduce or expand free enterprise elements into their agricultural economies. Food for Progress Program grants totaled $81 million in fiscal year 2002, and $39 million in fiscal year 2001. Direct credits outstanding under the program as of September 30, 2002 and 2001, were $409 million and $465 million, respectively.

Commodity donations under **Section 416(b)** of the 1949 Act help to reduce CCC surplus commodity inventories, while also helping countries in need. Donations under this authorization totaled $463 million in fiscal year 2002, and $439 million in fiscal year 2001.

How the Corporation Did

The Corporation's financial statements have been re-formatted this year to meet new reporting requirements issued by the Office of Management and Budget (OMB), as well as to more closely conform to the presentation used by the Department of Agriculture for its consolidated financial statements[2]. The financial statements report the financial position and results of operations of CCC pursuant to the requirements of 31 U.S.C. 3515(b). These statements have been prepared from the books and records of the CCC in accordance with Generally Accepted Accounting Principles (GAAP) for Federal entities and 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. Furthermore, the statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity. A discussion on the more noticeable variances reflected on the financial statements is presented below.

The Corporation had a lower Fund Balance with Treasury as of September 30, 2002, compared to the prior year, primarily due to the return of $1,969 million to Treasury, representing the fiscal year 2001 downward re-estimate of subsidy needed for the export credit guarantee programs.

[2] Comparative information is presented for the Balance Sheet and the Statement of Net Cost. Per OMB guidance, the other principal statements are not required to be presented on a comparative basis due to the extensive formatting changes that took place effective for all Federal agencies for fiscal year 2002 reporting. Complete comparative statements will be prepared next year.

Selected Items from the Balance Sheet As of September 30 (In Millions)		
Line Item	2002	2001
Fund Balance with Treasury	$ 2,453	$ 3,540
Cash	6	227
Debt to the Treasury	20,425	25,099
Cumulative Results of Operations	(19,899)	(24,363)

As discussed in Note 1, Fund Balance with Treasury timing differences between the Corporation's records and those of Treasury are accounted for as cash in transit, and make up the current Cash balance. The individual timing differences have been identified and will process in the subsequent fiscal year. Additionally, as a result of year-end cut-off, less cash was "in transit" this year than last. During fiscal year 2002, CCC improved its reporting to Treasury, as well as its fund balance with Treasury reconciliation procedures and processes, including strengthening internal controls and increasing supervisory review. These improvements resulted in the Corporation monitoring and clearing out reconciling items.

Debt to the Treasury decreased this year due to the timely and complete reimbursement of prior year realized losses incurred in the revolving fund. Rather than receiving an appropriation at the beginning of the fiscal year, CCC's revolving fund receives its appropriation in subsequent fiscal years, based on realized losses incurred. CCC incurred over $17 billion in realized losses in fiscal year 2002, and $24 billion in fiscal year 2001. This unreimbursed loss represents the majority of the balance of Cumulative Results of Operations. During fiscal year 2002 and 2001, CCC received $22,800 million and $25,077 million, respectively, in reimbursements for prior year losses incurred.

Net Cost of Operations Domestic Programs (In Millions)		
Program	FY 2002	FY 2001
Commodity Operations	$ 3,139	$ 1,952
Farm Income Support	6,289	13,766
Production Flexibility	4,268	4,397
Conservation Programs	2,369	2,435
Emergency Assistance	597	2,727
Total	$ 16,662	$ 25,277

The net cost of operations for the domestic programs totaled $16,662 million in fiscal year 2002 compared to $25,277 million in the prior year. As shown in the table to the right and on the supporting schedule to the Statement of Net Cost, the farm income support programs showed the largest reduction in costs from 2001, mainly due to decreased market loss assistance payments (including dairy and tobacco) this year.

During 2002, CCC provided funding, through non-expenditure transfers, to other Departmental and Federal agencies for programs created by the 2002 Farm Bill. These transfers, totaling $1,427 million, are reflected on the Statement of Changes in Net Position as transfers out of budgetary resources without reimbursement.

Improving Financial Management

> **President's Management Agenda**
> **5 Government-wide Initiatives**
> - ✓ Strategic management of human capital
> - ✓ Competitive sourcing
> - ✓ Improved financial performance
> - ✓ Expanded electronic government
> - ✓ Budget and performance integration

The **President's Management Agenda** provides President George W. Bush's strategy for improving the management and performance of the Federal government. This document sets forth 5 government-wide goals to improving Federal management, remedy long-standing problems, and deliver results that matter to the American people.

Improving financial management is one of the goals set by the President. CCC is working aggressively to meet this goal, implementing several new initiatives this year that will lay the groundwork for improved financial operations in the future.

Providing accurate and timely financial information to its customers and managers is of primary importance to the Corporation. It is working to reduce the number of days it takes to close the monthly general ledgers, thereby having financial data available faster than in the past. Reporting processes are being streamlined by replacing manual tasks with automated processes wherever possible. During fiscal year 2002, several standard monthly reconciliations were implemented and additional analysis tools were developed to examine and verify financial data before its release.

During the summer of 2002, financial managers convened to develop means and strategies to improve financial management in the coming years. Several new management initiatives were identified, and task forces put together to address these projects. Accelerated timelines, improved internal controls, and increased attention to reconciliations are among the priorities established for financial management.

CCC's goal is to obtain a clean audit opinion on its financial statements. To help in improving the reporting process, CCC began preparing interim financial statements this year, and in fiscal year 2003, it will be preparing financial statements on a quarterly basis as required by OMB. CCC continues to work closely with the USDA Chief Financial Officer to ensure the financial statements are in compliance with Federal and Departmental accounting policies and standards. The Corporation is also proactive in identifying possible weaknesses, and implementing controls to eliminate those weaknesses. For example, several task forces have been established to address financial management challenges and reporting deficiencies, with project goals identified and plans laid out to meet those goals.

As a result of its financial management improvements, CCC received an unqualified opinion on its fiscal year 2002 financial statements, the first such opinion since 1997. In the past, CCC has had difficulties in meeting prior years' Departmental timeframes, and in providing sufficient and competent evidential documentation to the auditors to substantiate certain line items on the financial statements. However, the Corporation has worked diligently to address and resolve issues identified in prior years' audits, and has made great strides in the coordination and validation of information used in its financial statements.

Audit Opinion On Financial Statements	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**
Unqualified	X	X		X				X[a]	X
Qualified						X			
Disclaimer			X		X		X	X[a]	

[a] In fiscal year 2001, CCC received an unqualified opinion on its Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position, and a disclaimer of opinion on the Statements of Budgetary Resources and Financing.

Management controls are the organization structure, policies, and procedures used to reasonably ensure that:
- ✓ Programs achieve their intended results;
- ✓ Resources are used consistent with the agency mission;
- ✓ Programs and resources are protected from waste, fraud, and mismanagement;
- ✓ Laws and regulations are followed; and
- ✓ Reliable and timely information is obtained, maintained, reported, and used for decision-making.

The Corporation has a network of financial management systems and internal controls in place to support the preparation of the financial statements, performance information, and compliance with applicable laws. It has identified system weaknesses and internal control deficiencies. The following narrative discusses those weaknesses and the plans in place to address them, as presented in various management reports.

FMFIA Report

The Federal Managers' Financial Integrity Act (FMFIA) requires Federal managers, on an annual basis, to assess the effectiveness of management controls applicable to their responsibilities. If material deficiencies are discovered, managers must report those deficiencies with scheduled milestones leading to the resolution of the deficiency. FMFIA reporting ensures management's accountability for the effectiveness and efficiency of program operations.

Section 2 of the FMFIA Report requires an assessment of whether there is reasonable assurance that agency controls are achieving their intended objectives. It also requires a report on material weaknesses in agency controls. A material weakness is a condition in which management controls are not sufficient to provide assurance of their effectiveness, and requires completion of major milestones for corrective action. Such a weakness may significantly impair the fulfillment of an agency's mission; violate statutory or regulatory requirements; or significantly weaken safeguards against waste, loss, or unauthorized use of assets. Appendix D presents CCC's reporting on FMFIA[3].

Legal Compliance

As mentioned in last year's management's discussion and analysis, CCC was seeking official legal opinion on CCC's actions involving two possible instances of non-compliance with the Anti-Deficiency Act (ADA). Both of these matters arose during fiscal year 2000, and their resolution is presented below.

In determining the limit on the use of CCC funds for reimbursable agreements and transfers/allotments to other Federal agencies, two reimbursements (relating to loan service fees and measurement services with the FSA) were not considered in the limit calculations. Since this has been brought to management's attention, these reimbursements are now included when calculating annual limits of reimbursable agreements and transfers/allotments to other Federal agencies. The previous omissions are not deemed to be an ADA violation, and thus no management report to Congress is required; the issue is now considered closed.

During fiscal year 2000, CCC disbursed $50 thousand more than was appropriated for the Livestock Indemnity Program. The Office of General Counsel (OGC) suggested that CCC utilize its claims settlement authority and reimburse the appropriation from its revolving fund. This reimbursement took place in fiscal year 2001. Although a technical violation of the ADA, this did not represent an intentional violation, and thus no management report to Congress is required; the issue is now considered closed.

The fiscal year 2001 audit report identified two potential ADA violations occurring during fiscal year 2001. The first instance occurred when CCC disbursed $5 million more than was authorized for the 2001 Market Loss Assistance Program. Additional funds were provided through an interchange authority[4]. The second instance involved the use of CCC funds to pay for contracted accounting services prior to reimbursement from another USDA agency. As a result, CCC disbursed its own revolving (borrowed) funds for a contract for performing non-CCC-related services without advanced reimbursement. OGC has been consulted and it has been determined that these instances did not constitute ADA violations, and that no notification to Congress is required.

FFMIA Report

The Federal Financial Management Improvement Act (FFMIA) Report requires Federal agencies to assess, on an annual basis, the compliance of their financial management systems with applicable financial

[3] Section 4 of the FMFIA Report has been discontinued, as it is duplicative of the financial management system weakness reporting in the Federal Financial Management Improvement Act (FFMIA) remediation plan.

[4] Transfers of funds can be made under provisions of the Secretary of Agriculture's interchange authority (7 U.S.C 2257).

management systems requirements, Federal accounting standards, and the U.S. Government Standard General Ledger. Agencies not in compliance must develop remediation plans to bring its systems into compliance. Appendix E presents CCC's remediation plan.

Improving Payment and Collection Processes

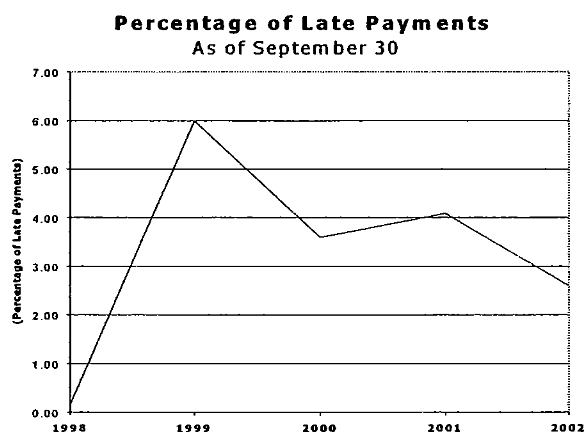
CCC is working to improve its payment processes, making payments faster and more accurately.

The **Prompt Payment Act** requires Federal agencies to:

- ✓ Make payments on time,
- ✓ Pay interest penalties when payments are late, and
- ✓ Take advantage of discounts when payments are made on or before the discount date.

The **Prompt Payment Act** encourages timely payments, better relationships with contractors and producers, improved competition for government business, and reduced costs to the Government for property and services.

In fiscal year 2002, CCC made 7 million payments that were subject to the provisions of the Prompt Payment Act. These payments totaled $20,664 million. Of these payments, 2.6% of them were paid late. This is an improvement over last year when CCC made 11 million payments totaling $29,294 million. Of these payments, 4.09% were paid late.



A comparison of the percentage of payments made late, by fiscal year, is presented. In fiscal year 1998, 0.16% of payments were late. However, only $13,925 million in payments were subject to Prompt Payment Act provisions. The dramatic increase in late payments in fiscal year 1999 was due to the backlog and high volume of loan deficiency payments. Additionally, there was an 84% increase in the dollar amount of payments, with $25,555 million of payments being made in fiscal year 1999.

CCC continues its use of **Electronic Funds Transfer** (EFT) for vendor payments and payment of program benefits to producers. The expansion of the use of EFT is largely dependent on the customer's voluntary participation. It is expected that there will always be payment recipients who will continue to choose a paper check due to personal preference, technical issues, or business practices.

Actual performance in relation to vendor EFT payments has fallen short of targets. Due to current system design, which prevents reporting of detail payment information to EFT recipients, checks are the preferred manner of payment for most vendors. A new system has been developed that will allow vendors to download and access necessary payment detail information. However, due to budget constraints on information technology investments, the project has been delayed. It is expected that the new system will be operational and available to vendors in 2003. Although certain vendors will continue to prefer check payment, this new system should improve future EFT payment performance in the Service Centers.

Percentage of Payments Made via EFT As of September 30			
Payment Recipient	**2000**	**2001**	**2002**
Vendor	53%	45%	54%
Producer	77%	72%	77%

As shown in the table, 77% of producer payments were made via EFT this year, an increase from the 72% reported in fiscal year 2001. History has shown that the recurring-type of producer payments (production flexibility, CRP annual rental payments, etc.) tend to be made via EFT, with one-time payments (i.e., disbursement of loan, disaster assistance, etc.) more likely to be made via check. An increase in the producer payment EFT rate is expected in the future since assignees can now get their payment via EFT. However, future producer payment performance will be tempered as Treasury has adopted more lenient requirements for waiver from receiving payments via EFT.

The **Debt Collection Improvement Act of 1996** provided additional collection tools for agencies to use to collect delinquent debts owed. Two of the collection tools, the Treasury Offset Program (TOP) and cross-servicing, require agencies to refer debts to the Treasury Department when they become 180 days delinquent.

In fiscal year 2002, CCC referred 8,571 debts valued at $73 million, to the TOP. In fiscal year 2001, CCC referred 7,354 debts, valued at $40 million. In both fiscal years 2002 and 2001, as a result of these and prior year referrals, CCC received $1 million in offsets from other Federal payments to be made to individuals with delinquent debts to the Corporation.

In fiscal year 2002, CCC referred 965 debts valued at $4 million, for cross-servicing. In fiscal year 2001, CCC referred 3,700 debts, valued at $20 million. Figures are lower this year than in the past because of the return from Treasury of debts that were uncollectible. Whenever Treasury returns debts, it reduces the dollar amount and percentage of debts referred. CCC collected less than $1 million from the program during this fiscal year and $1 million last year.

CCC continues to maintain a very strong internal debt management program. CCC collected $5 million and $6 million, respectively, in fiscal years 2002 and 2001 by internal administrative offset. CCC also collected from delinquent debtors via internal collection efforts $9 million and $8 million, respectively, in fiscal years 2002 and 2001. In addition, CCC also collected another $1 million from debts referred to the Justice Department in fiscal year 2002, and $6 million in fiscal year 2001.

By implementing all collection tools available, CCC is striving to achieve its strategic goal of providing effective administrative services and reducing the dollar amount of delinquent debt owed to the Corporation. The table on the next page presents CCC's performance in support of this goal.

Performance Goal and Indicator	1999 Target/ Actual	2000 Target/ Actual	2001 Target/ Actual	2002 Target/ Actual	2003 Target
Financial Management					
Decrease the average volume of the CCC delinquent domestic debt portfolio as it relates to farm programs (number)[a]	N/A/14,052	N/A/10,973	N/A/9,441	8,120/ 11,234	7,065
Decrease the average age of CCC delinquent domestic debt portfolio (years)[b]	N/A/4.78	N/A/5.2	4.0/3.44	3.0/3.2	2.5

[a] This performance goal was first established in the fiscal year 2002/2003 Annual Performance Plan, therefore, targets for prior years do not exist.
[b] This performance goal was first established in the fiscal year 2001/2002 Annual Performance Plan, therefore, targets for prior years do not exist.

Providing E-Commerce Services

CCC supports the goals of electronic government as defined by the Administration and as mandated in the Government Paperwork Elimination Act (GPEA), the Freedom to E-File Act, and related statutes. FSA has partnered with NRCS and Rural Development (RD) to implement a system for the implementation of electronic services for its customers. The three agencies implemented an e-forms system this year to enable customers to electronically access and file forms and related electronic information. In order to provide authentication and access to participating customers, the three agencies also implemented a standard electronic access, Central Authentication and Authorization Facility (WebCAAF). CCC is committed to continuing the partnership effort with the Service Center Agencies (SCA) to implement generations 3 and 4 of the e-forms system to enrich and expand the electronic services available to its customers.

CCC was challenged by the implementation of the 2002 Farm Bill. This far-reaching and complex piece of legislation affects nearly every program delivered to FSA customers. The initial priority for FSA was to reach out to America's ranchers and farmers to make sure they had timely program information so they could make the best possible decisions for their businesses. This included informing producers of important programs and relevant sign-up dates such as October 1, 2002, the day when eligible producers could begin signing up for the direct and counter-cyclical payment programs and update their base and yield data. In addition, FSA has provided a steady stream of information on other programs such as dairy, peanuts, pulse crops, feed assistance and others. FSA is providing exceptional access to 2002 Farm Bill program information on its website. For example, MILC program information was available on the FSA website shortly after the program was announced on August 5, 2002. The FSA website has pertinent MILC program and signup information, the monthly payment rates, and a payment calculator facility to enable an interested applicant to estimate program benefits.

FSA also used the SCA Common Computing Environment (CCE) capabilities to leverage the implementation of the 2002 Farm Bill. The Service Center Information Management System (SCIMS) shared customer name and address records were used to notify over 6.6 million customers of Farm Bill changes that may impact their participation in USDA programs.

FSA partnered with Texas A&M University's Agricultural Food and Policy Center to develop an interactive Base and Yield Analysis (BYA) tool for the USDA and FSA websites. As announced by Secretary Veneman, "This innovative, web-based software will provide landowners with options for estimating farm bill program payments and help them make informed decisions." The BYA tool helps producers analyze the economic consequences of selecting different base and yield options.

CCC initiated the Electronic Loan Deficiency Payment (eLDP) Program that accepts electronic LDP applications from producers and issues electronic payments. The initial eLDP beta program (covering 2001 crops) was implemented in early spring of 2002 as an Internet application that provided capability for producers to request LDP's via the web. The eLDP website is hosted on the FSA Electronic Access Initiative (EAI) web farm located in Kansas City. Producers who elected to participate in the eLDP initially visited the local FSA Service Center to sign-up for the eLDP and complete the LDP application to provide farming information. The FSA Service Center provided the producer with a user ID to access the eLDP Internet application. The FSA Service Center also established the producer's parameters in the eLDP Internet application for payment limitation and program participation reasonableness. Producers meeting the program requirements for participating in the eLDP program were able to initiate a request for eLDP through the Internet. Valid eLDP requests that met the criteria for the approved application parameters established by the local Service Centers were processed and a payment was calculated, certified and disbursed. This initial beta process was successful on a small scale early in 2002. The next phase of eLDP is a beta expansion for 2002 crops covering at least one site in each state. The strategy for eLDP is to prove the viability of this electronic process through a large-scale beta process and expand the availability of eLDP as rapidly as possible to nationwide coverage.

