



U.S. Department of Agriculture

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Office of Inspector General  
Financial & IT Operations

# Audit Report

## Commodity Credit Corporation's Financial Statements for Fiscal Years 2004 and 2003

Report No. 06401-17-FM  
November 2004

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



DATE: November 5, 2004

REPLY TO  
ATTN OF: 06401-17-FM

SUBJECT: Commodity Credit Corporation's Financial Statements  
for Fiscal Years 2004 and 2003

TO: Board of Directors  
Commodity Credit Corporation

Kristine Chadwick, Controller  
Commodity Credit Corporation

ATTN: T. Michael McCann, Director  
Operations Review and Analysis Staff  
Office of Business and Program Integration  
Farm Service Agency

This report presents the auditors' opinion on the Commodity Credit Corporation's (CCC) principal financial statements for the fiscal years ending September 30, 2004, and 2003. 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 audits. We monitored the progress of the audits at all key points, reviewed the workpapers, and performed other procedures, as we deemed necessary. We determined the audits were 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, 2004, and 2003; and its net costs, changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations for the years then ended, in conformity with generally accepted accounting principles. The KPMG Peat Marwick LLP report on CCC's internal control structure over financial reporting identified six reportable conditions. Specifically, KPMG identified weaknesses in CCC's:

- information security controls;
- financial system functionality and related processes;

- funds control mechanisms;
- budgetary accounting and reporting policies and procedures;
- producer monitoring procedures; and
- financial accounting and reporting policies and procedures.

KPMG considered the first four reportable conditions to be material weaknesses. The results of KPMG's tests of compliance with laws and regulations disclosed instances of noncompliance with the laws and regulations identified below:

- The Federal Information Security Management 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 report's recommendations. Please note that the regulation requires a management decision to be reached on all findings and recommendations within a maximum of 6 months from report issuance.

/s/

ROBERT W. YOUNG  
Assistant Inspector General  
for Audit

U.S. DEPARTMENT OF AGRICULTURE –  
COMMODITY CREDIT CORPORATION

September 30, 2004

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**INDEPENDENT AUDITORS' REPORT**



**KPMG LLP**  
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 sheets of the Commodity Credit Corporation (CCC) as of September 30, 2004 and 2003, and the related consolidated statements of net cost, changes in net position, and financing and the combined statements of budgetary resources, (hereinafter referred to as the "consolidated financial statements") for the years then ended. CCC is a wholly owned government corporation within the U.S. Department of Agriculture (USDA). The objective of our audits was to express an opinion on the fair presentation of these consolidated financial statements. In connection with our audits, we also considered CCC's internal control over financial reporting and tested CCC's compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements 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 years ended September 30, 2004 and 2003, 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 budgetary accounting and reporting policies and procedures;
- Improvement needed in financial accounting and reporting policies and procedures; and
- Improvement needed in producer monitoring procedures.

We consider the first four reportable conditions above to be material weaknesses.



The results of our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements disclosed instances of noncompliance or other matters 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*:

- Federal Information Security Management Act (FISMA);
- Debt Collection Improvement Act of 1996 (DCIA); and
- Federal Financial Management Improvement Act (FFMIA) of 1996.

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, regulations, contracts, and grant agreements, and management's and our responsibilities.

#### **Opinion on the Consolidated Financial Statements**

We have audited the accompanying consolidated balance sheets of CCC as of September 30, 2004 and 2003, and the related consolidated statements of net cost, changes in net position, and financing and the combined statements of budgetary resources for the years then ended.

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, 2004 and 2003, and its net costs, changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations, for the years 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 audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The other accompanying information on Schedule 4 is an integral part of CCC's financial statements. However, this information is not a required part of the financial statements and is presented for purposes of additional analysis. The other accompanying information on Schedule 4 has not been subjected to the auditing procedures applied in the audits of the financial statements 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 2004 audit we noted certain matters, described in Exhibits 1 and 2, 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. Exhibit 2 presents the other reportable conditions.

\* \* \* \* \*

Summaries of the status of prior-year noncompliance and other matters and material weaknesses are included as Exhibit 3 and 4, respectively.

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 October 29, 2004.

#### **Compliance and Other Matters**

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

**FISMA.** FISMA, passed as part of the E-Government Act of 2002, requires that Federal agencies: (1) provide a comprehensive framework for ensuring the effectiveness of information security controls over information resources that support Federal operations and assets; (2) provide effective government-wide management and oversight of the related information security risks; (3) provide for development and maintenance of minimum controls required to protect Federal information and information systems; (4) provide a mechanism for improved oversight of Federal agency information security programs; (5) acknowledge that commercially developed information security products offer advanced, dynamic, robust, and effective information security solutions, reflecting market solutions for the protection of critical information infrastructures important to the national defense and economic security of the nation that are designed, built, and operated by the private sector; and (6) recognize that the selection of specific technical hardware and software information security solutions should be left to individual agencies from among commercially developed products. OMB Circular A-130, *Management of Federal Information Resources*, provides further information security guidance.