CCC is developing a number of important government-to-business services on its Internet architecture. The Food Aid Request Entry System (FARES) will be implemented in January 2003. This web-based application will streamline program operations and improve customer service by automating the entry of commodity requests ("call forwards") from AID and private voluntary organizations (PVO's). The call forwards will then be electronically transmitted to CCC for purchase. Phase II of FARES is currently in the requirements stage and will be implemented the third quarter of 2003. This will allow PVO's to enter their Annual Estimated Requirements (AER's) via the web. AID will then review and approve AER's electronically which will eliminate the flow of paper and duplicative data entry. This information will also be used by FSA's export operations to forecast demand and insure call forwards do not exceed authorizations.

CCC's Electronic Distribution project phase III (ED3) is currently in the requirements stage and will be implemented by the first quarter 2004. This web-based system will automate the contract-invoicing portion of the Processed Commodities Inventory Management System (PCIMS). Vendor invoices will be electronically entered to PCIMS with electronic signatures and processed without paper. FSA financial personnel will use the ED3 application to review and approve all payments.

CCC's Market Entry System is currently in the requirements stage and will be implemented the second quarter of 2003. This web-based application will allow grain warehouses to enter their daily purchase price for grain. This information will be used by FSA in the analysis of commodity market prices and the determination of loan rates and LDP rates.

FSA is partnering with AID in the design and construction of the Freight Entry Bid Entry and Evaluation System. This will be a web-based system designed to allow steamship transportation lines to register bids and enter their ocean rate information.

Information Technology Infrastructure

The standardization of the information technology (IT) infrastructure for the field structure is well underway and is expected to be completed during next year. The flexible new infrastructure is built around the strategy of maximizing shareability of appropriate information both within USDA and with other Federal, state and local agencies, USDA customers and the private sector. The SCA have already achieved a level of success in sharing the following CCE infrastructure components and software applications:

- Telecommunications network
- Help desk support
- Common workstations with standard software and local area network (LAN)
- Peripheral equipment including printers, routers, network server
- Common administrative applications (CAMS)
- Web farm components and standard security firewall stacks
- Email services and active directory
- Common testing facilities
- SCIMS name and address
- Office information profile
- WebCAAF

The shared CCE architecture components to be implemented in fiscal year 2003 include the installation of servers with relational database capability in the SCA service centers to support the Graphical Information Systems (GIS) data layers and the multi-user access to GIS applications. Another key infrastructure component to be completed in fiscal year 2003 is the upgrading of the telecommunications network to provide T-1 level service to over 2000 of the larger offices and an upgrade in network capacity to all offices.

Appendix A
CCC Board of Directors and Officers

CCC Board of Directors

Chairperson, Ann M. Veneman, *Secretary, USDA*
Vice Chairperson, James R. Moseley, *Deputy Secretary, USDA*

Member, J.B. Penn, *Under Secretary, Farm and Foreign Agricultural Services, USDA*
Member, Thomas C. Dorr, *Under Secretary, Rural Development, USDA*
Member, Eric M. Bost, *Under Secretary, Food, Nutrition, and Consumer Services, USDA*
Member, Joseph J. Jen, *Under Secretary, Research, Education and Economics, USDA*
Member, William T. Hawks, *Under Secretary, Marketing and Regulatory Programs, USDA*
Member, Mark E. Rey, *Under Secretary, Natural Resources and Environment, USDA*

CCC Officers

President, J.B. Penn, *Under Secretary, Farm and Foreign Agricultural Services, USDA*
Executive Vice President, James R. Little, *Administrator, FSA*

Vice President, Teresa Coarsey Lasseter, *Associate Administrator, Programs, FSA*
Vice President, Verle Lanier, *Associate Administrator, Operations and Management, FSA*
Vice President, A.J. Yates, *Administrator, Agricultural Marketing Service*
Vice President, Ellen Terpstra, *Administrator, Foreign Agricultural Service (FAS)*
Vice President, W. Kirk Miller, *General Sales Manager, FAS*
Vice President, Roberto Salazar, *Administrator, Food and Nutrition Service*
Vice President, Bruce I. Knight, *Chief, Natural Resources Conservation Service (NRCS)*

Deputy Vice President, Hubert O. Farrish, *Deputy Administrator for Commodity Operations, FSA*
Deputy Vice President, John Willliams, *Deputy Administrator for Management, FSA*
Deputy Vice President, John Johnson, *Deputy Administrator for Farm Programs, FSA*
Deputy Vice President, Larry Walker, *Director, Economic and Policy Analysis Staff, FSA*
Deputy Vice President, Thomas A. Weber, *Associate Chief, NRCS*
Deputy Vice President, Patricia Leavenworth, *Acting Deputy Chief, Programs, NRCS*
Deputy Vice President, P. Dwight Holman, *Deputy Chief, Management,* NRCS

Acting Secretary, Verle Lanier, *Executive Assistant to the Administrator, FSA*
Deputy Secretary, Jack Sikora, *Director, Strategic Planning Staff, FSA*
Assistant Secretary, Monique B. Randolph, *Strategic Planning Staff, FSA*

Controller, Kristine M. Chadwick, *Director, Financial Management Division, FSA*
Treasurer, Sally F. Nunn, *Deputy Director, Financial Management Division, FSA*
Chief Accountant, Dwight T. Tayman, *Chief, Financial Accounting and Reporting Branch, Financial Management Division, FSA*

Appendix B
CCC Funds

The following table lists the funds reflected on the Corporation's financial statements.

Treasury Fund Group Number	Description
0500	Hazardous Waste Management Fund (USDA shared appropriation)
0600	Salaries and Expenses
1336	Export Credit Guarantee Program Fund
2271	P.L. 480 Title I, Ocean Freight Differential
2273	Food for Progress Credits Program Fund
2274	P.L. 480 Direct Credit Liquidating Fund
2277	P.L. 480 Direct Credit Program Fund
2278	P.L. 480 Grant Fund
2701	Tree Assistance Program
3301	Farm Storage Loans Program Fund
3302	Apple Loans Program Fund
3303	Emergency Boll Weevil Loan Program Fund
3314	Dairy Indemnity Program
3315	Agricultural Conservation Program
3316	Emergency Conservation Program
3319	Conservation Reserve Program
3337	Rural Clean Water Program
3674	Appropriation Warrant Fund
4049	P.L. 480 Direct Credit Financing Fund
4078	Food for Progress Credits Financing Fund
4143	Debt Reduction Financing Fund
4158	Farm Storage Loans Financing Fund
4211	Apple Loans Financing Fund
4221	Emergency Boll Weevil Loans Financing Fund
4336	Revolving Fund (including specific appropriations for disaster relief)
4337	Export Credit Guarantee Financing Fund
4338	Export Credit Guarantee Liquidating Fund

Appendix C
Performance Goals for Conservation Programs

The following table presents the Corporation's performance as it relates to the conservation programs.

Performance Goal and Indicator	1999 Target/ Actual	2000 Target/ Actual	2001 Target/ Actual	2002 Target/ Actual*	2003 Target
Increase the number of acres enrolled in CRP and increase the number of Conservation Reserve Enhancement Program (CREP) agreements.					
Number of acres enrolled in CRP (million acres, cumulative)	31.1/29.8	32.8/31.4	33.9/33.6	**34.2/33.9**	34.9
• General sign-up (competitive) enrollment (million acres, cumulative)	29.4/28.9	30.9/30.2	32.3/32.0	**31.8/31.8**	31.8
• Continuous (including CREP) enrollment (million acres, cumulative)	1.7/0.9	1.4/1.2	1.6/1.6	**2.4/2.1**	3.1
Acres of high environmental sensitivity enrolled in CREP (million acres, cumulative)	N/A/0.03	0.25/0.08	0.5/0.19	**0.3/0.36**	0.5
Acres planted with trees (million acres, cumulative)	2.0/2.2	2.0/2.5	2.3/2.9	**3.0/3.0**	3.2
Acres enrolled in the Prairie Pothole, Chesapeake Bay, Great Lakes, Long Island Sound, and Long Leaf Pine national conservation priority areas (million acres, cumulative)	7.0/6.9	7.2/7.2	7.7/7.8	**8.1/8.0**	8.3
Approved CREP agreements (number)	15/8	15/12	20/18	**25/24**	30
Reduce soil erosion, protect water and air quality, restore wetlands, and improve wildlife habitat by establishing conservation cover and/or installing priority practices.					
Soil Erosion • Reduced soil erosion (million tons/year)	N/A	N/A/407	N/A/428	**431/430**	433
Water and Air Quality • Reduced sheet and rill erosion (million tons/year)	N/A	N/A/166	N/A/178	**180/179**	182
• Reduced wind erosion – also a measure of air quality (million tons/year)	N/A	N/A/241	N/A/250	**251/251**	252
• Acres established in conservation buffers, including filter strips and riparian buffers[1] (million acres, cumulative)	2.4/1.2	1.4/1.3	1.6/1.7	**2.2/2.1**	2.9
• Carbon sequestered in soil and vegetation through long-term retirement of crop and grazing land (million metric tons/year)	N/A/14.5	N/A/15.2	N/A/16.1	**16.4/16.4**	16.9
Wetlands • Restored acres of wetlands[2] (million acres, cumulative)	1.4/1.3	1.6/1.5	1.7/1.7	**1.8/1.7**	1.9
Wildlife Habitat (million acres, cumulative) • Acres planted with vegetative covers defined as best suited for wildlife	12.6/12.4	17.1/16.6	18.8/18.2	**18.2/18.2**	18.2
• Land restored to ecosystems with high benefits for wildlife[3]	N/A/1.3	N/A/2.1	N/A/2.6	**2.9/2.9**	3.3

* Performance data as of September 27, 2002.

[1] Most buffers installed under the CRP are installed primarily for water quality. However, buffers provide multiple benefits, including air quality, wildlife habitat, and carbon sequestration.
[2] Primarily wetland restoration, which includes adjacent upland.
[3] Primary conservation practices include, but are not limited to, wetland restoration, wildlife corridors, riparian buffers, longleaf pine establishment, and rare and declining habitats.

Appendix D
FMFIA Reporting

The following table presents Section 2 material weaknesses related to the Corporation as reported in FSA's fiscal year 2002 FMFIA Report.

Section 2 of the FMFIA Report
Material Weaknesses in Internal Control

Material Weakness:
Significant differences exist between the amounts in CCC's fiscal year 2001 Combining Statement of Budgetary Resources (SBR) and those reported to the OMB's MAX Budget Information System in preparation of the Program and Financing Schedules in the President's Budget.

Year Identified in FMFIA Report: 2001

Target Completion Date: Fiscal year 2003

Planned Corrective Actions:
1. Submit timely data to OMB for inclusion in the OMB MAX Budget Information System.
2. Prepare timely reconciliation of the Combining Statement of Budgetary Resources and the Program and Financing Schedules used in the President's Budget. Disclose the reasons for significant differences in the notes to the financial statement per SFFAS No. 7, paragraph no. 79.
3. Develop new or modify existing reports to replace and/or supplement the applicable budget reports using budgetary account information.
4. Modify budgetary accounting system to obtain the level of detail needed to submit budget execution information for the President's Budget.
5. Convert the existing budget actual reports to budgetary accounts beginning with the fiscal year 2004 (fiscal year 2002 Actuals) Federal budget process.

Material Weakness:
Claims for reimbursement from the U.S. Department of Transportation were not made for cargo preference costs incurred under the P.L. 480 programs.

Year Identified in FMFIA Report: 2001

Revised Target Completion Date: Fiscal year 2003

Planned Corrective Actions:
1. Reach agreement on outstanding billing issues between USDA's Foreign Agricultural Service, FSA, Agency for International Development (AID) and the Department of Transportation.
2. Bill the U.S. Department of Transportation for past and current program years.
3. Submit semi-annual apportionment requests to the Office of Management and Budget (OMB) based on written requests from AID.

Appendix E
CCC Remediation Plan

The following table presents the Corporation's latest remediation plan as it relates to the three requirements for FFMIA reporting.

1. Compliance with Federal Financial Management Systems Requirements

1.1: Foreign program feeder systems do not comply with OMB Circular A-127.

	Corrective Action	Target Date	Status
1.1.1	Prepare fiscal year 2001 financial statements according to applicable accounting standards and time frames in effect for the period covered by the financial statements.	12/2001	**Completed 2/2002.** The delay was caused by the auditors' difficulty in verifying the accuracy of the budgetary data due to lack of adequate support for the recorded balances. CCC now verifies budgetary data monthly.
1.1.2	Complete implementation of new GSM system to be interfaced directly to CORE general ledger.	10/2003	**Phase 1** (Modules 1, Announcement; 2, Registration; & 3, Evidence of Export) has been delayed from the original 10/2001 target date. Data migration was completed 8/2002. Parallel testing started in 8/2002 and will continue through 10/2002. This phase will be put into production 11/2002. **Phase 2** (Module 4, Claims) integration testing is complete. Round 1 of acceptance testing was completed 8/2002. Round 2 of acceptance testing will be completed after data migration is completed. Data migration has been delayed because the data extract has not been finalized and related tasks should take about 4 months. New target dates are being determined. **Phase 3** (Module 5, Rescheduling) has been significantly delayed. The Requirements Analysis Phase was completed 8/2002. The 6 month slippage is due in part to IT resources needed to complete Phases 1 and 2, and in part to user resources working on other priorities.
1.1.3	Replace the former FMS accounting structure in the P.L. 480 Title I feeder system (APLUS) with the CORE accounting structure.	10/2003	This project has been delayed due to resource priorities (delays in completing the new GSM system requirements, which is using the same staffing). This project has not started. The impact of this project's delay in implementation will be that accounting entries will continue to use current manual processes in fiscal years 2002 and 2003.
1.1.4	Prepare fiscal year 2002 financial statements according to applicable accounting standards and time frames in effect for the period covered by the financial statements.	12/2002	Actions are on target for completion.

Appendix E
CCC Remediation Plan

1. Compliance with Federal Financial Management Systems Requirements, *Continued*

1.2: All CCC mixed and financial systems do not comply with OMB Circular A-127.			
Corrective Action		Target Date	Status
1.2.1	Ensure substantial compliance with applicable Joint Financial Management Improvement Program systems requirements, particularly those pertaining to the capture of information for preparing financial statements. To accomplish this, CCC needs to develop a plan to review all CCC financial systems.	9/2004	This action covers detailed reviews of all key financial systems. The Office of Inspector General has agreed to the schedule of reviews. CCC is reviewing the schedule to determine if the final reviews in fiscal year 2004 can be completed in fiscal year 2003.
1.3: CORE accounting system does not comply with OMB Circular A-130.			
Corrective Action		Target Date	Status
1.3.1	Complete the CORE system security certification according to OMB Circular A-130 and Departmental Regulations. This documentation was submitted to the Office of Inspector General.	4/2001	**Completed 4/2001.**
1.3.2	Perform security assessments and certify the adequacy of security safeguards of each sensitive operational computer application system according to OMB Circular A-130.	Assess 3/2002	**Completed 3/2002.**
		Certify 9/2002	**Completed 9/2002.**
1.3.3	Include the CORE general ledger system in the Hot-site effort to test disaster recovery and contingency planning.	11/2002	Conducted Hot-site Disaster Recovery Exercise for CORE in 4/2002 and 8/2002. The three databases were restored but the online software was not successfully working until 15 minutes prior to the end of the test timeframe. No batch was executed satisfactorily. CORE will be re-tested during the next Hot Site testing window in 11/2002.
1.4: All CCC mixed and financial systems do not comply with OMB Circular A-123.			
Corrective Action		Target Date	Status
1.4.1	Develop a daily funds tracking report and release it to program managers.	3/2002	**Completed 3/2002.**
1.4.2	Develop an authorized payment process for National Program managers to use to authorize payments when funds are within the 15 percent threshold.	5/2002	**Completed 4/2002.** The authorized payment process is expanded to any program that reaches the 15 percent threshold and still has payments due. It allows program managers to specifically identify where the remaining funds are being expended.
1.4.3	Develop guidelines for a manually based stopgap funds control process.	3/2002	**Completed 3/2002.**
1.4.4	Develop and implement an interim automated "e-Funds Control System".	11/2002	Target completion date was delayed to 11/2002 to resolve infrastructure issues and allow for the determination of the actual fiscal year 2003 beginning fund balances for the conservation programs starting under the new "e-Funds Control System".

Appendix E
CCC Remediation Plan

1. Compliance with Federal Financial Management Systems Requirements
Estimated Resources Needed for Corrective Actions

Fiscal Year	Full-Time Equivalents (FTEs)	Dollars
2002	22.75	$4.175 million
2003	9.75	$1.5 million
2004	2	$100,000

Appendix E
CCC Remediation Plan

2. Compliance with Applicable Federal Accounting Standards

2.1: SFFAS No. 1, Accounting for Selected Assets and Liabilities:

Maritime Administration (MARAD) reimbursement of claims not made for excess ocean freight payments – unclaimed cargo preference reimbursements for costs incurred under the P.L. 480 food assistance programs administered by the Agency for International Development.

Corrective Action		Target Date	Status
2.1.1	CCC will request MARAD reimbursements indicating the payments by program for the 20 percent excess freight. This procedure is currently being used for incremental Ocean Freight Differential (OFD) invoices and payments.	12/2002	CCC has halted billings on the 20 percent excess freight until an issue regarding inland shipping can be resolved. MARAD will not pay for inland shipping costs above the cost of the commodity. Meetings and discussions on outstanding issues are ongoing with key parties involved in the program.
2.1.2	Send bills to MARAD for: a) Cargo Preference Year (CPY) 98-99, amended quarters 1st through 4th b) CPY 99-00, amended quarters 1st through 4th c) CPY 01-02, 1st quarter.	12/2002	The bills have been delayed because an issue has been raised concerning the rates used to calculate OFD on foreign flagships. Meetings and discussions on outstanding issues are ongoing with key parties involved in the program.
2.1.3	Send bills to MARAD for: a) CPY 00-01, amended quarters 1st through 4th b) CPY 01-02, 3rd quarter c) 20 percent excess freight for FY 2001	12/2002	a) Bills have been submitted for the first 3 quarters of CPY 00-01. The 4th quarter is pending agreement of the first 3 quarters billed. b) See explanation in 2.1.2. c) See explanation in 2.1.1 concerning billings on the 20 percent excess freight.
2.1.4	Send bills to MARAD for CPY 01-02, 4th quarter.	12/2002	See the explanation in 2.1.2 on amended billings for shipments.
2.1.5	Submit semi-annual apportionment requests to Office of Management and Budget (OMB) based on written requests, in excess of $1 million dollars, from AID. This change in procedures will be coordinated with AID.	6/2002	**Completed 7/2002.**

Appendix E
CCC Remediation Plan

2. Compliance with Applicable Federal Accounting Standards, *Continued*

2.2: SFFAS No. 2, Accounting for Selected Assets and Liabilities:

Reconcile the Fund Balance with Treasury general ledger account to Treasury's records to facilitate the clear identification of differences occurring due to timing or errors.

	Corrective Action	Target Date	Status
2.2.1	Establish a task force to develop and implement reconciliation procedures.	9/2002	**Completed 9/2002.** A new monthly report provides management review and oversight of the reconciliation process. CCC's reconciliation process is presented in a clear, consistent, and concise manner together with the supporting documentation.
2.2.2	Reconcile on a monthly basis.	3/2002	**Completed 3/2002.**

2. Compliance with Applicable Federal Accounting Standards
Estimated Resources Needed for Corrective Actions

Fiscal Year	Full-Time Equivalents (FTEs)	Dollars
2002	3.5	-
2003	1.0	-
2004	-	-

3. Noncompliance with the U.S. Government Standard General Ledger (SGL) at the Transaction Level

CCC is in substantial compliance with this requirement[5].

[5] As reported in CCC's Remediation Plan. CCC's auditors, however, do not agree with this assertion, and specify instances of noncompliance in their audit report.

Exhibit A

Commodity Credit Corporation
Consolidated Balance Sheets

As of September 30, 2002 and 2001
(Dollars in Millions)

	2002		2001	
Assets:				
Intragovernmental:				
Fund Balance with Treasury (Note 2)		$ 2,453		$ 3,540
Accounts Receivable, Net (Note 3)		7		242
Other		20		25
Total Intragovernmental Assets		2,480		3,807
Cash		6		227
Accounts Receivable, Net (Note 3)		38		126
Loans and Credit Program Receivables:				
Commodity Loans, Net (Note 4)	$ 1,552		$ 1,843	
Credit Program Receivables, Net (Note 5)	8,826		8,306	
Other Foreign Receivables, Net	354		361	
Subtotal		10,732		10,510
Commodity Inventories, Net (Note 6)		723		878
General Property and Equipment, Net (Note 7)		19		10
Other		100		182
Total Assets		$ 14,098		$ 15,740
Liabilities:				
Intragovernmental:				
Accounts Payable		$ 631		$ 666
Debt to the Treasury (Note 8)		20,425		25,099
Other:				
Resources Payable to Treasury	$ 6,450		$ 6,783	
Deposit and Trust Liabilities (Note 9)	892		738	
Other (Note 10)	1,018		176	
Subtotal		8,360		7,697
Total Intragovernmental Liabilities		$ 29,416		$ 33,462
Accounts Payable		3		29
Credit Guarantee Liabilities (Note 5)		411		341
Other Liabilities:				
Accrued Liabilities (Note 11)	$ 2,043		$ 2,715	
Deposit and Trust Liabilities (Note 9)	639		705	
Other (Note 10)	2		9	
Subtotal		2,684		3,429
Total Liabilities		$ 32,514		$ 37,261
Commitments and Contingencies (Note 12)				
Net Position:				
Unexpended Appropriations		$ 1,383		$ 2,742
Capital Stock		100		100
Cumulative Results of Operations		(19,899)		(24,363)
Total Net Position		(18,416)		(21,521)
Total Liabilities and Net Position		$ 14,098		$ 15,740

The accompanying notes are an integral part of these statements.

Exhibit B

Commodity Credit Corporation
Consolidated Statement of Net Cost (Note 13)

For the Fiscal Year Ended September 30, 2002
(Dollars in Millions)

	Commodity Operations	Income Support Programs	Conservation Reserve Program	Foreign Programs	Other	Combined Total	Eliminations	Consolidated Total
Net Program Costs:								
Intragovernmental Gross Costs	$ 596	$ 659	$ 106	$ 677	$ 267	2,305	$ (1,035)	$ 1,270
Less: Intragovernmental Earned Revenue	(528)	(11)	-	(72)	-	(611)	527	(84)
Intragovernmental Net Costs	$ 68	$ 648	$ 106	$ 605	$ 267	$ 1,694	$ (508)	$ 1,186
Gross Costs with the Public:								
Grants and Direct Payments	-	9,121	1,726	850	916	12,613	-	12,613
Credit Program Subsidy	-	(2)	-	(552)	-	(554)	-	(554)
Commodity Programs	4,813	-	-	-	-	4,813	-	4,813
Stewardship Land Acquisition	-	-	-	-	105	105	-	105
Other	356	861	(2)	(10)	41	1,246	-	1,246
Less: Earned Revenues from the Public	(2,098)	(71)	1	(564)	(15)	(2,747)	-	(2,747)
Net Costs with the Public	3,071	9,909	1,725	(276)	1,047	15,476	0	15,476
Net Cost of Operations	$ 3,139	$ 10,557	$ 1,831	$ 329	$ 1,314	$ 17,170	$ (508)	$ 16,662

The accompanying notes are an integral part of the statements.

Exhibit B

Commodity Credit Corporation
Consolidated Statement of Net Cost (Note 13), *Continued*

For the Fiscal Year Ended September 30, 2001
(Dollars in Millions)

	Commodity Operations	Income Support Programs	Conservation Reserve Program	Foreign Programs	Other	Combined Total	Eliminations	Consolidated Total
Program Costs:								
Intragovernmental Gross Costs	$ 542	$ 804	$ 120	$ 370	$ 348	$ 2,184	$ (534)	$ 1,650
Less: Intragovernmental Earned Revenue	(474)	(21)	-	(267)	(1)	(763)	534	(229)
Intragovernmental Net Costs	68	783	120	103	347	1,421	0	1,421
Gross Costs with the Public:								
Grants and Direct Payments	-	16,616	1,760	340	2,939	21,655	-	21,655
Credit Program Subsidy	-	6	-	63	-	69	-	69
Commodity Programs	3,344	-	-	-	-	3,344	-	3,344
Stewardship Land Acquisition	-	-	-	-	132	132	-	132
Other	705	851	(2)	(43)	16	1,527	-	1,527
Less: Earned Revenues from the Public	(2,165)	(93)	2	(626)	(4)	(2,886)	-	(2,886)
Net Costs with the Public	1,884	17,380	1,760	(266)	3,083	23,841	0	23,841
Net Cost of Operations	$ 1,952	$ 18,163	$ 1,880	$ (163)	$ 3,430	$ 25,262	$0	$ 25,262

The accompanying notes are an integral part of these statements.

Exhibit C

Commodity Credit Corporation
Consolidated Statement of Changes in Net Position (Note 14)

For the Fiscal Year Ended September 30, 2002
(Dollars in Millions)

	Cumulative Results of Operations	Capital Stock	Unexpended Appropriations
Beginning Balances	$ (24,363)	$ 100	$ 2,742
Budgetary Financing Sources:			
Appropriations Received	-	-	24,320
Appropriations Transferred - In:			
Realized Loss - Recission	-	-	21
Farm Service Agency	-	-	186
P.L. 480	-	-	202
Appropriations Transferred - Out:			
Realized Loss - Reimbursement	-	-	(22,821)
Farm Service Agency	-	-	(11)
P.L. 480	-	-	(175)
GSM	-	-	(1,970)
Other Adjustments	-	-	550
Appropriations Used	24,461	-	(1,661)
Nonexchange Revenue	2	-	-
Transfers In Without Reimbursement	-	-	-
Transfers Out Without Reimbursement	(2,845)	-	-
Other Financing Sources:			
Imputed Financing	747	-	-
Transfers In Without Reimbursement	12	-	-
Transfers Out Without Reimbursement	(1,310)	-	-
Other	59	-	-
Total Financing Sources	21,126	0	(1,359)
Net Cost of Operations	(16,662)	-	-
Net Results Not Affecting Net Position	-	-	-
Ending Balances	$ (19,899)	$ 100	$ 1,383

The accompanying notes are an integral part of these statements.

Exhibit D

Commodity Credit Corporation
Combined Statement of Budgetary Resources (Note 15)

For Fiscal Year Ended September 30, 2002
(Dollars in Millions)

	Budgetary	Non-Budgetary Credit Program Financing Accounts	Total
Budgetary Resources:			
Budget Authority:			
Appropriations Received	$ 24,320	$ -	$ 24,320
Borrowing Authority	34,054	396	34,450
Net Transfers (+/-)	(3,501)	-	(3,501)
Unobligated Balance:			
Beginning of Period	3,853	908	4,761
Net Transfers, Actual (+/-)	(6)	-	(6)
Spending Authority from Offsetting Collections:			
Earned:			
Collected	11,561	905	12,466
Receivable from Federal Sources	(467)	(68)	(535)
Change in Unfilled Customer Orders:			
Advance Received	209	-	209
Without Advance from Federal Sources	-	(1)	(1)
Subtotal	11,303	836	12,139
Recoveries of Prior Year Obligations	347	-	347
Permanently not Available	(41,167)	(170)	(41,337)
Total Budgetary Resources	$ 29,203	$ 1,970	$ 31,173
Status of Budgetary Resources:			
Obligations Incurred:			
Direct	1,477	509	1,986
Reimbursable	26,530	-	26,530
Subtotal	28,007	509	28,516
Unobligated Balance:			
Apportioned	977	1,435	2,412
Exempt from Apportionment	27	-	27
Unobligated Balance not Available	192	26	218
Total Status of Budgetary Resources	$ 29,203	$ 1,970	$ 31,173

Exhibit D

Commodity Credit Corporation
Combined Statement of Budgetary Resources (Note 15), *Continued*

For Fiscal Year Ended September 30, 2002
(Dollars in Millions)

	Budgetary	Non-Budgetary Credit Program Financing Accounts	Total
Relationship of Obligations to Outlays:			
Obligated Balance, Net Beginning of Period	$ 4,316	$ 38	$ 4,354
Obligated Balance, Net, End of Period:			
Accounts Receivable	(550)	(108)	(658)
Unfilled Customer Orders from Federal Sources	-	(1)	(1)
Undelivered Orders	3,644	109	3,753
Accounts Payable	1,211	24	1,235
Outlays:			
Disbursements	28,139	590	28,729
Collections	(11,771)	(903)	(12,674)
Subtotal	16,368	(313)	16,055
Less: Offsetting Receipts	(3)	(130)	(133)
Net Outlays	$ 16,365	$ (443)	$ 15,922

The accompanying notes are an integral part of these statements.

Exhibit E

Commodity Credit Corporation
Consolidated Statement of Financing (Note 16)

For the Fiscal Year Ended September 30, 2002
(Dollars in Millions)

Resources Used to Finance Activities:	
Budgetary Resources Obligated:	
Obligations Incurred	$ 28,516
Less: Spending Authority from Offsetting Collections and Recoveries	(12,486)
Obligations Net of Offsetting Collections and Recoveries	16,030
Less: Offsetting Receipts	(133)
Net Obligations	15,897
Other Resources:	
Donations and Forfeitures of Property	-
Transfers In/Out without Reimbursement	(1,298)
Imputed Financing from Costs Absorbed by Others	747
Other	59
Net Other Resources Used to Finance Activities	(492)
Total Resources Used to Finance Activities	15,405
Resources Used to Finance Items not Part of the Net Cost of Operations:	
Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered but not Yet Provided	336
Resources that Fund Expenses Recognized in Prior Periods	(1,806)
Budgetary Offsetting Collections and Receipts That Do Not Affect Net Cost of Operations	
Credit Program Collections which Increase Liabilities for Loan Guarantees or Allowances for Subsidy	1,152
Other	9,443
Resources that Finance the Acquisition of Assets	(15,820)
Other Resources or Adjustments to Net Obligated Resources that Do Not Affect Net Cost of Operations	(659)
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	(7,354)
Total Resources Used to Finance the Net Cost of Operations	8,051
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:	
Components Requiring or Generating Resources in Future Periods:	
Upward/Downward Reestimates of Credit Subsidy Expense	194
Increase in Exchange Revenue Receivable from the Public	(59)
Other	1,751
Total Components of Net Cost of Operations that will Require or Generate Resources in Future Periods	1,886
Components not Requiring or Generating Resources:	
Depreciation and Amortization	96
Revaluation of Assets or Liabilities	356
Other	6,273
Total Components of Net Cost of Operations that will not Require or Generate Resources	6,725
Total Components of Net Cost of Operations that will not Require or Generate Resources in the Current Period	8,611
Net Cost of Operations	$ 16,662

The accompanying notes are an integral part of these statements.

Note 1 - Significant Accounting Policies

These financial statements have been prepared to report the financial position and results of operations of the Commodity Credit Corporation (CCC or the Corporation). CCC's financial statements are presented in accordance with the Office of Management and Budget (OMB) guidance on the form and content of agency financial statements.

Reporting Entity

CCC is a Federal corporation operating within and through the United States Department of Agriculture (USDA). It was established to:

- stabilize, support, and protect farm income and prices;
- assist in the maintenance of balanced and adequate supplies of agricultural commodities; and
- facilitate the orderly distribution of those commodities.

CCC's statutory authority for its operations is found in the CCC Charter Act, 15 U.S.C. 714, et seq. It is managed by a Board of Directors, subject to the general supervision and direction of the Secretary of Agriculture, who is an ex-officio director and chairperson of the Board. The members of the Board and the Corporation's officers are currently officials of USDA.

CCC operations are financed through appropriated and revolving funds, as well as an authority to borrow from the U.S. Treasury. The U.S. Treasury also holds capital stock in the amount of $100 million, on which the Corporation pays interest. CCC receives direct appropriations for its foreign assistance programs and special activities, such as disaster aid. Permanent indefinite appropriation authority exists for programs subject to the Federal Credit Reform Act of 1990, as amended (Credit Reform). Receipts flowing through CCC's revolving fund include proceeds from the sale of CCC commodities, loan repayments, interest income, and various program fees.

CCC has no employees or facilities. Its programs are administered through various agencies including the USDA's Farm Service Agency (FSA), the Agricultural Marketing Service (AMS), the Natural Resources Conservation Service (NRCS), and the Foreign Agricultural Service (FAS); and the U.S. Agency for International Development. The accompanying financial statements include an allocation, as appropriate, of salaries and expenses (e.g., facility costs) incurred by these agencies. In other instances, CCC reimburses the other agencies for their administrative costs.

Basis of Accounting

The accounting principles and standards applied in preparing the financial statements and described in this note are in accordance with Generally Accepted Accounting Principles (GAAP) for Federal entities. This includes the reformatting of the financial statements to meet the new reporting requirements of OMB Bulletin No. 01-09, Form and Content of Agency Financial Statements.

Transactions are recorded on an accrual basis of accounting. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. All proprietary interfund balances and transactions have been eliminated. As required by OMB guidance, budgetary balances are presented on a combined basis, rather than consolidated.

Fund Balance with Treasury

Most CCC disbursements are made by either checks or electronic payments drawn against its account at Treasury. Generally, disbursements and receipts for which CCC is responsible are processed by the Federal Reserve Banks (FRB's), their branches, and the U.S. Treasury, which report activity to the Corporation.

Cash

Treasury reporting requirements for the Federal Agencies Centralized Trial Balance System II (FACTS II), for the preparation of Treasury and OMB year end reports, require that the Fund Balance with Treasury amount reported via

FACTS II be in agreement with what is reflected in Treasury's records. To adhere to these requirements, cash timing differences are reported as "in-transit". The cash balance consists of these cash-in-transit timing differences as a result of varying processing times and cut-off dates between CCC, Treasury, and other USDA entities.

The CCC does not maintain cash in commercial bank accounts.

Accounts Receivable

Accounts receivable arise from claims to cash or other assets against other entities, either based on legal provisions, such as payment due date, or goods or services provided.

Intragovernmental Receivables with the Department of Transportation (DOT)

The Cargo Preference provisions of the Food Security Act provide for the reimbursement of certain transportation costs the Corporation incurs under Section 416 (b) and P.L. 480 foreign donation programs. CCC periodically bills the Department of Transportation (DOT) and records a receivable for the future reimbursements. Because these billings are subject to review and adjustment, CCC defers recognizing income from these reimbursements until such time as management determines that amounts scheduled for collection from DOT are appropriate.

Commodity Loans

CCC makes both recourse and nonrecourse loans to producers on designated agricultural commodities. In the case of nonrecourse loans, producers have the option to: (a) repay the principal plus interest; (b) for certain announced commodities, repay the loan at the market rate; or (c) at maturity, forfeit the commodity in satisfaction of the loan. These loans are not subject to the accounting and reporting requirements of Credit Reform because these loans are less than 12 months in duration.

Interest is accrued on the unpaid principal balance of commodity loans, and is included in the reported net commodity loans receivable.

Commodity loans are reported net of an allowance for doubtful accounts, which reduces the loans to net realizable value. The allowances are based on the estimated loss on ultimate commodity disposition, when it is more likely than not that the loans will not be fully collected. The allowance also takes into account losses anticipated on the disposition of inventory acquired through loan forfeiture. When forfeited commodities are subsequently disposed, any loss on the disposition is realized as either a cost of sales or donation, depending on the type of disposition.

Tobacco loans are subject to the No-Net-Cost Tobacco Program Act of 1982, as amended, which requires tobacco producers to pay CCC a No-Net-Cost Assessment (NNCA) on each pound of tobacco they sell. Additionally, importers and purchasers of flue cured and burley tobacco are required to pay a NNCA on each pound of tobacco imported or purchased. These funds earn interest and are applied against future loan losses of the respective tobacco cooperative.

In addition, the Federal Agriculture Improvement and Reform Act of 1996 (1996 Act) provided for special assessments from producers and handlers to cover any losses on peanut loans. However, with the passage of the Farm Security and Rural Investment Act of 2002 (the 2002 Farm Bill), the peanut program changed to a marketing assistance loan program, and CCC no longer collects assessments.

Credit Program Receivables

CCC has several credit programs subject to Credit Reform requirements. Credit program receivables consist of:

- direct credits extended under P.L. 83-480 (P.L. 480) programs and the Food for Progress Program;
- guaranteed payments made under the Export Credit Guarantee programs;
- receivables in the Debt Reduction Fund;
- loans made to grain producers to build or upgrade farm storage and handling facilities;
- loans made to apple producers who incurred losses due to low market prices; and

- a loan made to the Texas Boll Weevil Eradication Foundation.

These receivables (including related interest), for both pre- and post-Credit Reform, are recognized as assets at the present value of their estimated net cash inflows. The difference between the outstanding principal of these receivables and the present value of their net cash inflows is recognized as an allowance.

In fiscal year 2002, CCC adopted the Balances Approach Reestimate Calculator (BARC) for computing the subsidy reestimates for its foreign Credit Reform programs and the Treasury Credit Reform Certificate Program guidelines for the accounting and reporting of subsidy reestimates and amortization.