We noted that during fiscal year 2004, the Farm Service Agency (FSA) and CCC have made much progress with their information security program in order to meet FISMA and OMB Circular A-130 guidelines (FSA provides and maintains the IT infrastructure supporting CCC general support systems and major applications, hence the reference here, and later in this report, to FSA). However, FSA/CCC needs further improvement in its entity-wide security and contingency planning programs to fully meet these guidelines. These matters are described in more detail in Exhibit 1.

**DCIA.** 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 nontax debts over 180 days to U.S. Treasury for the purpose of collection by cross servicing or the offset program. Our tests of compliance disclosed instances where CCC was not in compliance with certain provisions of the DCIA. Specifically, we noted that due process is not performed in a timely manner to ensure that some eligible





debts are forwarded to Treasury for cross servicing or the offset program within the timeframes established by DCIA. These matters are described more fully in Exhibit 2.

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

**FFMLA.** The results of our tests of FFMLA disclosed instances, described in more detail in Exhibit 1, where 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 (USSGL) at the transaction level.

FFMLA 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 FFMLA by adhering to policies established by OMB, such as OMB Circular A-127, *Financial Management Systems*, and OMB Circular A-130, *Management of Federal Information Resources*.

A summary of the instances of FFMLA noncompliance noted in Exhibit 1 follows:

- FFMLA requires that Federal agencies implement information security controls and contingency planning capabilities in accordance with OMB Circular A-130. As noted above, CCC needs to improve in these areas to be in compliance with Circular A-130.
- FFMLA requires that Federal agencies implement financial systems controls in accordance with OMB Circular A-127. We noted several areas where CCC can improve the controls and processes over financial systems to better comply with Circular A-127. For example, CCC needs to improve its funds control and financial reporting processes to fully comply with FFMLA.
- FFMLA requires that Federal agencies comply with the Federal accounting standards using the USSGL at the transaction level. We noted that CCC's financial systems and processes for posting transactions can be improved.

### **Responsibilities**

**Management's Responsibilities.** The *Government Corporation Control Act* requires Government corporations to submit an annual management report to the Congress on its financial status and any other information needed to fairly present its financial position and results of operations.

Management is responsible for the financial statements, including:

- Preparing the financial statements in conformity with accounting principles generally accepted in the United States of America;
- Establishing and maintaining internal controls over financial reporting and preparing the Management Discussion and Analysis (including the performance measures), Required Supplementary Information, and Required Supplementary Stewardship Information; and
- Complying with laws, regulations, contracts, and grant agreements including FFMLA.

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 2004 and 2003 consolidated financial statements of CCC based on our audits. We conducted our audits 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 audits 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 audits provide a reasonable basis for our opinion.

In planning and performing our fiscal year 2004 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 consolidated financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in *Government Auditing Standards* and OMB Bulletin No. 01-02. 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 Discussion and Analysis section, 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 2004 consolidated financial statements are free of material misstatement, we performed tests of CCC's compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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, regulations, contracts, and grant agreements applicable to CCC. Providing an opinion on compliance with laws, regulations, contracts, and grant agreements 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 USSGL 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, Government Accountability Office, 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

October 29, 2004

**U.S. DEPARTMENT OF AGRICULTURE –  
COMMODITY CREDIT CORPORATION****Material Weaknesses****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 and CCC management.

Exhibit 1 describes the material weaknesses and Exhibit 2 describes the reportable conditions as of and for the year ended September 30, 2004, and our recommendations thereon. The status of prior year compliance and internal control findings are reported in Exhibits 3 and 4, respectively, and CCC management's response is presented in Exhibit 5.

**Material Weaknesses**

The material weaknesses we identified as of and for the year ended September 30, 2004, are summarized below.

**(1) Improvement needed in information security controls**

Information security management is a crucial component in protecting sensitive and critical 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 environment in prior-year audits conducted by the USDA Office of the Inspector General (OIG), as well as in our more recent audits of CCC's consolidated financial statements. In response to these reported findings and to the requirements mandated by the Federal Information Security Management Act (FISMA), FSA/CCC has undertaken initiatives to improve its information security program. For example, we noted as of August 13, 2004, that during fiscal year 2004, FSA/CCC:

- Engaged a contractor to perform risk assessments and provide security planning support for all CCC general support systems and major applications as part of CCC's certification and accreditation efforts;
- Developed a standard contingency planning methodology and selected automated tools to assist in contingency plan development and maintenance; and
- Updated the disaster recovery plan based on the participation in a pilot program involving a new automated disaster recovery testing system.