To be consistent with other USDA agencies and in order to meet reporting requirements, CCC calculated and paid Treasury interest income and expense for its Credit Reform programs based on actual data through August 31, rather than at September 30.

Capitalized Interest

Rescheduling agreements frequently allow CCC to add uncollected interest to the principal balance of foreign credit and other foreign receivables (capitalized interest). In such circumstances, CCC records an allowance to reduce the receivable, including the capitalized interest, to the net present value of future cash flows. Interest income is recognized only when, in management's judgment, debtors have demonstrated the ability to repay the debt in the normal course of business.

Commodity Inventories

Commodity inventories, referred to as goods held under price support and stabilization programs in Statement of Federal Financial Accounting Standard No. 3, Accounting for Inventory and Related Property, represent commodities acquired by the Corporation that are eventually sold or otherwise disposed of to satisfy or help economic goals.

Inventories are recorded at acquisition cost plus processing and packaging costs incurred after acquisition. Acquisition cost is the amount of the loan settlement, excluding interest, or the amount of the purchase settlement price. Since loan rates are established by statute, inventory acquisitions are usually at a cost higher than market value.

Generally, disposition costs are based on the average cost of the commodity in inventory at the end of the previous month. However, in other cases, the cost is computed on the basis of actual (historical) cost of the commodity. This is prevalent with the following: (a) dispositions from peanut price support inventory; (b) simultaneous acquisition and disposition for commodity export programs; and (c) dispositions of commodities previously pledged as price support loan collateral which are acquired by CCC during the exchange of commodity certificates. Commodity certificates are negotiable instruments issued by CCC, which can be exchanged for a commodity owned or controlled by the Corporation.

Commodity inventories are reported at lower of cost or net realizable value through use of a commodity valuation allowance. This allowance is based on the estimated loss on commodity disposition, including donations (for which a 100 percent allowance is established).

General Property and Equipment

General property and equipment purchases are recorded at the acquisition cost plus any expenditures, such as freight, installation and testing, related to placing the asset into service. Purchases of personal property valued at $5,000 or more, with a useful life greater than 2 years, are capitalized. In addition, internal use software valued at $100,000 or more with a useful life greater than 2 years is capitalized. Internal use software development costs are accumulated and transferred to the software account upon completion. All other purchases of personal property or equipment are fully expensed in the year of acquisition. Equipment used directly in the operation of programs is depreciated to an estimated salvage value on a straight-line basis over a 5 to 10 year period.

Producer Assistance Advances

Public Law 107-25 (commonly referred to as the Agricultural Economic Assistance Act), signed in fiscal year 2001, authorized three grant programs, whereby the Corporation disbursed funds to state governments for various purposes such as promoting agriculture and supporting activities for specialty crops. These disbursements are accounted for as advances on the Other Assets line of the Balance Sheet and are recognized as expenses based on the states' reporting of their use of the funds.

Liabilities

CCC recognizes a liability in one of two ways, depending on the type of transaction. If an exchange transaction occurs (i.e., when CCC receives goods or services in return for a promise to provide money or other resources in the future), a liability is recognized in the period in which the exchange occurred. If a nonexchange transaction occurs (i.e., government programs where there is a one-way flow of resources or promises), a liability is recognized for any unpaid amounts due as of the reporting date.

Liabilities not covered by budgetary resources, disclosed in Note 11, result from the accrual of unpaid amounts due for the Conservation Reserve Program (CRP), where the budgetary resources for the program will not be made available until the subsequent fiscal year.

Resources Payable to Treasury

Resources payable to Treasury represents the net resources of the pre-Credit Reform programs. This liability is increased (or decreased) by net gains (or losses) incurred in these funds. In addition, it is reduced by payments to Treasury of excess funds not needed for working capital.

Credit Guarantee Liabilities

Credit guarantee liabilities represent the estimated net cash outflows (loss) of the guarantees on a net present value basis. To this effect, CCC records a liability and charges an expense to the extent, in management's estimate, CCC will be unable to recover claim payments under the post-Credit Reform Export Credit Guarantee programs.

Interest Income on Direct Credits and Credit Guarantees

Interest is accrued monthly on both performing and non-performing credits and credit guarantee receivables as it is earned using simple interest calculations based upon a 365-day year. A non-performing direct credit or credit guarantee receivable is defined as a repayment schedule under a credit agreement, with an installment payment in arrears more than 90 days. For those non-performing receivables, interest is not recognized as income; rather, it is deferred until the interest is received or the receivable is returned to performing status.

Conservation Programs

The fiscal year 2001 statements include certain FSA and NRCS residual activity related to conservation programs for which CCC assumed funding responsibility as a result of the 1996 Act. In July 2002, funding responsibility for the Wetlands Reserve Program (WRP), Farmland Protection Program (FPP), and Environmental Quality Incentives Program (EQIP) returned to NRCS; however, CCC remains responsible for obligations arising prior to that date. Thus, NRCS residual activity related to these programs are reported by NRCS, not CCC, for fiscal year 2002.

Prior Period Adjustments to Budgetary Balances

Budgetary balances reflected in this year's financial statements include certain prior period adjustments. Because there is no authoritative guidance on the accounting treatment of budgetary prior period adjustments, these adjustments are reflected in current year activity. Tables depicting these adjustments to the budgetary beginning balances are presented in the footnote to the Statement of Budgetary Resources (Note 15).

Allocation Transfers

OMB reporting requirements for allocation transfers state that, "The parent (transferor of the appropriation) should report the activity in its financial statements, unless the allocation transfer is material to the child's (recipient of the transfer) financial statements. If the allocation transfer is material to the child's financial statements, the child should report the activity relating to the allocation in all of its financial statements, except the Statement of Budgetary Resources." To meet these reporting requirements, the FSA allocation transfer programs are not included on the Corporation's Statement of Budgetary Resources. However, a further review of the Hazardous Waste Departmental shared appropriation (where CCC is the child agency) has determined that this activity differs from an allocation transfer. This is a shared account whereby the parent agency designates the child account to receive, and subsequently obligate and disburse allotments. This account retains the fund symbol identified with the original appropriation from which moneys are advanced, therefore the child agency reports the activity, including the budgetary activity, in its financial statements. For this reason, the Hazardous Waste Departmental shared appropriation activity is included on the Statement of Budgetary Resources.

During fiscal year 2002, CCC changed its accounting for the allocation transfer to the Agency for International Development (AID) to conform with existing Department of Treasury and OMB guidance as a result of clarifications received from Treasury.

Tax Status

CCC, as a Federal agency, is not subject to Federal, state, or local income taxes, and accordingly, no provision for income tax is necessary.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results will invariably differ from those estimates.

Reclassifications

Certain reclassifications have been made to the fiscal year 2001 statements to conform to the current fiscal year's presentation. Changes in format were made to more closely conform to the form and content guidelines issued by OMB.

Note 2 - Fund Balance with Treasury

Fund balances with Treasury, by type of fund, as of September 30, are as follows:

	(In Millions)	
	2002	2001
Revolving Funds	$ 517	$ (281)
Appropriated Funds	1,936	3,821
Total Fund Balance with Treasury	$ 2,453	$ 3,540

The status of fund balances with Treasury as of September 30, is as follows:

	(In Millions)	
	2002	2001
Unobligated Balance:		
Available	$ 1,553	$ 2,265
Unavailable	298	234
Obligated Balance not yet Disbursed	602	1,041
Total	$ 2,453	$ 3,540

CCC is authorized to use in the conduct of its business all funds appropriated, transferred, or allocated to it. The negative revolving fund amount in 2001 is a result of using these funds, which are offset by other funds available to the Corporation, to repay its borrowings from Treasury. The unavailable balance represents unobligated resources not yet apportioned by OMB and unobligated appropriations from prior years that are no longer available for obligation. There are no unreconciled differences between CCC's general ledger and the balances per Treasury's records. See Note 1 for a discussion on the treatment of timing differences.

Note 3 - Accounts Receivable, Net

Accounts receivable as of September 30, are as follows:

(In Millions)	2002	2001
Intragovernmental:		
Due from Treasury	$ 7	$ 205
Due from Transportation	--	134
Due from Other Agriculture Agencies	--	1
Due from Other Federal Agencies	--	36
Subtotal	$ 7	$ 376
Less: Allowance for Doubtful Accounts	(--)	(134)
Total Intragovernmental Accounts Receivable, Net	$ 7	$ 242
Public:		
Claims Receivable	$ 66	$ 66
Notes Receivable	3	3
Conservation Programs	--	2
Interest Receivable	23	35
Other	58	157
Subtotal	$ 150	$ 263
Less: Allowance for Doubtful Accounts	(112)	(137)
Total Public Accounts Receivable, Net	$ 38	$ 126

See Note 1 for a discussion on the allowance for doubtful accounts established against the receivable from the Department of Transportation.

Other public receivables consist of amounts due from program overpayments under such programs as the Market Loss Assistance, Peanut Marketing Assistance, Crop Loss Disaster Assistance, Dairy Market Loss Assistance, and production flexibility contracts.

Public accounts receivable are adjusted by a valuation allowance based on historical collection and write-off information, which reduces the receivables to their net realizable value. The change in the allowance for doubtful accounts on public receivables for the fiscal years ended September 30, are as follows:

(In Millions)	2002	2001
Allowance – Beginning of Fiscal Year	$ 137	$ 103
Less: Charge-offs	(10)	(57)
Add: Provision for Doubtful Accounts	(15)	91
Allowance - End of Fiscal Year	$ 112	$ 137

Note 4 – Commodity Loans, Net

Commodity loans receivable, by commodity, as of September 30, are as follows:

	2002	2001
	(In Millions)	
Tobacco	$ 598	$ 711
Wheat	174	323
Corn	205	293
Soybeans	63	82
Rice	206	196
Cotton	315	192
Other Commodities	39	99
Total Commodity Loans	1,600	1,896
Accrued Interest Receivable	129	171
Less: Allowance for Losses	(177)	(224)
Total Commodity Loans, Net	$ 1,552	$ 1,843

The change in the allowance for losses on commodity loans and related interest receivable for the fiscal years ended September 30, are as follows:

	2002	2001
	(In Millions)	
Allowance – Beginning of Fiscal Year	$ 224	$ 256
Less: Charge-offs	(826)	(820)
Add: Provision for Doubtful Accounts	779	788
Allowance - End of Fiscal Year	$ 177	$ 224

Note 5 - Credit Program Receivables, Net

Descriptions of CCC's direct credit and loan programs, and credit guarantee programs are presented below.

Direct credit and loan obligations and credit guarantee commitments made after fiscal year 1991, and the resulting direct credits and loans or credit guarantees, are governed by Credit Reform. Credit Reform requires agencies to estimate the cost of direct credits and loans, and credit guarantees at present value for the President's budget. Additionally, the present value of the subsidy costs (i.e., interest rate differentials, interest subsidies, delinquencies and defaults, fee offsets and other cash flows) associated with direct credits and loans, and credit guarantees are recognized as a cost in the year the direct credit and loan or credit guarantee is disbursed. The net present value of direct credits and loans and defaulted guarantee receivables at any point in time is the amount of the gross direct credit and loan receivable and defaulted guarantee receivable less the present value of the subsidy at that time.

Credit program receivables, net, or the value of assets related to direct credits and loans, and the defaulted credit guarantees, is not the same as the proceeds that would be expected to be received from selling the credits/loans.

CCC's foreign programs provide economic stimulus to both the U.S. and foreign markets, while also giving humanitarian assistance to the most needy people throughout the world, through both credit guarantee and direct credit programs.

Credit Guarantee Programs

CCC's Export Credit Guarantee programs encourage exports of U.S. agricultural products to buyers in countries where credit is necessary to maintain or increase U.S. sales, but where financing may not be available without such credit guarantees. The Corporation underwrites credit extended by the private banking sector in the United States (or, less commonly, by the exporter) under the GSM-102 (credit terms up to three years) and GSM-103 (credit terms up to ten years) programs. Under these programs, CCC does not provide financing, but guarantees payments due from foreign banks. Typically, 98 percent of principal and a portion of interest at an adjustable rate are covered. All guarantees under these programs are denominated in U.S. dollars.

Under the Supplier Credit Guarantee Program, CCC guarantees a portion of payments due from importers under short-term financing arrangements (up to 180 days) that exporters have extended directly to the importers for the purchase of U.S. agricultural products. All guarantees under this program are denominated in U.S. dollars.

The Facility Guarantee Program provides payment guarantees to facilitate the financing of manufactured goods and services exported from the United States to improve or establish agriculture-related facilities in emerging markets. The guarantees can have payment terms from 1 to 10 years. All guarantees under this program are denominated in U.S. dollars.

In the event that CCC pays a claim under the guarantee programs, CCC assumes the debt and treats it as a credit receivable for accounting and collection purposes. All guarantees outstanding at September 30, 2002, were issued post-1991.

Direct Credit Programs

Under the P.L. 480 Title I Program, CCC finances the sales of U.S. agricultural commodities to countries in need of food assistance on favorable credit terms (at low rates of interest for up to 30 years with grace periods of up to 7 years). P.L. 480 Title I provides for government-to-government (and some government-to-private entity) sales of U.S. agricultural commodities to developing countries on credit terms or for local currencies. Priority goes to countries with the greatest need for food that are undertaking economic development to improve food security and agricultural development, alleviate poverty, and promote broad based, equitable and sustainable development. All credits under this program are denominated in U.S. dollars.

The Food for Progress Program provides for a responsive food aid mechanism to encourage and support the expansion of private enterprise in recipient countries and is meant to help countries seeking to implement democratic and market reforms.

The Debt Reduction Fund is used to account for modified debt. Debt is considered to have been modified if the original debt has been reduced or the interest rate of the agreement changed. In contrast, when debt is rescheduled, only the date of payment is changed. Rescheduled debt is carried in the original fund until paid.

Paris Club

CCC permits debtor nations to reschedule debt under the aegis of the Paris Club. The Paris Club is an internationally recognized organization whose sole purpose is to address, on a case-by-case basis, liquidity problems faced by the world's most severely economically disadvantaged countries. While the Paris Club has no charter or formal operating procedures, it has been operating since 1978 under the leadership of the French Ministry of Economics and Finance. The general premise of the Paris Club's activities is to provide disadvantaged countries short-term liquidity relief to enable them to re-establish their credit worthiness. The Departments of State and Treasury lead the U.S. delegation and negotiations for all U.S. agencies. Only country-to-country debt is considered. For CCC, this includes P.L. 480 direct credits and claims paid under the GSM programs for which a sovereign entity is liable.

Treasury and State may also negotiate bi-lateral agreements with sovereign debtors for debt not qualifying for treatment by the Paris Club.

Economic Factors and Outlook Affecting Subsidy Reestimates

The reestimates for foreign credit subsidy reestimates are affected by four basic components:

- cash flow data (disbursements, collections including fees, original subsidy and scheduled future payments),
- interest rates,
- default calculations, and
- Inter-Agency Risk Assessment System (ICRAS) country grades.

Cash flow data may be modified to reflect pending reschedulings. Otherwise, the reestimate process is such that these elements permit little discretionary changes by CCC. The interest rates used in the reestimate are developed and published by Treasury for use government-wide. OMB mandates the default calculation methodology. ICRAS grades are a product of the Inter-Agency Risk Assessment Committee and their use is also mandated. ICRAS grades were released earlier this year to allow for timely calculation of the subsidy reestimates.

During fiscal year 2002, after analyzing foreign credits government-wide, OMB determined that actual performance on foreign credits was better than had been previously forecast and therefore mandated a change to the default calculation methodology. As a consequence, significant downward subsidy reestimates were anticipated across the Federal government for Credit Reform programs, including CCC's foreign Credit Reform programs.

Sovereign and non-sovereign lending risks are regularly analyzed and sorted into one of eleven risk categories in a manner similar to ratings generated by private rating agencies such as Standard and Poors and Moody's. Each of the eleven risk categories is also associated with a default estimate. For fiscal year 2002, the average spread between the yield to maturity of dollar denominated bonds of like-rated sovereigns and comparable maturity Treasuries were used to generate the default estimate for each rating.

Changes in Economic Conditions Having Measurable Effects Upon Subsidy Rates and Reestimates

Current world events and government initiatives have a major impact upon CCC's foreign receivables. For example, the United States is currently considering debt forgiveness or reduction of debt to poor countries under the Highly Indebted Poor Countries (HIPC) Initiative. Discussions are currently in progress with a number of countries which, if successful, may affect CCC.

CCC is unaware of any measurable events or pending legislation at this time that may affect subsidy rates and reestimates in the future.

Direct Loan Programs

The **Farm Storage Facility Loan (FSFL) Program** was implemented to provide low cost financing for producers to build or upgrade on-farm commodity storage and handling facilities. The loans have a term of seven years with a requirement of annual repayment installments. Interest on these loans is accrued monthly from the date of disbursement at the rate equivalent to the rate of interest charged on U.S. Treasury securities of comparable maturity.

The **Boll Weevil Program** made available to the Texas Boll Weevil Eradication Foundation an interest free $10 million loan to be repaid over ten years.

The **Apple Loan Program** provides loans to apple producers who are suffering hardships due to low prices following the 1998-1999 growing season when apple prices fell to their lowest levels in nearly 10 years. Eligible applicants may obtain loans up to $300 per acre of apple trees in production in 1999 or 2000, up to a maximum indebtedness of $500,000. The maximum repayment term is three years and the interest rate is equivalent to the rate of interest charged on U.S. Treasury securities of comparable maturity.