While these accomplishments are commendable, more needs to be done to ensure an appropriate level of confidentiality and integrity and the availability of sensitive and critical information systems and resources. Specifically, we again noted several areas, detailed below, where improvements are needed in establishing

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and maintaining sustainable and repeatable information security and contingency planning controls affecting FSA/CCC's financial systems environment, as well as other sensitive and mission-critical systems and processes.

*Information Security Program Management*

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

- As noted above, CCC has engaged contractor support to perform security risk assessments for major applications. In prior years, CCC has had risk assessments performed for some of its systems and applications by several different vendors and various processes have been used, leading to some inconsistency in the process and analysis of the findings. CCC management recognizes that it needs to improve in this area and is now using more consistent processes for performing its risk assessments. For example, during fiscal year 2004, risk assessments were performed for several key CCC general support system platforms, such as the AS/400 county office computer platforms, Web farms, desktops, mainframe and telecommunications. However, the independent security reviews and risk assessments are in draft for all major systems and applications.
- We noted that FSA/CCC's security planning process has improved since last year. However, security plans have either not been completed or are in draft form for all CCC systems. CCC is working to develop an overall organizational security plan, but the plan is not yet complete; guidance for updating county office security plans needs to be improved; and reviews of general support systems and application security controls have not been consistently performed within the three-year timeframe required by Office of Management and Budget (OMB) Circular A-130. As noted above, CCC has obtained contractor support in this area and, during fiscal year 2004, has made efforts to address each of the identified issues.

Maintaining consistent, current, and complete security plans is a critical component of an organization's entity-wide security program. CCC program managers should rely upon the accuracy and completeness of system and application security plans to make a determination of whether to accept the security risks associated with the systems and applications. 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 data integrity, confidentiality, and availability. Further, OMB Circular A-130, *Management of Federal Information Resources*, states that security plans should be developed for all Federal general support systems and applications that contain sensitive information. OMB Circular A-130 further states that given the expansion of distributed processing, there is a presumption that all general support systems contain some sensitive information that requires protection to ensure its integrity, availability, or confidentiality.

- CCC applications and general support systems have not consistently received formal authorizations to operate through an established security certification and accreditation (C&A) process; however, there are current efforts to correct this issue. OMB Circular A-130 states that agencies should authorize processing by ensuring that a management official authorizes, in writing, use of computer applications and the related application security controls. The application must be authorized prior to

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operating and re-authorized at least every three years thereafter. Management's authorization implies its acceptance of the risk of each system used by the application and commonly results from a system security C&A process. The C&A process for general support systems and major applications is closely linked with the completion of security risk assessments and related security plans. FSA/CCC management have recognized this risk and have engaged contractor support to have formal C&As completed for all major CCC general support systems and major applications.

- FSA/CCC performs periodic security vulnerability scans of computer devices (i.e., workstations and servers). As a result of exercising this control in fiscal year 2004, as in the prior year, high-risk vulnerabilities such as missing device passwords were identified. In addition, periodic vulnerability assessments and penetration tests were not conducted on a monthly basis for the environment or the interconnected systems at the Beacon Facility in Kansas City. The scans performed did not include some devices where high-risk vulnerabilities were previously identified. This issue is significant for CCC as the identified device weaknesses could be exploited by unauthorized personnel attempting to penetrate FSA/CCC's IT environment to ultimately gain access to sensitive financial processing devices and applications. The risk of illicit access to computer resources and data is increased if vulnerabilities remain unidentified, which might otherwise be detected and resolved through consistent vulnerability assessments and penetration testing on a scheduled periodic basis. Without conducting consistent, periodic assessments and testing on the network and its interconnecting systems, management cannot be assured that the network security controls have been properly implemented to protect the Beacon Facility network and data from intruders and attackers. Because of the sensitivity of these weaknesses, the details regarding these issues are not included in this report.

We recognize that managing IT devices and mitigating device vulnerabilities is a challenging and ongoing process, especially in light of the many new vulnerabilities and viruses that are regularly appearing. However, the types of vulnerabilities identified by the FSA/CCC scanning process were previously identified in prior-year consolidated financial statement audits. Consequently, additional preventive controls are needed. FSA/CCC management recognizes this risk and, during fiscal year 2005, plans to more aggressively enforce the policy of performing preventive vulnerability scanning of devices before they enter production.

- Information security controls at the county offices can be improved. During our visits to several CCC county offices we noted certain security weaknesses. Key weaknesses included: a current listing of authorized system users and their access authorizations is not consistently reviewed; county office security officers have the ability to print a report with user passwords identified in clear text; and the process for granting user access is inconsistent. Collectively, these issues have occurred because of the lack of an effective information security support structure for the county offices and outdated county office system platforms. The cumulative effect of these issues is a lack of sufficient security controls at the county offices.

CCC management recognizes the risks associated with these county office information security weaknesses. During fiscal year 2004 several actions were implemented to address the issues, including: implementation of a standard user access request form; development of additional information security guidance for use by the county offices; and deployment of the National

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Payment Service (NPS), a Web-based payment process that will allow for the implementation of more modern security controls.

- Background re-investigations are not being performed for long-term employees in accordance with USDA guidance. The lack of re-investigations in the past has been identified as a risk and measures have been taken for its mitigation. Re-investigations are currently in progress, but according to CCC management, timely completion is not feasible due to insufficient resources. Also, nondisclosure agreements (NDA) with individual contractors are not consistently executed. NDAs would help ensure that FSA/CCC information subject to nondisclosure is maintained in a confidential manner. These issues are very important to an organizational information security program, and are not IT in nature, so they need to be addressed primarily by the FSA Human Resources Division (HRD), in coordination with CCC system owners.

The USDA Departmental Manual, *Background Investigations and Security Clearance Policy*, requires the performance of background investigations and periodic re-investigations for Federal, State, and County employees, contractors, and non-Federal employees using USDA Local Area Networks, Wide Area Networks, and voice networks. The nature and scope of the investigations should be commensurate with the position risk/sensitivity and necessary level of access. This USDA requirement is supported by similar Federal information security guidance, such as the National Institute of Standard and Technology's (NIST's) *Generally Accepted Principles and Practices for Securing Information Technology Systems* and *An Introduction to Computer Security: The NIST Handbook*.

- New employees are required to complete an online security assessment following their training. The completion of security awareness training has not occurred for all newly hired FSA/CCC employees.

The Electronic Government Act of 2002, Title III, *Information Security*, states that users of systems are to be provided with security awareness training to inform personnel of the information security risks associated with their activities and their responsibilities in complying with agency policies and procedures to reduce these risks.

The USDA Information Systems Security Policy states that all USDA agencies must make security awareness and training mandatory for all employees that use, operate, supervise, or manage computer systems or use output from computer systems. Each USDA employee that uses computers or output from computers must be:

- a) Provided awareness of his or her security responsibilities;
- b) Provided periodic security training (minimum once a year) in how to fulfill the responsibilities of security; and
- c) Informed of requirements as stated in OMB Circular A-130 relating to awareness and training.

The USDA Information Systems Security Policy also states that USDA and agency information systems security program managers (ISSPMs) shall ensure that information system security requirements, procedures, and practices are included in computer security training materials. Each

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new employee will receive an orientation outlining his or her security responsibilities. Thereafter, the program managers shall ensure training is provided to their employees on a regular basis.

*Contingency Planning*

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

- An emergency replacement facility for the Kansas City, Missouri, Beacon Road facility has been identified. However, FSA/CCC is still in the process of staffing and equipping the facility for use. The site also has not undergone a full contingency plan test. The Beacon Road facility is a vital link in the transfer of data to and from the CCC county offices, where much of the CCC financial data processing originates. The Beacon Road facility hosts computer network connectivity devices needed to access the National Information Technology Center (NITC) mainframe, as well as key CCC financial operations personnel. Consequently, there is a significant risk that if the Beacon Road facility becomes unavailable, CCC financial operations and processing continuity may be negatively impacted. CCC management officials have expressed similar concerns regarding this issue and USDA and FSA/CCC officials are coordinating efforts to correct the problem.
- As noted in prior years, CCC performs recovery testing of its key mainframe applications hosted at the USDA maintained NITC. However, there is not a well-defined and regular schedule for such testing. CCC negotiates such testing activities with NITC officials and NITC currently is renegotiating a new recovery contract with its vendor. CCC officials informed us that once the NITC recovery contract is renegotiated, they plan to negotiate with NITC to obtain resources and capabilities to perform more regular recovery testing. Also, CCC has not completed and finalized all system specific contingency plans. Without finalized application contingency plans, it would be difficult to plan and perform recovery tests for specific applications.

Without a regular application recovery testing schedule, there is a heightened risk that current versions of production applications may not be available during a recovery operation. This is especially important for CCC because of application changes made to support new legislation, such as amendments made to programs currently included in the Farm Security and Rural Investment Act of 2002 (the Farm Bill) or new programs, including annual disaster recovery program initiatives. As computer systems and applications are modified and updated, the service continuity strategy must also be updated to ensure the recovery of these applications is feasible within established recovery timeframes.