A summary of CCC's net credit program receivables is as follows:

	(In Millions) September 30 2002	2001
Direct Credit and Loan Programs:		
Pre-1992:		
P.L. 480 Title I	$ 3,683	$ 3,968
Post-1991:		
P.L. 480 Title I	969	681
Debt Reduction Fund	88	45
Food for Progress	256	131
Farm Storage Facility	150	96
Boll Weevil Program	3	4
Apple Loan Program	9	13
Defaulted Credit Guarantees:		
Pre-1992 Export Credit Guarantees	2,632	2,610
Post-1991 Export Credit Guarantees	1,036	758
Total Credit Program Receivables, Net	$ 8,826	$ 8,306

P.L. 480 direct credits outstanding that were obligated prior to fiscal year 1992 and related interest receivable as of September 30, are as follows:

(In Millions)

2002	Credit Receivables, Gross	Interest Receivable, Gross	Allowance for Uncollectible Accounts	Credit Program Receivables, Net
P.L. 480 Title I	$ 7,852	$ 90	$ (4,259)	$ 3,683

(In Millions)

2001	Credit Receivables, Gross	Interest Receivable, Gross	Allowance for Uncollectible Accounts	Credit Program Receivables, Net
P.L. 480 Title I	$ 8,219	$ 87	$ (4,338)	$ 3,968

P.L. 480 direct credits and direct loans for FSFL, Boll Weevil, and apple loans that were obligated after fiscal year 1991 and related interest receivable outstanding as of September 30, are as follows:

(In Millions)

2002	Credit Receivables, Gross	Interest Receivable, Gross	Subsidy Allowance	Credit Program Receivables, Net
P.L. 480 Title I	$ 2,334	$ 23	$ (1,388)	$ 969
Debt Reduction Fund	236	1	(149)	88
Food for Progress	409	12	(165)	256
Farm Storage Facility	144	10	(4)	150
Boll Weevil Program	10	--	(7)	3
Apple Loan Program	8	--	1	9
Total	$ 3,141	$ 46	$ (1,712)	$ 1,475

(In Millions)

2001	Credit Receivables, Gross	Interest Receivable, Gross	Subsidy Allowance	Credit Program Receivables, Net
P.L. 480 Title I	$ 2,260	$ 24	$ (1,603)	$ 681
Debt Reduction Fund	132	--	(87)	45
Food for Progress	465	13	(347)	131
Farm Storage Facility	94	4	(2)	96
Boll Weevil Program	10	--	(6)	4
Apple Loan Program	11	--	2	13
Total	$ 2,972	$ 41	$ (2,043)	$ 970

Defaults on credit guarantees made prior to fiscal year 1992 and related interest receivable as of September 30, are as follows:

(In Millions)

2002	Credit Receivables, Gross	Interest Receivable, Gross	Allowance for Uncollectible Accounts	Credit Program Receivables, Net
Export Credit Guarantee Programs	$ 5,171	$ 28	$ (2,567)	$ 2,632

(In Millions)

2001	Credit Receivables, Gross	Interest Receivable, Gross	Allowance for Uncollectible Accounts	Credit Program Receivables, Net
Export Credit Guarantee Programs	$ 5,375	$ 30	$ (2,795)	$ 2,610

Defaults on credit guarantees made after fiscal year 1991 and related interest receivable as of September 30, are as follows:

(In Millions)

2002	Credit Receivables, Gross	Interest Receivable, Gross	Subsidy Allowance	Credit Program Receivables, Net
Export Credit Guarantee Programs	$ 1,759	$ 47	$ (770)	$ 1,036

(In Millions)

2001	Credit Receivables, Gross	Interest Receivable, Gross	Subsidy Allowance	Credit Program Receivables, Net
Export Credit Guarantee Programs	$ 1,772	$ 29	$ (1,043)	$ 758

The change in the subsidy allowance for outstanding direct credits and loans that were obligated after fiscal year 1991 as of September 30, is as follows:

	(In Millions)	
	2002	2001
Subsidy Allowance – Beginning of Fiscal Year, Unadjusted	$ 2,043	$ 2,044
Prior Period Adjustments	--	(1)
Subsidy Allowance – Beginning of Fiscal Year, As Adjusted	2,043	2,043
Subsidy expense for current year disbursements:		
Interest rate differential	37	28
Default costs (net of recoveries)	30	32
Fees and other collections	--	*
Other subsidy costs	15	*
Total subsidy expense	82	61
Adjustments:		
Loan modifications	9	35
Fees received	--	--
Subsidy allowance amortization	6	2
Other	105	--
Balance before reestimates	2,245	2,141
Subsidy reestimates:		
Interest rate reestimate	(139)	5
Technical/default reestimate	(394)	(103)
Total subsidy reestimates	(533)	(98)
Subsidy Allowance – End of Fiscal Year	$ 1,712	$ 2,043

* Less than $500 thousand

For the fiscal years ended September 30, subsidy expense for current year disbursements of post-1991 direct credits and loans, modifications (Mods.) and subsidy reestimates are as follows:

(In Millions)

2002	Subsidy Expense for New Direct Loans Disbursed: Interest Differential	Defaults	Fees and Other Colls.	Other	Total	Mods.: Total	Reestimates: Interest Rate	Technical	Total	Grand Total
P.L. 480, Title I	$ 37	$ 29	$ --	$ 15	$ 81	$ --	$ (138)	$ (210)	$ (348)	$ (267)
Debt Reduction Fund	--	--	--	--	--	9	--	(69)	(69)	(60)
Food for Progress	--	--	--	--	--	--	--	(112)	(112)	(112)
Farm Storage Facility	--	1	--	--	1	--	(1)	(5)	(6)	(5)
Boll Weevil Program	--	--	--	--	--	--	--	1	1	1
Apple Loan Program	--	--	--	--	--	--	--	1	1	1
Total	$ 37	$ 30	$ 0	$ 15	$ 82	$ 9	$ (139)	$ (394)	$ (533)	$ (442)

(In Millions)

2001	Subsidy Expense for New Direct Loans Disbursed: Interest Differential	Defaults	Fees and Other Colls.	Other	Total	Mods.: Total	Reestimates: Interest Rate	Technical	Total	Grand Total
P.L. 480, Title I	$ 28	$ 24	$ --	$ --	$ 52	$ --	$ 6	$ (48)	$ (42)	$ 10
Debt Reduction Fund	--	--	--	--	--	35	--	(18)	(18)	17
Food for Progress	--	--	--	--	--	--	--	(34)	(34)	(34)
Farm Storage Facility	*	2	*	--	2	--	1	(3)	(2)	0
Boll Weevil Program	--	6	--	--	6	--	--	--	--	6
Apple Loan Program	*	--	*	*	1	--	(2)	--	(2)	(1)
Total	$ 28	$ 32	$ *	$ *	$ 61	$ 35	$ 5	$ (103)	$ (98)	$ (2)

* Less than $500 thousand

Fiscal year 2002 and 2001 reestimate amounts include reestimates calculated for cumulative disbursements for all cohorts. For fiscal year 2001, technical reestimates for budget purposes were calculated separately. In fiscal year 2002, CCC converted to OMB's BARC to calculate reestimates on its foreign Credit Reform funds and cohorts.

For the fiscal years ended September 30, current and prior year disbursements of post-1991 direct credits and loans are as follows:

(In Millions)

	2002	2001	Current Year Over (Under) Prior Year
P.L. 480 Title I	$ 122	$ 101	$ 21
Debt Reduction Fund	--	--	--
Food for Progress	--	--	--
Farm Storage Facility	66	84	(18)
Boll Weevil Program	--	10	(10)
Apple Loan Program	1	11	(10)
Total	$ 189	$ 206	$ (17)

As of September 30, post-1991 credit guarantees outstanding are as follows:

(In Millions)

2002	Face Value: Post-1991 Outstanding Principal	Face Value: Post-1991 Outstanding Interest	Guaranteed*: Post-1991 Outstanding Principal	Guaranteed*: Post-1991 Outstanding Interest
Export Credit Guarantee Programs	$ 4,893	$ 212	$ 4,706	$ 64

(In Millions)

2001	Face Value: Post-1991 Outstanding Principal	Face Value: Post-1991 Outstanding Interest	Guaranteed*: Post-1991 Outstanding Principal	Guaranteed*: Post-1991 Outstanding Interest
Export Credit Guarantee Programs	$ 4,440	$ 324	$ 4,320	$ 146

* Outstanding principal and interest guaranteed represents a contingent liability for amounts owed by foreign banks to exporters or assignee U.S. financial institutions participating in the program.

The liabilities for post-1991 credit guarantees for the fiscal years ended September 30, are as follows:

(In Millions)

	2002	2001
Export Credit Guarantee Program Liabilities	$ 411	$ 341

The change in the liability for post-1991 credit guarantees as of September 30, is as follows:

	(In Millions)	
	2002	2001
Credit Guarantee Liability - Beginning of Fiscal Year, Unadjusted	$ 341	$ 92
Prior Period Adjustments	--	175
Credit Guarantee Liability - Beginning of Fiscal Year, As Adjusted	341	267
Subsidy expense for current year disbursements:		
Default costs (net of recoveries)	120	214
Fees and other collections	(10)	(17)
Total subsidy expense	110	197
Adjustments:		
Fees received	20	18
Claim payments to lenders	(40)	(42)
Interest accumulation on the liability balance	--	70
Other	54	--
Balance before reestimates	485	510
Subsidy reestimates:		
Interest rate reestimate	(588)	--
Technical/default reestimate	514	(169)
Total subsidy reestimates	(74)	(169)
Credit Guarantee Liability - End of Fiscal Year	$ 411	$ 341

Subsidy expense, net of fees and other collections, for current year disbursements related to credit guarantees made after fiscal year 1991, and subsidy reestimates for the fiscal years ended September 30, are as follows:

(In Millions)

	Subsidy Expense for New Credit Guarantees Disbursed					Reestimates			
2002	Interest Supplement	Defaults	Fees and Other Colls.	Other	Total	Interest Rate	Technical	Total	Grand Total
Export Credit Guarantee Programs	$ 0	$ 120	$ (10)	$ 0	$ 110	$ (588)	$ 514	$ (74)	$ 36

(In Millions)

	Subsidy Expense for New Credit Guarantees Disbursed					Reestimates			
2001	Interest Supplement	Defaults	Fees and Other Colls.	Other	Total	Interest Rate	Technical	Total	Grand Total
Export Credit Guarantee Programs	$ 0	$ 214	$ (17)	$ 0	$ 197	$ 0	$ (169)	$ (169)	$ 28

Fiscal year 2002 and 2001 reestimate amounts include reestimates calculated for cumulative disbursements for all cohorts. For fiscal year 2001, technical reestimates for budget purposes were calculated separately. In fiscal year 2002, CCC converted to OMB's BARC to calculate reestimates on its foreign Credit Reform funds and cohorts.

For the fiscal years ended September 30, current and prior year credit guarantee disbursements are as follows:

(In Millions)

	2002		2001	
	Outstanding Principal, Face Value	Outstanding Principal, Guaranteed	Outstanding Principal, Face Value	Outstanding Principal, Guaranteed
Export Credit Guarantee Programs	$ 3,340	$ 3,131	$ 2,974	$ 2,892

For each of the fiscal years ended September 30, 2002 and 2001, administrative expenses on direct credit and loan programs were $2 million, and $4 million for the credit guarantee programs.

Fiscal years 2002 and 2001 subsidy rates for direct credits and loans are as follows:

(Percentages)

2002	Interest Differential	Defaults	Fees and Other Collections	Other	Total
P.L. 480 Programs	46.07	30.82	--	4.84	81.73
Farm Storage Facility	0.30	2.24	(0.12)	--	2.42

The Boll Weevil and Apple Loan Programs are one year programs, cohort 2001. Therefore, the rates for the current year 2002 cohort do not apply.

2001	Interest Differential	Defaults	Fees and Other Collections	Other	Total
P.L. 480 Programs	28.18	24.54	--	18.79	71.51
Farm Storage Facility	0.01	2.25	(0.12)	--	2.14
Boll Weevil Program	--	60.00	--	--	60.00
Apple Loan Program	1.94	3.13	--	(0.06)	5.01

Fiscal years 2002 and 2001 subsidy rates for credit guarantee programs are as follows:

(Percentages)

2002	Defaults	Fees and Other Collections	Total
Export Credit Guarantee Programs	7.41	(0.66)	6.75

2001	Defaults	Fees and Other Collections	Total
Export Credit Guarantee Programs	8.69	(0.65)	8.04

Subsidy rates are used to compute each year's subsidy expenses as disclosed above. The subsidy rates disclosed pertain only to the current year's cohorts. These rates cannot be applied to the direct credits and loans and credit guarantees disbursed during the current reporting year to yield the subsidy expense. The subsidy expense for new direct credits and loans and credit guarantees reported in the current year could result from disbursements from both current year and prior year(s) cohorts. The subsidy expense reported in the current year also includes modifications and reestimates.

The principal balance of CCC direct credit and credit guarantee receivables in a non-performing status at September 30, 2002 and 2001, totaled $3,462 million and $3,200 million, respectively, compared to a total principal balance (performing and non-performing) at September 30, 2002 and 2001, of $17,761 million and $18,223, respectively. If interest had been reported on these non-performing receivables, instead of reported only to the extent of the collections received, direct credit and credit guarantee interest income would have increased by $59 million to a total of $1,392 million in fiscal year 2002, and increased by $129 million to a total of $1,741 million in fiscal year 2001. During the entire delinquency, if interest had been reported on these non-performing receivables, instead of reported only to the extent of the collections received, interest income would have increased by $856 million in fiscal year 2002 and $797 million in fiscal year 2001.

Direct credit and credit guarantee principal receivables under rescheduling agreements as of September 30, 2002 and 2001, were $7,494 million and $7,995 million, respectively. During fiscal years 2002 and 2001, CCC entered into agreements with debtor countries to reschedule their delinquent debt owed to CCC. These reschedulings totaled $152 million in delinquent principal and $55 million in delinquent interest during fiscal year 2002, and $173 million in delinquent principal and $43 million in delinquent interest during fiscal year 2001.

During fiscal year 2002, the Government of the United States and the Government of Guinea entered into an agreement providing debt forgiveness under the HIPC Initiative. This modification resulted in the reduction of P.L. 480 direct credits of $3 million in principal owed to CCC. The discount rate used for calculating the modification expense was 6.2971%.

In addition, during fiscal year 2002 the Government of the United States and the Government of Peru entered into a Tropical Forest Agreement to facilitate the conservation, protection, restoration, and sustainable use and management of tropical forests in Peru. This modification resulted in the reduction of P.L. 480 direct credits of $10.6 million in principal owed to CCC with a discount rate of 5.4684% used for calculating the modification expense. A similar agreement was entered into with El Salvador during fiscal year 2001. This modification resulted in the reduction of P.L. 480 direct credits of $3 million in principal and $1 million of accrued interest owed to CCC with a discount rate of 6.36% used for calculating the modification expense.

The Paris Club Agreed Minutes of April 14, 2000, reduced Tanzania credit guarantees owed to CCC. As a result of this debt reduction, principal and interest in the amount of $4 million was written-off from CCC's Liquidating Fund in fiscal year 2001.

Note 6 - Commodity Inventories, Net

Inventory activity for the fiscal years ended September 30, are as follows:

	(In Millions) 2002	2001
Commodity Inventories – Beginning of Fiscal Year	$ 2,285	$ 1,204
Acquisitions	5,063	4,396
Cost of Sales	(4,160)	(2,782)
Donations	(699)	(576)
Other Dispositions, Additions and Deductions	(2)	43
Commodity Inventories - End of Fiscal Year	2,487	2,285
Less: Allowance for Losses	(1,763)	(1,407)
Commodity Inventories, Net	$ 724	$ 878

Commodity loan forfeitures during the fiscal years ended September 30, 2002 and 2001, were $165 million and $1,085 million, respectively. Estimated future commodity donations are expected to be $548 million. An analysis of the change in inventory by commodity for the fiscal years ended September 30, 2002 and 2001, is presented in the Required Supplementary Information section.

Restrictions on Commodity Inventory

In accordance with the Agricultural Act of 1970, as amended, CCC may establish, maintain, and dispose of a separate reserve of inventories for the purpose of alleviating distress caused by a natural disaster. These inventories may consist of feed grains, soybeans, and wheat. The reserve has been depleted as of 1997. By statute, the amount held in reserve cannot exceed 20 million bushels.

CCC maintains a required commodity reserve of 74 million bushels of wheat valued at $274 million for use when domestic supplies are so limited that quantities cannot meet the availability criteria under P.L. 480. In addition, if commodities that meet unanticipated needs under Title II of P.L. 480 cannot be made available in a timely manner, the Secretary may release up to 500,000 metric tons of wheat or an equivalent value of eligible commodities, plus up to 500,000 metric tons of eligible commodities that could have been released, but were not released, under this authority in prior fiscal years. Commodities are to be used solely for emergency food assistance in developing countries. As a result of the 1996 Act, the reserve may include rice, corn, and sorghum, as well as wheat. The reserve is established at 4 million metric tons and is replenished through purchases or by designation of commodities owned by CCC. The authority to replenish the reserve expires at the end of fiscal year 2002.

As of September 30, 2002 and 2001, CCC had tobacco inventory in the amount of $599 million and $609 million, respectively. Since the Corporation is legislatively limited in how it may dispose of this inventory, an allowance equal to 100 percent of the tobacco inventory value has been established.

As of September 30, 2001, CCC had refined beet sugar inventory in the amount of $9 million which was forfeited to satisfy a commodity loan. Due to litigation with the producer, this inventory was not available for CCC use. During fiscal year 2002, the litigation was settled and the refined beet sugar was sold.

Note 7 – General Property and Equipment, Net

General property and equipment is depreciated to its estimated salvage value on a straight-line basis. ADP equipment has a service life of 6 years, while non-expendable administrative property is depreciated over a service life range of 5 to 10 years. The salvage value, as a percentage of acquisition cost, is 10 percent for ADP equipment, and 5 to 20 percent for non-expendable administrative property.

Capitalized software development costs include contractor developed software, purchased software, and internally developed software. Internal use software consists of activities associated with the establishment of a new accounting system for CCC, which was implemented in fiscal year 2000. Internal use software costs are capitalized and amortized over a period of 5 years, beginning with the first year the software is fully operational. Also included are costs incurred by FSA reflected as software-in-development on CCC's financial statements until such time as the software is completed and put into operation. At that time, amortization will begin.

General property and equipment as of September 30, is as follows:

(In Millions)

2002	Acquisition Value	Accumulated Depreciation	Net Book Value
ADP Equipment	$ 98	$ (96)	$ 2
Capitalized Software Development Costs	25	(8)	17
Total General Property and Equipment	$ 123	$ (104)	$ 19

(In Millions)

2001	Acquisition Value	Accumulated Depreciation	Net Book Value
ADP Equipment	$ 118	$ (114)	$ 4
Capitalized Software Development Costs	13	(7)	6
Total General Property and Equipment	$ 131	$ (121)	$ 10

Note 8 – Debt to the Treasury

Debt to the Treasury, categorized as interest bearing and non-interest bearing notes, as of September 30, are as follows:

	(In Millions) 2002	2001
Debt – Beginning of Fiscal Year:		
Interest Bearing	$ 13,836	$ 15,320
Non-Interest Bearing	11,263	9,558
Total Debt Outstanding – Beginning of Fiscal Year	25,099	24,878
New Debt:		
Interest Bearing	20,143	23,549
Non-Interest Bearing	--	3,764
Total New Debt	20,144	27,313
Repayments:		
Interest Bearing	(24,822)	(25,051)
Non-Interest Bearing	--	(2,059)
Total Repayments	(24,822)	(27,110)
Interest Refinanced	5	18
Debt – End of Fiscal Year		
Interest Bearing	9,162	13,836
Non-Interest Bearing (Note 15)	11,263	11,263
Total Debt Outstanding – End of Fiscal Year	$ 20,425	$ 25,099

In addition to borrowings and repayments in the table above, the total amount of debt principal and interest refinanced was $14,864 million and $11,740 million in fiscal years 2002 and 2001, respectively. Of these amounts, $14,859 million and $11,722 million consisted of outstanding borrowings rolled over in fiscal years 2002 and 2001, respectively. Accrued interest rolled over into notes payable was $5 million and $18 million in fiscal years 2002 and 2001, respectively.