- During our CCC county office test work, we noted that documented and tested contingency plans for the offices were not consistently prepared and tested in accordance with Federal guidance, such as OMB Circular A-130. For example, there was a lack of detailed instructions for restoring operations should an outage occur, and key data files that would need to be recovered were not consistently identified. As noted earlier, FSA/CCC officials have been working closely with the USDA Office of the Chief Information Officer (OCIO) to enhance the Department-wide contingency planning



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capabilities. As part of this improvement effort, FSA/CCC plans to develop formal contingency plans for applications supporting county offices. However, this has not yet been completed.

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 CCC applications. Many of these issues, and the related recommendations below, have been previously reported as part of CCC financial statement audits or as part of USDA OIG audits.

***Recommendations:***

In addition to recommendations 1 through 6 included in our fiscal year 2003 report, we recommend that CCC system owners, in cooperation with the USDA OCIO, and in compliance with USDA information security requirements:

1. Enforce mandatory attendance for employees at security awareness training by holding departmental managers responsible and accountable for monitoring the training of their employees. Also, CCC should implement a way to ensure employees have completed the security awareness training and continue to update their security awareness training as their environment changes.

In addition, the FSA Human Resources department should continue to enhance the process surrounding background checks as noted in recommendation 10 of our fiscal year 2003 report. Additionally, CCC should:

2. Ensure consistent execution of nondisclosure agreements with individual contractors to ensure that CCC information subject to nondisclosure is maintained in a confidential manner.

**(2) Improvement Needed in Financial System Functionality and Related Processes**

Maintaining quality Federal financial management system functionality is critical to enhance the accountability of financial and program managers, provide better information for decision-making, and increase 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<sup>1</sup>.

<sup>1</sup> From the Joint Financial Management Improvement Program (JFMIP) Core Financial System Requirements, dated November 2001.

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As noted previously herein, not only are quality financial management systems important for the day-to-day management of organizational financial data and information, but also for complying with FFMIA and OMB Circular A-127. 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.

During fiscal year 2004, CCC implemented several corrective actions to improve controls and processes supporting its financial systems. For example, prior year weaknesses with Hyperion, CCC's financial consolidation software, were corrected. In addition, CCC implemented improved funds control system functionality, through enhancements made to the e-Funds control system, and is in the process of interfacing the e-Funds system with the CORE general ledger to further enhance funds control over CCC programs.

However, we noted certain additional improvements could be made to financial system functionality and related processes. For example:

- As reported in fiscal year 2003, we noted that CCC needs to provide additional training to personnel responsible for posting accounting entries in accordance with the U.S. Government Standard General Ledger (SGL) and enhance journal voucher preparation and management review controls. The entries made to record the destruction of the tobacco inventory in the amount of \$237.9 million were incorrectly posted in the CORE general ledger at June 30, 2004. The posting errors went undetected during management's review at the time the voucher was approved, as well as during management's review of the monthly general ledger account balances 1561–*Commodities Held Under Price Support and Stabilization Support Program*, 6500–*Cost of Goods Sold*, 7210–*Losses on Disposition of Assets*, and 2498–*Liability, Cash Suspense Non-Detail*. As a result, CCC had to reverse and re-record these transactions.
- Although additional improvements have been made during fiscal year 2004, CCC does not currently have a collection of financial systems and processes that are capable of fully monitoring and controlling budgetary resources for all programs. This has occurred, in part, because CCC does not have a completely integrated financial system to track and govern the status of obligations and administrative limitations established by legislation or agency policy and is dependent upon manual processes. The use of manual processes and reconciliations to manage budgetary accounts subjects CCC's overall funds control process to significant control risk. Additional details on this issue are provided herein as part of Material Weakness No's. 3 and 4.

***Recommendations***

We continue to recognize the need for CCC to appropriately train system users and to further improve its system functionality as reported in our fiscal year 2003 report recommendation No's. 12 and 13.

**(3) Improvement Needed in Funds Control Mechanisms**

As reported in prior years, CCC does not have a collection of financial systems and processes that are capable of fully monitoring and controlling budgetary resources at the transaction level. Rather, CCC is managing funds control for many programs through the Obligations Task Force (OTF) and other manual

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## Material Weaknesses

review processes, as well as through the e-Funds system. During fiscal year 2004, CCC took action to further improve these processes. For example:

- In response to our 2003 recommendations, CCC continued to enhance the OTF process. CCC established the OTF in fiscal year 2003 to periodically monitor obligations and ensure that they are accurately recorded throughout the fiscal year. However, we found this process in need of further improvements.

As a funds control tool, CCC employs the OTF process to verify that obligation transactions are properly recorded in the general ledger, are the result of business events that represent a commitment on the part of CCC to a third party, and are evidenced by appropriate documentation. The primary means by which the OTF evaluates the validity of the undelivered orders is through correspondence with the program offices. However, we found that program offices were not able to effectively and accurately communicate with CCC's accounting divisions regarding the current status of obligations. Specifically, we noted that program office personnel do not have the technical knowledge to determine when an obligation has been incurred. In addition, the OTF was unable to timely report the results of its monitoring efforts to the CCC Director.

If obligation amounts are not properly stated, effective funds control cannot be attained. Therefore, improvements are needed to enhance the effectiveness of the OTF process. These enhancements will reduce the risk of inaccurately prepared quarterly and annual financial statements, as well as CCC's exposure to potential violations of the Anti-Deficiency Act (ADA).

- In addition, CCC developed and began implementation of the e-Funds Control system in fiscal year 2003, an intranet based application functional at the National, State, and county office levels. Through the e-Funds system, county office disbursement transactions are batched and posted each night to CORE. At the same time, county office information is posted hourly to the e-Funds system table that resides in CORE. Nightly, the e-Funds system compares the summary disbursement information uploaded to the CORE general ledger and the information updated to CORE's e-Funds system table to verify the disbursement amounts are in agreement. Once verified, if the disbursement totals exceed allotments, no disbursements are made.

However, the e-Fund system is only designed to track and monitor daily program state and county office disbursements, not individual contracts or obligations. As a result of the system's limitations, e-Funds does not provide full funds control because the system does not track both undelivered orders and disbursements to determine an accurate status of program resources. This limitation reduces the system's ability to fully ensure that unpaid obligations and disbursements related to a specific program have not exceeded available resources. In addition, the e-Funds system is not fully integrated with CORE. The budgetary transactions as a result of the daily e-Fund system download are only recorded at a summary level in CORE, not at the individual transaction level. No general ledger entries are generated directly from the activity uploaded from the e-Funds system. Furthermore, CCC has not fully implemented reconciliation procedures between the general ledger and e-Funds system to mitigate the risk associated with a partially integrated system. As such, the e-Funds system is not in compliance with FFMI A since it does not provide for real-time funds control at the transaction level. CCC is currently working to complete an interface between the e-Funds system and CORE; however, as of fiscal year-end 2004, the interface was not completed.

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Funds control is a vital component of any Federal government operation. It requires that an obligation be recorded prior to the disbursement of funds. When a disbursement is processed, the systems' funds control function should compare the amount to be disbursed to the remaining amount of the obligation to ensure funds remain available. Only when funds remain available should funds be disbursed. In addition, the ADA 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; or (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 or 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, requires 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.

**Recommendations**

In addition to recommendations 14 and 15 from our fiscal year 2003 report, we recommend that CCC:

3. Develop a process to ensure a more timely review is performed and obligations are accurately reported. Improvements should include enhancements to communication between CCC's accounting

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divisions and program areas to better support the overall controls around the monitoring of budgetary account balances.

4. Develop budgetary accounting and reporting training programs for program area managers and staff, as deemed necessary to ensure communication from the program areas is effective and can be relied upon.
5. Continue to develop a fully integrated funds control system within the financial management system.
6. Develop monthly reconciliation procedures between the e-Funds system and the general ledger. These reconciliations should be reviewed and approved by management.

**(4) Improvement Needed in Budgetary Accounting and Reporting Policies and Procedures**

During fiscal year 2004, CCC continued to enhance its procedures over the budget execution process in accordance with OMB and U.S. Treasury requirements based on prior year audit recommendations, including an improved budgetary to proprietary reconciliation process and enhancements to its financial budgetary systems. However, significant control weaknesses remain. Federal agency internal control policies and procedures must be designed to ensure the status of budgetary resources is properly recorded in the general ledger and accurately reported to OMB on a quarterly and annual basis. CCC does not have a collection of systems that allow it to properly record and liquidate obligations at the transaction level in accordance with FFMLA. In addition, CCC's manual accounting and control procedures are not adequately designed to reduce to a relatively low risk of financial statement misstatement. CCC management has not yet fully implemented consistent and comprehensive accounting guidelines for program and accounting staff to follow when determining what constitutes, and should be recorded as, an obligation. In addition, the communication between CCC's different departments needs to be enhanced to properly monitor proprietary and budgetary transactions. As a result, the accounting standards and policies and procedures were inconsistently applied during fiscal year 2004. This led to a combined total of upward and downward audit adjustments to obligations incurred of \$1.25 billion, the net effect of which was a decrease of \$973 million.