In fiscal year 2002, CCC was fully reimbursed for its fiscal year 2001 net realized losses. In addition, no repayments were applied to the non-interest bearing notes since the interest bearing notes were not fully liquidated.

Interest on borrowings under CCC's permanent indefinite borrowing authority from Treasury is paid at a rate based upon the average interest rate of all outstanding marketable obligations (of comparable maturity date) of the United States as of the preceding month. Monthly interest rates ranged from 1.75 percent to 3.25 percent during fiscal year 2002 and from 3.500 percent to 6.125 percent during fiscal year 2001.

Interest expense incurred on these borrowings was $211 million and $434 million for fiscal years 2002 and 2001, respectively.

The fiscal year 2002 and 2001 interest rates on long-term borrowings under the permanent indefinite borrowing authority for the Credit Reform programs are calculated using the OMB Financing Account Interest Calculator. For the 2001 and future cohorts, the single effective rate and budget assumptions are used.

The terms for borrowings made for the Export Credit Guarantee programs range from under 3 years up to 10 years. Currently, maximum loan terms do not exceed 7 years, while the repayment terms for borrowings for the P.L. 480 program are 30 years. The repayment terms for direct loans under the FSFL program is 7 years, 3 years for direct loans under the Apple Loan Program, and 10 years for the direct loan made under the Boll Weevil program. Interest expenses incurred on borrowings associated with these programs amounted to $164 million and $191 million in fiscal years 2002 and 2001, respectively.

See Note 15 for additional information on CCC's borrowing.

Note 9 – Deposit and Trust Liabilities

Deposit and trust liabilities are amounts advanced to or deposited with CCC, on behalf of other entities. The balances, categorized as intragovernmental and public, as of September 30, are as follows:

	(In Millions)	
	2002	2001
Intragovernmental:		
Treasury	$ --	$ (7)
Other Agriculture Agencies	892	745
Total Intragovernmental Deposit and Trust Liabilities	$ 892	$ 738
Public:		
Tobacco Program	$ 593	$ 662
Other	46	43
Total Public Deposit and Trust Liabilities	$ 639	$ 705

Note 10 – Other Liabilities

Other liabilities as of September 30, are as follows:

	(In Millions)	
	2002	2001
Intragovernmental:		
Accrued Reimbursable Agreements	$ 4	$ 4
Excess Subsidy Payable to Treasury	990	170
Other	24	2
Total Other Intragovernmental Liabilities	$ 1,018	$ 176
Public:		
Payable to Producers	$ 2	$ 9
Total Other Public Liabilities	$ 2	$ 9

These liabilities are considered current.

Note 11 - Accrued Liabilities

Accrued liabilities as of September 30, are as follows:

	(In Millions) 2002	2001
Liabilities Covered by Budgetary Resources		
Income Support Programs	$ 144	$ 894
Export Programs	110	--
Hazardous Waste Program	15	--
Cotton User Marketing Certificates	6	8
Conservation Programs	1	4
Other Programs	16	3
Subtotal	$ 292	$ 909
Liabilities Not Covered by Budgetary Resources		
Conservation Reserve Program (Note 12)	$ 1,751	$ 1,806
Total Accrued Liabilities	$ 2,043	$ 2,715

Accrued liabilities for the income support programs decreased from the prior year due to a change in accounting policy which eliminated accruals for programs where payments to be made in the future are not reasonably estimable.

These liabilities are considered current.

Note 12 – Commitments and Contingencies

CCC has commitments and contingencies as discussed below which are not otherwise reflected on the financial statements. Sales and other disposition commitments are not reflected in the accounts, but are considered in establishing the allowance for loss on commodity inventories.

Under WRP, CCC purchases easements, based on agricultural value, to restore wetlands that have previously been drained and converted to agricultural uses, to protect or enhance wetlands on the owner's property. WRP also provides an opportunity for landowners to receive cost-share payments to restore, protect, or enhance a wetland without selling an easement. Program expenses for the fiscal year ended September 30, 2002 and 2001, were $104 million and $132 million, respectively. At September 30, 2002 and 2001, CCC's undelivered orders on current contracts are $145 million and $230 million, respectively.

The Dairy Export Incentive Program is authorized under the Food Security Act of 1985, to facilitate the export of U.S. dairy products. Under this program, CCC pays the exporter a bonus, when necessary, to enable an exporter to sell the product at a competitive world price. Program expenses were $25 million during each of the fiscal years ended September 30, 2002 and 2001. On September 30, 2002 and 2001, CCC's undelivered orders on current contracts are $46 million and $17 million, respectively.

The Market Access Program was authorized by the Agriculture Trade Act of 1978, as amended, to encourage the development, maintenance, and expansion of commercial export markets for agricultural commodities through cost-share assistance to eligible trade organizations that implement a foreign market development program. CCC makes funds available to reimburse program participants for authorized promotional expenses. Program expenses were $96 million during each of the fiscal years ended September 30, 2002 and 2001. At September 30, 2002 and 2001, CCC's undelivered orders on current contracts are $178 and $166 million, respectively.

EQIP was reauthorized by the 2002 Farm Bill to provide a voluntary conservation program for farmers and ranchers that promotes agricultural production and environmental quality as compatible national goals. Program expenses for the fiscal year September 30, 2002 and 2001, were $146 million and $131 million respectively. At September 30, 2002 and 2001, CCC's undelivered orders on current contracts are $465 and $410 million, respectively.

The Noninsured Crop Assistance Program (NAP) was authorized as a CCC program under the 1996 Act and is a standing crop disaster aid program for crops that are not covered by catastrophic risk protection crop insurance. Program expenses for the fiscal year ended September 30, 2002 and 2001, were $182 million and $63 million, respectively. It is estimated that $192 million will be outlayed in fiscal year 2003.

Commitments to acquire commodities represent the contract value of commodities not yet delivered under CCC purchase contracts. Commodity contracts amounted to $397 million and $297 million at September 30, 2002 and 2001, respectively.

The Corporation formerly operated approximately 4,500 grain storage facilities in the United States. To date, at approximately 120 of these facilities, Carbon Tetrachloride (a fumigant commonly used at grain storage facilities during that time) was discovered in groundwater. Payments for site inspection and cleanup, as well as operations and maintenance, were a total of $7 million in both fiscal years 2002 and 2001, respectively. In fiscal year 2002, CCC recorded an estimate of the total liability for investigation and remediation of affected sites totaling $15 million. CCC estimates the range of potential loss to be between $15 million and $67 million.

In fiscal year 2003, the Department is expected to provide funding of $16 million under the ongoing Department-wide hazardous waste management program to remain available until expended. A portion of this funding will be allotted to CCC. Potential costs are extremely difficult to estimate until site investigations are completed. CCC intends to monitor the cost estimate and make revisions as necessary.

Through CRP, participants sign 10-15 year contracts to remove land from production in exchange for an annual rental payment. The participants also receive a one-time payment equal to not more than 50 percent of the eligible costs of establishing conservation practices on the reserve acreage. CCC estimates that the future liability for CRP annual rental payments through fiscal year 2011 is $20 billion. This estimate is based on current program levels with the assumption that expiring lands are re-enrolled or replaced with lands of equal value. At September 30, 2002 and 2001, accrued payments for CRP totaled $1,751 and $1,806 million, respectively.

The following is a schedule of future minimum rental payments required under FSA operating leases for county office space which CCC is directly liable as of September 30, 2002. The leases can be canceled after a period not to exceed 120 days.

	(In Millions)
2003	$ 4
2004	1
2005	*
2006	*
2007 and thereafter	*
Total	$ 5

* Less than $500 thousand

Allocated rent expense net of reimbursements received on these leases was $56 million and $60 million for fiscal years 2002 and 2001, respectively.

In the normal course of business, CCC becomes involved in legal disputes and claims of many kinds and CCC, through the Office of General Counsel (OGC) and the U.S. Department of Justice, vigorously defends its position in such actions.

In Bair v. Veneman, plaintiffs claim a superior security interest in sugar pledged as collateral for a CCC loan. The sugar was subsequently forfeited to CCC in satisfaction of the loan. CCC prevailed in the Federal District Court and the matter is on appeal. CCC's potential liability is approximately $4 million.

In Fullenkamp v. Veneman, plaintiffs seek a declaratory judgment that the manner in which CCC intends to implement a dairy payment program under the 2002 Farm Bill is not consistent with the authorizing provisions of the Act. CCC's potential liability is approximately $2.5 billion. CCC intends to contest the claim.

In the Maersk-Sealand issue, Maersk-Sealand, a provider of ocean transportation services, is seeking recovery from CCC for container demurrage and other costs incurred by Maersk-Sealand in connection with shipments of various commodities under CCC international food aid donations to Russia. Because of rejection of donated cargo by Russian Customs, CCC was forced to divert cargo to other destinations. Maersk-Sealand is claiming that it should be reimbursed for expenses incurred while the cargo was in its custody until CCC was able to finally dispose of the cargo. CCC's potential liability is less than $1 million.

Note 13 – Disclosures Related to the Statement of Net Cost

Credit Program Subsidy

In fiscal year 2002, OMB mandated a change in the default calculation used in deriving Credit Reform subsidy re-estimates for foreign credits. This resulted in a downward re-estimate of subsidy, thereby contributing to the negative Credit Program Subsidy of $552 million for the foreign programs.

Other Program Costs

Other program costs for the fiscal years ended September 30, 2002 and 2001, are $1,246 million and $1,527 million, respectively. Amounts in ( ) on the face of the statement represent the establishment of a receivable or claim for program payment refunds.

Eliminations

The intragovernmental net cost for eliminations is the result of intercompany transactions that impacted two different financial statements. The required elimination is reported on the Statement of Net Cost, Intragovernmental Gross Costs line and the Statement of Changes in Net Position, Other Financing Sources – Other line).

Earned Revenue

Earned revenue for the fiscal years ended September 30, is as follows:

	(In Millions) 2002	2001
Intragovernmental Earned Revenue:		
Commodity Inventory Sales	$ 528	$ 473
Interest Income	83	260
Other	--	30
Total Intragovernmental Earned Revenue	$ 611	$ 763
Earned Revenue from the Public:		
Commodity Inventory Sales	$ 2,098	$ 2,162
Interest Income	635	719
Other	14	5
Total Earned Revenue from the Public	$ 2,747	$ 2,886
Total Earned Revenue Before Eliminations	$ 3,358	$ 3,649
Less: Intra-Agency Eliminations	(527)	(534)
Total Earned Revenue	$ 2,831	$ 3,115

Intragovernmental interest income for fiscal year 2002 was $83 million, compared with $260 million in fiscal year 2001. Interest income decreased due to a reduced fund balance in the Credit Reform financing funds held with the U.S. Treasury, resulting in less interest income earned on those funds.

Note 14 – Disclosures Related to the Statement of Changes in Net Position

(In Millions)

	Cumulative Results of Operations	Unexpended Appropriations
Appropriations Transferred – In:		
Realized Loss - Recission	$ --	$ 21
Appropriations Transferred – Out:		
Realized Loss - Reimbursement	--	(22,821)
Total	$ 0	$ (22,800)
Appropriations Used	$ 24,461	$ (1,661)
Total Appropriations Transferred and Used	$ 24,461	$ (24,461)

CCC has a variety of funding mechanisms. Most of the domestic programs are operated out of a revolving fund, which has a $30 billion borrowing authority from the U.S. Treasury. This fund also receives monies from appropriated funding for costs incurred (i.e., realized losses). CCC's reimbursement for realized losses is reported as a non-expenditure transfer from the reimbursement for realized loss Treasury account to the revolving fund.

Note 15 - Disclosures Related to the Statement of Budgetary Resources

The Statement of Budgetary Resources is a combined statement and, as such, intra-agency transactions have not been eliminated.

Obligations incurred under apportionment category A are $6 million direct, while obligations incurred under apportionment category B consists of $1,980 million direct and $26,530 million reimbursable.

The majority of the $41,337 million of funds reported as permanently not available represent redemption of debt or the amount of principal repayments paid to the Treasury on CCC's outstanding borrowings. The majority of the remaining balance represents rescissions of budget authority.

CCC has a permanent indefinite borrowing authority, as defined by OMB Circular A-11, Preparation and Submission of Budget Estimates, of $30 billion. The Corporation's borrowing authority is made up of both interest and non-interest bearing notes. These notes are drawn upon daily when disbursements exceed deposits, as reported by the FRB's, their branches and CCC's financing office. When deposits exceed disbursements, CCC makes repayments on its notes. Deposits (financing sources) flowing through CCC's revolving fund include proceeds from the sale of CCC commodities, loan repayments, interest income and various program fees. CCC's notes payable under its permanent indefinite borrowing authority have a term of one year.

On January 1 of each year, CCC refinances its outstanding borrowings, including accrued interest, at the January borrowing rate. The amount of available borrowing authority as of September 30, 2002, is $12,334 million. CCC may borrow interest-free up to the amount of its unreimbursed realized losses. For interest bearing notes, interest is accrued at a rate

Note 15 - Disclosures Related to the Statement of Budgetary Resources, *continued*

based upon the average interest rate of all outstanding U.S. marketable obligations of comparable maturity date as of the preceding month. Repayments are applied to interest bearing notes first. Once these are liquidated, repayments are then applied to non-interest bearing notes.

CCC has a separate permanent idefinite borrowing authority for the Credit Reform programs to finance disbursements on post-Credit Reform direct credit and loan obligations and credit guarantees. In accordance with Credit Reform, CCC borrows from Treasury on October 1, for the entire fiscal year, based on annual estimates of the difference between the amount appropriated (subsidy) and the amount to be disbursed to the borrower. CCC may repay under this agreement, in whole or in part, prior to maturity by paying the principal amount of the borrowings plus accrued interest to the date of repayment. CCC is required to pay interest to Treasury on the last day of the fiscal year, based on the outstanding balance of borrowings in each financing fund. Interest is paid on these borrowings based on weighted average interest rates for the cohort to which the borrowings are associated. CCC earns interest from Treasury on the daily balance of uninvested funds in the Credit Reform financing funds. The interest income is used to reduce interest expense on the underlying borrowings.

Under Credit Reform, CCC receives an annual appropriation to fund subsidy costs incurred. In addition, CCC has permanent indefinite appropriation authority available to finance any disbursements incurred under the liquidating accounts that are not covered by available working capital.

Unobligated budget authority is the difference between the obligated balance and the total unexpended balance and represents that portion of the unexpended balance unencumbered by recorded obligations. An appropriation expires on the last day of its period of availability and is no longer available for new obligations. Unobligated balances retain their fiscal year identity in an "expired account" for that appropriation for an additional five fiscal years.

The unobligated balance remains available to make legitimate obligation adjustments (i.e., to record previously unrecorded obligations and to make upward adjustments in previously underrecorded obligations).

CCC's borrowing authority under its revolving fund is indefinite and, therefore, no unobligated balance carries forward to the following year.

No contributed capital was received during the reporting period.

Except for audit adjustments, the Statement of Budgetary Resources agrees with the SF-133, *Report on Budget Execution*, which will be used as input for the actual column for fiscal year 2002 in the fiscal year 2004 President's Budget Program and Financing Schedules (P&F Schedules).

The SF-133 and the Statement of Budgetary Resources cannot be reconciled to the P&F Schedules presented in the Budget of the United States Government as this information is not currently available.

Changes in accounting policy regarding activity with AID as well as the activity with NRCS programs resulted in differences between the unobligated and obligated ending balances of the prior fiscal year and the beginning balances of the current fiscal year. Also contributing to the difference was a change in the reporting for the Hazardous Waste Departmental shared appropriation (see Note 1).

Note 15 - Disclosures Related to the Statement of Budgetary Resources, *continued*

The prior period adjustments to the unobligated beginning balances are as follows:

(In Millions)

	Obligated Balance, Net – Beginning of Fiscal Year	Adjustments	Obligated Balance, Net, Adjusted – Beginning of Fiscal Year
Budgetary	$ 3,882	$ (29)	$ 3,853
Non-Budgetary	908	--	908
Total	$ 4,790	$ (29)	$ 4,761

The prior period adjustments and adjustments for the shared appropriation to the obligated beginning balances are as follows:

(In Millions)

Program	Obligated Balance, Net – Beginning of Fiscal Year	Adjustments	Obligated Balance, Net, Adjusted – Beginning of Fiscal Year
Budgetary	$ 4,322	$ (6)	$ 4,316
Non-Budgetary	38	--	38
Total	$ 4,360	$ (6)	$ 4,354

Note 16 - Disclosures Related to the Statement of Financing

The $1,751 million disclosed in Note 11 as Liabilities Not Covered by Budgetary Resources is reported in the Other line within the Components Requiring or Generating Resources in Future Periods section of the Statement of Financing. This amount represents the CRP liability that is accrued in the current year but funded in the following fiscal year.

As discussed in Note 1 under Allocation Transfers, if the allocation transfer is material to the child's financial statements, the child should report the activity relating to the allocation transfer in all of its financial statements, except the Statement of Budgetary Resources. Accordingly, as the parent agency, CCC reports none of the allocation transfer activity to AID in its financial statements, except for the Statement of Budgetary Resources. The purpose of the allocation transfer is to fund the P.L. 480 Title II obligations for transportation and other costs in connection with foreign donations. The reconciling item related to this allocation transfer amounts to $583 million and is included as part of the Other Resources or Adjustments to Net Obligated Resources That Do Not Affect Net Cost of Operations line of the Statement of Financing, totaling $659 million.

Other components not requiring or generating resources as of September 30, are as follows:

	(In Millions) 2002
Cost of Sales	$ 4,770
Cost of Donations	699
Claims Receivables	15
Bad Debt Expenses/Allowances	550
Interest Collections In-transit in Liquidating Funds	37
Allocation Transfers from FSA for the Conservation Programs	202
Total	$ 6,273

Note 17 - Disclosures Not Related to a Specific Statement

Related Party Transactions

CCC's domestic programs are carried out primarily through FSA personnel. CCC makes disbursements for many FSA programs, which are funded through allocation transfers from FSA. During fiscal years 2002 and 2001, FSA transferred to CCC $185 million and $193 million, respectively. These transfers plus carryovers were used to cover payments made by CCC in the approximate amount of $204 million and $198 million, respectively.

The Corporation also provides services to other USDA agencies to carry out their authorities and responsibilities. AMS and the Food and Nutrition Service (FNS) fund the purchase of some commodities. In addition, AMS funds the purchase of commodities for the purpose of facilitating additional sales in world markets at competitive prices. As of September 30, 2002 and 2001, the related deposit and trust liability for AMS and FNS were $706 million and $698 million, respectively.

CCC donates commodities for use under domestic feeding programs administered by FNS. The value of commodities donated for these domestic purposes, including related transportation and storage costs, for the fiscal years ended September 30, 2002 and 2001, were $60 million and $55 million, respectively.

CCC transferred $4 million and $4 million to FAS and an additional $2 million and $1 million to FSA during fiscal years 2002 and 2001, respectively, for salaries and expenses for administering the foreign Credit Reform programs.

During fiscal years 2002 and 2001, outlays under reimbursable agreements with other USDA agencies amounted to $25 million and $19 million, respectively. Interagency accruals, reflecting amounts due and payable on reimbursable agreements as of September 30, amounted to $4 million and $3 million, respectively, in 2002 and 2001.

During the fiscal years ended September 30, 2002 and 2001, the Corporation transferred $200 million and $335 million, respectively, to the Animal and Plant Health Inspection Service (APHIS) for the eradication of animal and plant diseases. A deposit and trust liability to cover payments for karnal bunt, a fungal disease of wheat, on behalf of APHIS was $3 million and $2 million as of September 30, 2002 and 2001, respectively.

In fiscal years 2002 and 2001, CCC paid the Risk Management Agency and NRCS $1 million and $2 million, respectively for technical assistance relating to the Agricultural Management Assistance Program.

In addition, CCC paid NRCS $38 million and $87 million for technical assistance for various conservation programs, during fiscal years 2002 and 2001, respectively.

During fiscal year 2002, the 2002 Farm Bill was signed into law. Under this Act, CCC made several authorized transfers to other USDA agencies. CCC transferred $600 million to the Rural Development for the Funding of Pending Rural Development Loan and Grant Applications, $20 million to FNS for the Women Infant and Children Farmer's Market Nutrition Program, and $20 million to Forest Service for the Forest Land Enhancement Program.

CCC also transferred $8 million to the Cooperative State Research, Education, and Extension Service for its grants program, $5 million to AMS for the National Organic Certification Cost Share Program and $1 million to the Office of Chief Economist for the Federal Procurement of Bio-based Products Program.

In addition, under the new Farm Bill, CCC transferred a total of $572 million to NRCS for various conservation programs, including WRP, FPP, EQIP, and Wildlife Habitat Incentives Program. NRCS has program administration responsibilities for these programs.

However, for EQIP, NRCS has entered into a memorandum of understanding with CCC to disburse funds using the services and facilities of CCC. A deposit and trust liability to cover the EQIP program payments on behalf of NRCS was $184 million as of September 30, 2002. It should be noted that although NRCS receives funding or the EQIP program, CCC continues to receive separate funding for this program as well.

During the fiscal year, CCC also transferred $50 million to FSA to cover administrative expenses associated with implementing the new Farm Bill.

Subsequent Events

CCC is unaware of any activities, subsequent to the close of the fiscal year, which might affect the interpretation of the financial results of the fiscal year ending September 30, 2002.

Custodial Activity

Custodial activity for the fiscal year ended September 30, is as follows:

	(In Millions)	
	2002	2001
Sources of Collection:		
Repayment of Farm Credit Loans	$ 1,677	$ 1,602
Administrative and Other Service Fees	38	22
Total Revenue Collected	1,715	1,624
Disposition of Collection:		
Amounts Transferred to the Farm Service Agency	1,689	1,589
Amounts Transferred to Treasury	3	2
Total Disposition of Revenue	1,692	1,591
Amounts Yet to be Transferred	23	33
Net Custodial Activity	$ 0	$ 0

REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION (UNAUDITED)

Schedule 1

Required Supplementary Stewardship Information

Wetlands Reserve Program

The Wetlands Reserve Program (WRP) is a voluntary program established to restore, protect, and enhance wetlands on agricultural land. Participants in the program may sell a conservation easement or enter into a cost-share restoration agreement with CCC in order to restore and protect wetlands. The landowner voluntarily limits the future use of the land, yet retains private ownership. The program provides many benefits for the entire community, such as better water quality, enhanced habitat for wildlife, reduced soil erosion, reduced flooding, and better water supply.

To be eligible for WRP, land must be restorable and be suitable for wildlife benefits. Once land is enrolled in the program, the landowner continues to control access to the land -- and may lease the land -- for hunting, fishing, and other undeveloped recreational activities. Once enrolled, the land is monitored to ensure compliance with contract requirements. At any time, a landowner may request that additional activities (such as cutting hay, grazing livestock, or harvesting wood products) be evaluated to determine if they are compatible uses for the site. Compatible uses are allowed if they are fully consistent with the protection and enhancement of the wetland. The condition of the land is immaterial as long as the easement on the land meets the eligibility requirements of the program.

CCC records an expense for the acquisition cost of purchasing easements plus any additional costs such as closing transactions, survey, and restoration costs. Easements can be either permanent or 30-year duration. In exchange for establishing a permanent easement, the landowner receives payment up to the agricultural value of the land and 100 percent of the restoration costs for restoring the wetlands. The 30-year easement payment is 75 percent of what would be provided for a permanent easement on the same site and 75 percent of the restoration cost.

Withdrawals from the program are rare. The Secretary of Agriculture has the authority to terminate contracts, with agreement from the landowner, after an assessment of the effect on public interest, and following a 90-day notification period of the House and Senate agriculture committees.

In July 2002, funding responsibility for WRP returned to NRCS; however, CCC remains responsible for obligations arising prior to that date. Additionally, acres acquired during fiscal year 2002 were purchased with CCC funds, as in the past.

The change in acres covered by these easements for the fiscal years ended September 30, are as follows:

	2002	2001
Easement Acreage Acquired, Beginning of Fiscal Year	629,065	513,755
Additions	342,615	115,310
Withdrawals	--	--
Easement Acreage Acquired, Ending of Fiscal Year	971,680	629,065

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

Schedule 2

Required Supplementary Information (Unaudited)

Commodity Credit Corporation
Supporting Schedule to the Combined Statement of Budgetary Resources
Budgetary Accounts

For the Fiscal Year Ended September 30, 2002
(Dollars in Millions)

	12X4336	(72)12X4336	12X1336	12X2277	12X2278	1223674	Other	Total Budgetary
Budgetary Resources:								
Budget Authority:								
Appropriations Received	$ -	$ -	$ 417	$ 191	$ 864	$ 22,821	$ 27	$24,320
Borrowing Authority	34,054	-	-	-	-	-	-	34,054
Net Transfers (+/-)	20,608	566	(1,969)	(1)	96	(22,800)	(1)	(3,501)
Unobligated Balance:								
Beginning of Period	868	-	2,405	288	94	-	198	3,853
Net Transfers, Actual (+/-)	-	-	-	-	-	-	(6)	(6)
Spending Authority from Offsetting Collections:								
Earned:								
Collected	10,504	-	-	27	23	-	1,007	11,561
Receivable from Federal Sources	(454)	-	-	(13)	-	-	-	(467)
Change in Unfilled Customer Orders:								
Advance Received	209	-	-	-	-	-	-	209
Without Advance from Federal Sources	-	-	-	-	-	-	-	-
Subtotal	10,259	0	0	14	23	0	1,007	11,303
Recoveries of Prior Year Obligations	291	40					16	347
Permanently not Available	(40,156)	-	-	-	-	(21)	(990)	(41,167)
Total Budgetary Resources	$ 25,924	$ 606	$ 853	$ 492	$ 1,077	$ 0	$ 251	$ 29,203
Status of Budgetary Resources:								
Obligations Incurred:								
Direct	-	-	227	239	972	-	39	1,477
Reimbursable	25,924	606	-	-	-	-	-	26,530
Subtotal	25,924	606	227	239	972	0	39	28,007
Unobligated balance:								
Apportioned	-	-	626	253	82	-	16	977
Exempt from Apportionment	-	-	-	-	-	-	27	27
Unobligated Balance not Available	-	-	-	-	23	-	169	192
Total Status of Budgetary Resources	$ 25,924	$ 606	$ 853	$ 492	$ 1,077	$ 0	$ 251	$ 29,203

Schedule 2

Required Supplementary Information (Unaudited), *Continued*

Commodity Credit Corporation
Supporting Schedule to the Combined Statement of Budgetary Resources
Budgetary Accounts

For the Fiscal Year Ended September 30, 2002
(Dollars in Millions)

	12X4336	(72)12X4336	12X1336	12X2277	12X2278	1223674	Other	Total Budgetary
Relationship of Obligations to Outlays:								
Obligated Balance, Net, Beginning of Period	$ 3,009	$ 488	$ 105	$ 70	$ 587	$ -	$ 57	$ 4,316
Obligated Balance, Net, End of Period:								
Accounts Receivable	(550)	-	-	-	-	-	-	(550)
Unfilled Customer Orders from Federal Sources	-	-	-	-	-	-	-	-
Undelivered Orders	3,001	422	62	71	68	-	20	3,644
Accounts Payable	366	290	8	-	546	-	1	1,211
Outlays:								
Disbursements	26,279	342	262	251	945	-	60	28,139
Collections	(10,713)	-	-	(27)	(23)	-	(1,008)	(11,771)
Subtotal	15,566	342	262	224	922	0	(948)	16,368
Less: Offsetting Receipts	-	-	-	-	-	-	(3)	(3)
Net Outlays	$ 15,566	$ 342	$ 262	$ 224	$ 922	$ 0	$ (951)	$ 16,365

Schedule 2

Required Supplementary Information (Unaudited), *Continued*

Commodity Credit Corporation
Supporting Schedule to the Combined Statement of Budgetary Resources
Non-Budgetary Credit Program Financing Accounts

For the Fiscal Year Ended September 30, 2002
(Dollars in Millions)

	12X4337	12X4049	12X4158	Other	Total Non-Budgetary
Budgetary Resources:					
Budget Authority:					
Appropriations Received	$ -	$ -	$ -	$ -	$ -
Borrowing Authority	221	29	140	6	396
Net Transfer (+/-)	-	-	-	-	-
Unobligated Balance:					
Beginning of Period	589	159	18	142	908
Net Transfers, Actual (+/-)	-	-	-	-	-
Spending Authority from Offsetting Collections:					
Earned:					
Collected	495	274	34	102	905
Receivable from Federal Sources	(42)	(18)	-	(8)	(68)
Change in Unfilled Customer Orders:					
Advance Received	-	-	-	-	-
Without Advance from Federal Sources	-	-	(1)	-	(1)
Subtotal	453	256	33	94	836
Recoveries of Prior Year Obligations	-	-	-	-	-
Permanently not Available	-	(36)	(61)	(73)	(170)
Total Budgetary Resources	$ 1,263	$ 408	$ 130	$ 169	$ 1,970
Status of Budgetary Resources:					
Obligations Incurred:					
Direct	259	162	49	39	509
Reimbursable	-	-	-	-	-
Subtotal	259	162	49	39	509
Unobligated Balance:					
Apportioned	1,004	246	67	118	1,435
Exempt from Apportionment	-	-	-	-	-
Unobligated Balance Not Available	-	-	14	12	26
Total Status of Budgetary Resources	$ 1,263	$ 408	$ 130	$ 169	$ 1,970

Schedule 2

Required Supplementary Information (Unaudited), *Continued*

Commodity Credit Corporation
Supporting Schedule to the Combined Statement of Budgetary Resources
Non-Budgetary Credit Program Financing Accounts

For the Fiscal Year Ended September 30, 2002
(Dollars in Millions)

	12X4337	12X4049	12X4158	Other	Total Non-Budgetary
Relationship of Obligation to Outlays:					
Obligated Balance, Net, Beginning of Period	$ (105)	$ 43	$ 99	$ 1	$ 38
Obligated Balance, Net, End of Period:					
Accounts Receivable	(62)	(46)	-	-	(108)
Unfilled Customer Orders from Federal Sources	-	-	(1)	-	(1)
Undelivered Orders	-	67	38	4	109
Accounts Payable	-	24	-	-	24
Outlays:					
Disbursements	258	178	111	43	590
Collections	(495)	(274)	(33)	(101)	(903)
Subtotal	(237)	(96)	78	(58)	(313)
Less: Offsetting Receipts	(126)	-	(1)	(3)	(130)
Net Outlays	$ (363)	$ (96)	$ 77	$ (61)	$ (443)

Schedule 3

Required Supplementary Information (Unaudited)

Intragovernmental Amounts

Intragovernmental amounts represent assets, liabilities, non-exchange and earned revenues between CCC and other Federal departments. Amounts as of September 30, 2002, are as follows:

Intragovernmental Assets:

(In Millions)

Department	Fund Balance With Treasury	Accounts Receivable	Other
Treasury	$ 2,453	$ 7	$ --
Other	--	--	20
Total	$ 2,453	$ 7	$ 20

Intragovernmental Liabilities:

(In Millions)

Department	Accounts Payable	Debt to the Treasury	Resources Payable to Treasury	Deposit and Trust Liabilities	Other Liabilities
Treasury	$ 113	$ 20,425	$ 6,450	$ --	$ 1,014
U.S. Agency for Int'l Dev.	496	--	--	--	--
Other Agriculture Agencies	20	--	--	892	4
Other	2	--	--	--	--
Total	$ 631	$ 20,425	$ 6,450	$ 892	$ 1,018

Intragovernmental Non-Exchange Revenue:

(In Millions)

Department	Transfers In	Transfers Out
Treasury	$ --	$ --
Other Agriculture Agencies	12	1,310
Total	$ 12	$ 1,310
Budgetary Financing Sources:		
Treasury	$ --	$ 653
Other Agriculture Agencies	--	1,427
Other	--	765
Total	$ --	$ 2,845

Schedule 3

Required Supplementary Information (Unaudited), *Continued*

Intragovernmental Amounts

Intragovernmental amounts as of September 30, 2001, are as follows:

Intragovernmental Assets:

(In Millions)

Department	Fund Balance With Treasury	Accounts Receivable	Other
Treasury	$ 3,540	$ 205	$ --
Transportation	--	134	--
Other Agriculture Agencies	--	1	25
Other	--	36	--
Less: Allowance	--	(134)	--
Total	$ 3,540	$ 242	$ 25

Intragovernmental Liabilities:

(In Millions)

Department	Accounts Payable	Debt to the Treasury	Resources Payable to Treasury	Deposit and Trust Liabilities	Other Liabilities
Treasury	$ 199	$ 25,099	$ 6,783	$ (7)	$ 172
U.S. Agency for Int'l Dev.	416	--	--	--	--
Other Agriculture Agencies	26	--	--	745	4
Other	25	--	--	--	--
Total	$ 666	$ 25,099	$ 6,783	$ 738	$ 176

Intragovernmental Non-Exchange Revenue:

(In Millions)

Department	Transfers In	Transfers Out
Treasury	$ --	$ 31
Other Agriculture Agencies	5	348
Total	$ 5	$ 379

OTHER ACCOMPANYING INFORMATION (UNAUDITED)

Schedule 4

Other Accompanying Information (Unaudited)

Commodity Credit Corporation
Change in Inventory, by Commodity

For Fiscal Year 2002
(In Thousands)

	Unit of	Beginning Inventory October 1, 2001		Acquisitions		Cost of Sales a/		Donations		Other Dispositions b/		Deductions, Net c/		Ending Inventory September 30, 2002	
	Measure	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value
Feed Grains:															
Barley	Bushels	280	$ 490	358	$ 579	(627)	$ (1,049)	-	$ -	-	$ -	-	$ -	11	$ 20
Corn	Bushels	22,368	44,526	74,237	165,078	(61,877)	(136,491)	(14,784)	(38,884)	3	-	(1,823)	(1,129)	18,125	33,099
Corn Meal	Pounds	2,026	283	328,460	38,460	(119,759)	(12,863)	(207,965)	(25,203)	(436)	(103)	-	-	2,325	575
Oats	Bushels	20	23	14	17	(34)	(40)	-	-	-	-	-	-	-	-
Sorghum	Bushels	93	180	3,606	8,929	(3,098)	(7,944)	-	-	-	(2)	19	11	620	1,174
Sorghum Grits	Pounds	-	-	26,449	3,415	(26,347)	(3,402)	-	-	(102)	(13)	-	-	-	-
Total Feed Grains		xxx	$ 45,503	xxx	$ 216,478	xxx	$ (161,790)	xxx	$ (64,087)	xxx	$ (118)	xxx	$ (1,118)	xxx	$ 34,867
Wheat	Bushels	118,115	403,640	104,650	371,222	(69,237)	(246,177)	(51,470)	(192,512)	(8)	(6)	(130)	27,990	101,921	364,156
Wheat Flour	Pounds	27	3	835,162	93,480	(291,503)	(31,213)	(499,346)	(56,604)	(640)	(137)	-	-	43,700	5,529
Wheat Products, Other	Pounds	600	58	331,644	32,493	(236,833)	(21,981)	(91,487)	(10,170)	(424)	(51)	-	8	3,499	357
Rice Products:															
Rice Products	Cwt.	-	-	4,042	37,847	(1,373)	(11,703)	(2,449)	(23,520)	(4)	(80)	-	-	215	2,545
Rice, Rough	Cwt.	32	193	67,481	443,099	(66,731)	(437,939)	-	-	-	-	-	(12)	782	5,341
Cotton, Extra Long Staple	Bales	10	4,292	50	21,554	(28)	(11,794)	-	-	-	-	-	-	33	14,052
Cotton, Upland	Bales	21	6,150	13,125	3,251,741	(13,039)	(3,228,501)	-	-	-	88	-	-	108	29,477
Diary Products:															
Nonfat Dry Milk	Pounds	857,052	860,371	626,104	563,455	(16,278)	(15,912)	(120,422)	(135,062)	(1,589)	(2,070)	(12,830)	8,311	1,332,037	1,279,093
Cheese Regular Price Support	Pounds	5,426	6,463	5,653	6,574	(6,569)	(7,776)	(586)	(698)	6	(8)	-	-	3,930	4,555
Dry Whole Milk	Pounds	-	-	-	-	-	-	(1)	-	1	-	-	-	-	-
Total Diary Products		xxx	$ 866,834	xxx	$ 570,029	xxx	$ (23,688)	xxx	$ (135,760)	xxx	$ (2,078)	xxx	$ 8,311	xxx	$ 1,283,648
Oil & Oilseeds:															
Flaxseed	Cwt.	-	4	16	153	(16)	(154)	-	-	-	-	-	-	-	3
Sunflower Seed	Cwt.	1	10	45	403	(46)	(412)	-	-	-	-	-	-	-	-
Sunflower Seed Oil, Processed	Pounds	-	-	34,769	12,494	(16,479)	(5,132)	(18,277)	(7,357)	(13)	(4)	-	-	-	-
Canola Seed	Cwt.	-	3	15	140	(15)	(143)	-	-	-	-	-	-	-	-
Crambe Oilseed	Cwt.	-	-	51	445	(51)	(445)	-	-	-	-	-	-	-	-
Mustard Seed	Cwt.	-	3	-	-	-	(3)	-	-	-	-	-	-	-	-
Sunflower Seed Non-Oil	Cwt.	-	-	36	339	(36)	(339)	-	-	-	-	-	-	-	-
Peanuts	Pounds	-	-	468	102	(447)	(100)	-	-	-	-	-	-	21	1
Soybeans	Bushels	2,985	15,694	24,102	128,841	(17,779)	(95,040)	(6,605)	(35,392)	-	-	(35)	-	2,667	14,105
Soybean Products	Pounds	-	-	285,024	25,974	(41,202)	(4,319)	(243,946)	(21,605)	123	(50)	-	-	-	-
Soybean Salad Oil	Pounds	-	-	496,773	81,747	(160,149)	(27,383)	(336,624)	(54,332)	-	(33)	-	-	-	-
Total Oils and Oilseeds		xxx	$ 15,714	xxx	$ 250,638	xxx	$ (133,470)	xxx	$ (118,686)	xxx	$ (87)	xxx	$ -	xxx	$ 14,109