During our audit, we noted the following:

- The posting models developed to account for the financial activity of certain CCC programs do not properly account for obligations incurred and cause CCC to be noncompliant with the USSGL at the transaction level. The current posting models used by CCC to record these transactions do not reduce the undelivered orders previously recorded when an approved contract is signed. Instead, when a disbursement occurs, the entry recoded in CORE reduces the allotments and increases the delivered orders paid.

A substantial amount of the transactions affecting undelivered orders are performed at the county offices. The disbursement transactions associated with these undelivered orders are recorded through the State and County Office Automation Project (SCOAP) system, which interfaces with CORE nightly. SCOAP does not have the capability to recognize and record budgetary events from the transactions it processes, specifically the recording and liquidation of an undelivered order. To compensate for the system limitations concerning the liquidation of undelivered orders, CCC developed manual procedures to liquidate undelivered orders by performing periodic analyses of the

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disbursements affecting recorded undelivered orders. The Kansas City Finance Office (KCFO), Financial Accounting Division (FAD) begins this process by generating a systems query identifying disbursements for a particular program. Using this query, FAD manually analyzes and identifies the disbursements that reflect liquidations of undelivered orders recorded in its general ledger. Once FAD determines the liquidation amount, a journal voucher is prepared to record this transaction in the system, which is reviewed and approved by management. However, our tests of controls indicated that FAD's manual procedures to liquidate obligations are not completely effective. Specifically, we noted that certain personnel at FAD performing these analyses are new to the liquidation procedures and therefore lacked adequate knowledge and training to perform these tasks properly; there were no documented policies or procedures to consistently record these liquidation entries; and certain amounts developed from the various analyses were unsupported.

- CCC's undelivered orders (UDOs) balances were primarily supported by documentation and certifications provided by program offices as a result of KCFO information requests throughout fiscal year 2004. Again, as in fiscal year 2003, the determining factors that controlled the recording of obligations were based on individual interpretations by program office personnel of whether an obligating event had occurred rather than the application of accounting principles generally accepted in the United States of America. In order to provide a control mechanism to mitigate the above control weakness, CCC developed the OTF process to provide control over the process of recording obligations at period-end. However, as previously noted, this process remains in development and is not yet fully effective.

*Recommendations*

In addition to recommendations 21 through 23 from our fiscal year 2003 report, we recommend that CCC:

7. Establish policies and procedures to ensure that budgetary accounts (i.e., undelivered orders) are evaluated and maintained monthly for each program, as obligations are incurred and disbursements are made.

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Reportable Conditions

The reportable conditions we identified as of and for the year ended September 30, 2004, are summarized below:

**(5) Improvement Needed in Financial Accounting and Reporting Policies and Procedures**

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 that CCC took significant steps to address the issues noted during the fiscal year 2003 audit with respect to producer payment program accruals. However, procedures over this area continue to need improvement based on the following issues noted below:

- As reported in fiscal year 2003, CCC's policies for recording producer payment program liabilities should be formally documented. CCC continued to lack standardized policies and procedures for recording accrued liabilities in fiscal year 2004. During the interim testwork performed as of June 30, 2003, we noted that management did not thoroughly review documentation used to record the accruals, which in some instances resulted in improper or inconsistent accounting treatment. For example, the accrual amounts at June 30, 2004 for the Direct Payments—Direct and Countercyclical Payments Program were not adequately supported by the calculations performed by the program office economists. In addition, the liability for the Peanut Quota Buyout Program was not calculated using accurate source data. Also, management concluded that the methodology followed for developing the June 30, 2004 accrual estimate for the Conservation Reserve Program (CRP)—Signing Incentive Payment, CRP—Practice Incentive Payment, CRP—Cost Share Payment, and the Non-insured Assistance Program was not reasonable and the entries recorded were subsequently reversed.
- We also noted that the information provided by the National Resource Conservation Service (NRCS) and the Foreign Agricultural Service (FAS)—USDA agencies responsible for administering CCC programs—was not sufficient, accurate, or timely to enable CCC to determine the June 30, 2004 producer payment program accrual amount. In addition, accruals were not recorded for the following programs administered by FAS: Market Access Program, Foreign Market Development, Technical Assistance for Specialty Crops, Emerging Markets Program, and the Quality Samples Program, although approved applications existed at June 30, 2004, in excess of CCC's accrual threshold of \$1 million. Similarly, accruals were not recorded for the Emergency Conservation Program, a program administered by NRCS.