Schedule 4

Other Accompanying Information (Unaudited), *Continued*

Commodity Credit Corporation
Change in Inventory, by Commodity

For Fiscal Year 2002
(In Thousands)

	Unit of Measure	Beginning Inventory October 1, 2001		Acquisitions		Cost of Sales a/		Donations		Other Dispositions b/		Deductions, Net c/		Ending Inventory September 30, 2002	
		Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value
Dry Edible Beans	Cwt.	-	-	1,511	44,439	(1,086)	(31,145)	64	756	(2)	(94)	-	-	486	13,955
Blended Foods	Pounds	17,123	2,250	648,734	82,917	(507,696)	(64,542)	(163,591)	(31,636)	(4,531)	(632)	65,066	19,246	55,105	7,604
Honey	Pounds	-	-	173	106	(173)	(106)	-	-	-	-	-	-	-	-
Meat	Pounds	-	-	-	-	(225)	-	-	-	225	-	-	-	-	-
Pork Bellies	Pounds	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dry Whole Peas	Pounds	2,012	292	76,443	10,154	(67,705)	(9,080)	(8,013)	(1,105)	(194)	(26)	-	-	2,543	236
Lentils Dry	Pounds	461	60	201,296	30,324	(175,665)	(25,974)	(4,471)	(976)	47	(38)	-	-	21,669	3,395
Corn Seed	Pounds	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Plants & Seeds	Pounds	-	-	-	-	-	-	(49)	-	49	-	-	-	-	-
Potatoes Dehydrated	Pounds	-	-	991	425	-	-	(991)	(425)	-	-	-	-	-	-
Sugar, Raw Cane	Pounds	589,108	105,156	-	-	(626)	(112)	(254)	(45)	-	-	(230,230)	(41,096)	357,998	63,903
Sugar, Refined Beet	Pounds	895,595	219,520	16,660	3,938	(701,292)	(172,392)	(11,991)	(2,944)	(23,193)	(5,731)	(20,871)	(5,134)	154,907	37,256
Sugar, Refined Cane	Pounds	20,190	4,064	-	-	(18,391)	(3,701)	(532)	(107)	-	-	-	-	1,267	255
Corn Oil	Pounds	-	-	18,182	6,682	-	-	(18,182)	(6,682)	-	-	-	-	-	-
Vegetable Oil	Pounds	6,548	2,166	392,384	129,582	(219,337)	(71,515)	(156,045)	(52,248)	(3,083)	(1,339)	-	-	20,466	6,645
Tallow	Pounds	-	-	6,612	1,032	-	-	(6,612)	(1,032)	-	-	-	-	-	-
Feed For Govt Facilities	Cwt.	-	-	6	56	(6)	(56)	-	-	-	-	-	-	-	-
Fish, Canned Salmon	Pounds	-	-	-	-	52	54	-	-	(52)	(54)	-	-	-	-
Fruit Fresh Apples	Pounds	-	-	4,234	1,206	-	-	(4,180)	(1,190)	(53)	(16)	-	-	-	-
Veg Frzn Corn	Pounds	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Mohair	Pounds	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Tobacco:															
Burley	Pounds	149,434	479,259	-	-	-	-	-	-	-	-	-	-	149,434	479,259
Cigar	Pounds	183	291	-	-	-	-	-	-	-	-	-	-	183	291
Flue Cured	Pounds	75,333	129,464	-	(9,792)	-	-	-	-	-	-	-	-	75,333	119,672
Total Tobacco		xxx	$ 609,014	xxx	$ (9,792)	xxx	$ -	xxx	$ -	xxx	$ -	xxx	$ -	xxx	$ 599,222
Emergency Food Ration Bars	Pounds	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Subtotal		xxx	$ 2,284,907	xxx	$ 5,589,649	xxx	$ (4,686,824)	xxx	$ (698,976)	xxx	$ (10,398)	xxx	$ 8,194	xxx	$ 2,486,553
Elimination of Sales to P.L. 480		xxx	-	xxx	(526,689)	xxx	526,689	xxx	-	xxx	-	xxx	-	xxx	-
Total Inventory Operations		xxx	$ 2,284,907	xxx	$ 5,062,960	xxx	$ (4,160,135)	xxx	$ (698,976)	xxx	$ (10,398)	xxx	$ 8,194	xxx	$ 2,486,553

Note: Inventories of commodities as shown in this report include commodities committed to sale or otherwise obligated.

a/ Includes commodities subsequently exported and financed under P.L. 480.

b/ Includes inventory quantity gains under the Export Program, and the lossess incurred for conversion, incured casualties and transit, and shrinkage and spoliage of commodities.

c/ Includes the net of over-deliveries, premiums, under-deliveries and discounts resulting from warehouse, operation; the net change in value and qunatity of inventory exchanged or in process of exchange; processing end packaging costs and related quantivite gains and losses in processing operations and items which are footnoted individually.

Schedule 4

Other Accompanying Information (Unaudited), ***Continued***

Commodity Credit Corporation
Change in Inventory, by Commodity

For Fiscal Year 2001
(In Thousands)

	Unit of	Beginning Inventory October 1, 2000		Acquisitions		Cost of Sales a/		Donations		Other Dispositions b/		Deductions, Net c/		Ending Inventory September 30, 2001	
	Measure	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value
Feed Grains:															
Barley	Bushels	407 $	802	1,532 $	2,560	(1,659) $	(2,872)	- $	-	- $	-	- $	-	280 $	490
Corn	Bushels	30,758	69,834	103,844	204,884	(102,194)	(205,971)	(10,970)	(25,336)	1,337	1,115	-	-	22,368	44,526
Corn Meal d/	Pounds	2,391	251	257,401	29,595	(185,359)	(21,708)	(72,395)	(8,570)	-	716	(11)	(1)	2,026	283
Oats	Bushels	29	41	58	55	(67)	(72)	-	-	-	-	-	-	20	24
Sorghum e/	Bushels	317	622	2,380	5,698	(2,581)	(6,186)	-	-	(23)	46	-	1	93	181
Sorghum Grits	Pounds	-	-	21,395	2,580	(21,395)	(2,580)	-	-	-	-	-	-	-	0
Total Feed Grains		xxx	71,550	xxx	245,372	xxx	(239,389)	xxx	(33,906)	xxx	1,877	xxx	(0)	xxx	45,502
Wheat f/	Bushels	107,220	399,400	123,509	402,167	(65,903)	(204,995)	(38,160)	(146,606)	13,433	(46,315)	(4)	(12)	118,115	403,639
Wheat Flour d/	Pounds	2,706	221	725,350	78,018	(298,951)	(35,813)	(429,065)	(102,255)	-	59,836	(14)	(4)	27	3
Wheat Products, Other d/	Pounds	-	-	270,299	25,555	(265,676)	(34,990)	(3,096)	1,032	-	8,527	(928)	(67)	600	57
Rice Products:															
Rice Products	Cwt.	-	4	4,312	47,708	(1,854)	(20,085)	(2,458)	(27,626)	-	-	-	-	-	1
Rice, Rough	Cwt.	9	65	51,669	335,913	(51,647)	(335,785)	-	-	-	-	-	-	32	193
Rice, Brown	Pounds	-	-	-	-	-	-	-	-	-	-	-	-	-	0
Cotton, Extra Long Staple	Bales	4	1,552	11	4,332	(4)	(1,592)	-	-	-	-	-	-	10	4,292
Cotton, Upland	Bales	2	713	7,362	1,796,202	(7,343)	(1,790,765)	-	-	-	-	-	-	21	6,150
Dairy Products:															
Nonfat Dry Milk	Pounds	553,864	560,172	418,407	415,760	(17,435)	(17,642)	(85,294)	(95,280)	(12,003)	(788)	(488)	(1,851)	857,052	860,371
Butter	Pounds	-	-	-	-	-	-	-	-	-	-	-	-	-	0
Cheese Regular Price Support	Pounds	1,754	1,984	13,056	15,532	(2,376)	(2,785)	(6,830)	(8,049)	-	-	(179)	(219)	5,426	6,463
Dry Whole Milk	Pounds	-	-	987	1,306	-	-	(987)	(1,306)	-	-	-	-	-	0
Ultra High Temperature Milk	Pounds	-	-	-	-	-	-	-	-	-	-	-	-	-	0
Total Dairy Products		xxx	562,156	xxx	432,598	xxx	(20,427)	xxx	(104,635)	xxx	(788)	xxx	(2,070)	xxx	866,834
Oil & Oilseeds:															
Flaxseed	Cwt.	3	35	73	681	(76)	(711)	-	-	-	-	-	-	-	5
Sunflower Seed	Cwt.	5	51	1,118	10,212	(1,122)	(10,254)	-	-	-	-	-	-	1	9
Sunflower Seed Oil, Processed	Pounds	-	-	14,320	4,735	(4,407)	(1,469)	(9,913)	(3,267)	-	-	-	-	-	(1)
Canola Seed	Cwt.	1	7	112	1,074	(113)	(1,079)	-	-	-	-	-	-	-	2
Crambe Oilseed	Cwt.	-	-	143	1,253	(143)	(1,253)	-	-	-	-	-	-	-	0
Mustard Seed	Cwt.	-	-	-	3	-	-	-	-	-	-	-	-	-	3
Sunflower Seed Non-Oil	Cwt.	-	-	65	597	(65)	(597)	-	-	-	-	-	-	-	0
Peanuts	Pounds	-	-	-	-	-	-	-	-	-	-	-	-	-	0
Soybeans	Bushels	9,237	48,380	67,249	211,713	(73,131)	(242,348)	(367)	(2,040)	(3)	(11)	-	-	2,985	15,694
Soybean Products	Pounds	-	-	556,502	50,370	(109,126)	(10,034)	(447,376)	(40,336)	-	-	-	-	-	0
Soybean Salad Oil	Pounds	-	-	364,510	53,243	(192,553)	(27,378)	(171,957)	(25,865)	-	-	-	-	-	0
Total Oils and Oilseeds		xxx	48,473	xxx	333,881	xxx	(295,123)	xxx	(71,508)	xxx	(11)	xxx	(0)	xxx	15,712

Schedule 4

Other Accompanying Information (Unaudited), ***Continued***

Commodity Credit Corporation
Change in Inventory, by Commodity

For Fiscal Year 2001
(In Thousands)

	Unit of	Beginning Inventory October 1, 2000		Acquisitions		Cost of Sales a/		Donations		Other Dispositions b/		Deductions, Net c/		Ending Inventory September 30, 2001	
	Measure	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value
Dry Edible Beans	Cwt.	89	2,263	700	12,773	(576)	(10,225)	(213)	(4,811)	-	-	-	-	-	0
Blended Foods d/	Pounds	11,228	1,231	524,879	68,978	(482,413)	(62,851)	(115,924)	(28,551)	0	23,443	-	-	17,123	2,250
Honey	Pounds	-	-	5,884	3,824	(5,884)	(3,824)	-	-	-	-	-	-	-	0
Meat	Pounds	-	-	-	-	-	-	-	-	-	-	-	-	-	0
Pork Bellies	Pounds	-	-	405	309	(405)	(309)	-	-	-	-	-	-	-	0
Dry Whole Peas	Pounds	777	71	97,046	11,504	(92,641)	(10,727)	(3,162)	(555)	-	-	(8)	(1)	2,012	292
Lentils Dry	Pounds	661	107	78,220	12,026	(78,144)	(12,022)	(263)	(50)	-	-	(13)	(2)	461	59
Corn Seed g/	Pounds	-	-	55,096	34,236	(30,914)	(20,218)	(24,182)	(14,018)	-	-	-	-	-	0
Plants & Seeds g/	Pounds	-	-	(55,095)	(34,235)	30,914	20,218	24,181	14,018	-	-	-	-	-	1
Sugar, Raw Cane	Pounds	95,546	17,055	494,289	88,231	-	-	(727)	(130)	-	-	-	-	589,108	105,156
Sugar, Refined Beet	Pounds	439,500	94,025	1,038,340	237,873	(571,451)	(109,720)	(6,852)	(1,687)	(3,942)	(971)	-	-	895,595	219,520
Sugar, Refined Cane	Pounds	21,000	4,227	-	-	-	-	(810)	(163)	-	-	-	-	20,190	4,064
Corn Oil	Pounds	-	-	-	-	-	-	-	-	-	-	-	-	-	0
Vegetable Oil	Pounds	1,279	587	392,583	120,335	(217,232)	(65,247)	(170,105)	(53,503)	-	-	21	(6)	6,548	2,166
Tallow	Pounds	-	-	5,511	594	-	-	(5,511)	(594)	-	-	-	-	-	0
Fish, Canned Salmon	Pounds	-	-	(1)	-	1	-	-	-	-	-	-	-	-	0
Tobacco:															
Burley	Pounds	-	-	149,434	479,259	-	-	-	-	-	-	-	-	149,434	479,259
Cigar	Pounds	-	-	183	291	-	-	-	-	-	-	-	-	183	291
Flue Cured	Pounds	-	-	75,333	129,464	-	-	-	-	-	-	-	-	75,333	129,464
Total Tobacco		-	-	224,950	609,014	-	-	-	-	-	-	-	-	224,950	609,014
Emergency Food Ration Bars	Pounds	-	-	-	-	-	-	-	-	-	-	-	-	-	0
SubTotal		xxx	1,203,701	xxx	4,867,208	xxx	(3,253,889)	xxx	(575,548)	xxx	45,598	xxx	(2,162)	xxx	2,284,909
Elimination of Sales to P.L. 480		-	-	xxx	(471,528)	xxx	471,528	-	-	-	-	-	-	-	0
Total Inventory Operations		xxx $	1,203,701	xxx $	4,395,680	xxx $	(2,782,361)	xxx $	(575,548)	xxx	45,598	xxx $	(2,162)	xxx $	2,284,909

Note: Inventories of commodities as shown in this report include commodities committed to sale or otherwise obligated.
Different units of quantity preclude display of totals.

a/ Includes commodities subsequently exported and financed under P.L. 480.

b/ Includes inventory quantity gains under the Export Program, and the losses incurred for conversion, insured casualties and transit, and shrinkage and spoilage of commodities.

c/ Includes the net of over-deliveries, premiums, under-deliveries and discounts resulting from warehousing operations; the net change in value and quantity of inventory exchanged or in process of exchange; processing and packaging costs and related quantitative gains and losses in processing operations.

d/ The values shown are additional charges relating to 1999 contracts where bulk grain was swapped for processed commodities.

e/ The quantity and value shown are the net balance of a price support entry relating to warehouse under deliveries plus an export entry, other additions.

f/ The quantity and value shown are the net balance of a price support reversal entry relating to a prior fiscal year entry plus the export balances shown other additions and deductions.

g/ The balances relating to prior fiscal year were reversed from field seeds and reclassified to corn seed.

Schedule 5

Other Accompanying Information

Commodity Credit Corporation
Supporting Schedule to the Consolidated Statement of Net Cost

For the Fiscal Year Ended September 30, 2002
(Dollars in Millions)

		Income Support Programs			Foreign Programs			Other			
	Commodity Operations	Farm Income Support Programs	Production Flexibility Contracts	Conservation Reserve Program	P.L. 480 Programs	Export Credit Guarantees	Other Foreign Programs	Emergency Assistance Programs	Other Conservation Programs	Unallocated Expenses	Combined Total
Net Program Costs:											
Intragovernmental Gross Costs	$ 596	$ 376	$ 283	$ 106	$ 577	$ 89	$ 11	$ 149	$ 84	$ 34	$ 2,305
Less: Intragovernmental Earned Revenue	(528)	(11)	-	-	(23)	(49)	-	-	-	-	(611)
Intragovernmental Net Costs	68	365	283	106	554	40	11	149	84	34	1,694
Gross Costs with the Public:											
Grants and Direct Payments	-	5,085	4,036	1,726	561	(229)	518	465	350	101	12,613
Credit Program Subsidy	-	(2)	-	-	(692)	140	-	-	-	-	(554)
Commodity Programs	4,813	-	-	-	-	-	-	-	-	-	4,813
Stewardship Land Acquisition	-	-	-	-	-	-	-	-	105	-	105
Other	356	912	(51)	(2)	-	-	(10)	(2)	(1)	44	1,246
Less: Earned Revenues from the Public	(2,098)	(71)	-	1	(267)	(269)	(28)	(15)	-	-	(2,747)
Net Costs with the Public	3,071	5,924	3,985	1,725	(398)	(358)	480	448	454	145	15,476
Net Cost of Operations	$ 3,139	$ 6,289	$ 4,268	$ 1,831	$ 156	$ (318)	$ 491	$ 597	$ 538	$ 179	$ 17,170

Schedule 5

Other Accompanying Information, *Continued*

Commodity Credit Corporation
Supporting Schedule to the Consolidated Statement of Net Cost

For the Fiscal Year Ended September 30, 2001
(Dollars in Millions)

		Income Support Programs			Foreign Programs			Other			
	Commodity Operations	Farm Income Support Programs	Production Flexibility Contracts	Conservation Reserve Program	P.L. 480 Programs	Export Credit Guarantees	Other Foreign Programs	Emergency Assistance Programs	Other Conservation Programs	Unallocated Expenses	Combined Total
Net Program Costs:											
Intragovernmental Gross Costs	$ 542	$ 508	$ 296	$ 120	$ 122	$ 236	$ 12	$ 180	$ 125	$ 43	$ 2,184
Less: Intragovernmental Earned Revenue	(474)	(21)	-	-	(102)	(165)	-	-	-	(1)	(763)
Intragovernmental Net Costs	68	487	296	120	20	71	12	180	125	42	1,421
Gross Costs with the Public:											
Grants and Direct Payments	-	12,469	4,147	1,760	235	(405)	510	2,558	297	84	21,655
Credit Program Subsidy	-	6	-	-	8	55	-	-	-	-	69
Commodity Programs	3,344	-	-	-	-	-	-	-	-	-	3,344
Stewardship Land Acquisition	-	-	-	-	-	-	-	-	132	-	132
Other	705	897	(46)	(2)	12	(1)	(54)	(8)	1	23	1,527
Less: Earned Revenues from the Public	(2,165)	(93)	-	2	(216)	(381)	(29)	(3)	-	(1)	(2,886)
Net Costs with the Public	1,884	13,279	4,101	1,760	39	(732)	427	2,547	430	106	23,841
Net Cost of Operations	$ 1,952	$ 13,766	$ 4,397	$ 1,880	$ 59	$ (661)	$ 439	$ 2,727	$ 555	$ 148	$ 25,262