The majority of the control issues noted above were addressed at year-end as management took a more active role in developing and monitoring the accrual methodology and policies and procedures to be followed in determining producer payment program liabilities. The controls implemented at year-end significantly reduced the number and dollar amount of the adjustments that were noted at September 30, 2004, as compared to prior year. However, issues still remain. During our final testwork, we noted that CCC's producer payment program liability and related expense accounting continues to need improvement. We noted the following audit differences, which were subsequently corrected by CCC:

- The liability for peanut and upland cotton countercyclical payments for the 2003 DCP program in the amount of \$280 million was not accrued at September 30, 2004;

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Reportable Conditions

- The liability for the Peanut Quota Buyout Program was overstated by \$36 million at September 30, 2004, due to the recording of an incorrect entry during the year;
- The liability for direct payments for the 2004 DCP program was overstated by \$35 million at September 30, 2004, because the total liability estimate did not reflect the most recent data available; and
- The liability recorded for Loan Deficiency Payments was understated by \$58 million, as it did not include payments disbursed in fiscal year 2005 that related to applications approved in fiscal year 2004.

CCC's policy for monitoring receivables should be further improved to ensure that due process is performed on delinquent debts for achieving compliance with the Debt Collections Improvement Act of 1996 (DCIA). As noted in previous years, CCC was not in substantial compliance with one provision of DCIA; and receivables older than 60 days were not always converted by the county office personnel to claim status and reported to CCC's centralized debt servicing system.

CCC commenced training selected field-office personnel in fiscal year 2003 on the organization-wide policies and procedures over the monitoring of delinquent debts and has made significant progress. However, we again noted that field-office personnel did not comply with the timeliness requirements of DCIA for following up on outstanding debts as follows:

- For 24 of the 50 receivables and claims reviewed, we noted a sample error in the amount of \$11,125 in relation to a sample population total of \$458,079. In each case, notification and/or demand letters were not sent to the producers within a time period that would facilitate the timely collection of outstanding receivables/claims. We determined that these letters were sent out approximately two to four months late. DCIA requires that proper due process be given a debtor prior to referral of the debt to Treasury for cross servicing or the offset program.
- 24 of the receivables sampled for review, amounting to \$7,792, were outstanding for more than 60 days and were not converted to claims status. At September 30, 2004, we noted that CCC had approximately 1,600 receivables, amounting to approximately \$10.5 million, older than 90 days that were not converted to claim status.
- For 3 of the 21 claims reviewed we noted a sample error in the amount of \$43,261 in relation a sample population total of \$444,221. In each case, the State office and/or the Debt Management Division at KCFO did not follow up on the claims in a timely manner. As a result, one of claims was established one year late and was subsequently written off. Two of the claims were outstanding for approximately 14 years and were never transferred to Treasury for cross-servicing or the offset program, as the state office did not take any action on these claims. Upon a recent evaluation, the claims were determined to be uncollectible and were written off.

*Recommendations*

In addition to recommendations 16 and 18 from our fiscal year 2003 report, we also recommend that:

8. CCC management continue to emphasize the importance of following debt management policies and procedures to the county office personnel responsible for monitoring delinquent debts.



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Reportable Conditions

9. Based on our audit work performed in fiscal year 2004, we believe the following clarification is necessary regarding recommendation 16 reported in fiscal year 2003. The formalized policies and procedures should i) be specific to each producer payment program to specifically describe the accounting event giving rise to the liability and the methodology for calculating the estimate and recording the accrual, ii) describe separately for each program specific management control procedures, including the responsible management officials that are required to review, approve, and evaluate the accrual amount and methodologies used, and iii) require the Program Office and the Budget Office to consider financial reporting needs when they develop and implement new program software.

**(6) Improvement Needed in Producer Monitoring Procedures**

During our audit we noted that the producer monitoring procedures need improvement. Compliance with CCC's producer monitoring requirements is necessary to deter program abuse and possible fraudulent actions committed against Federal resources.

In accordance with CCC's policies and procedures, a substantial amount of the benefit payments made to producers for loans and LDPs are based on the producer's certification of the underlying production quantities. The certified amount is subject to evaluation by the county office personnel, who must determine the maximum eligible quantity of production based on the yield determinations made by the County Office Committee (COC) and the producer's reported acreage. County offices should not allow the producer to receive a loan on quantities in excess of the maximum eligible quantity. During our audit we noted that field office personnel did not always perform eligibility determinations prior to making payments. The issues we noted during our audit included the following: 1) for 8 of the 76 loans reviewed and 7 of the 85 LDPs reviewed, there was a lack of documentation for the approved maximum yields in the COC minutes; and 2) for 16 of the 76 loans reviewed and 26 of the 85 LDPs reviewed, there was a lack of performance or documentation of the collateral reasonableness analysis.

In addition, the county offices must make production spot checks of randomly selected farm-stored loans and certified LDPs on a monthly basis and gather adequate production evidence. Production spot checks must always be performed for State Technical Committee members, COC members, and FSA employees that were issued farm-stored commodity loans and LDPs. Adequate documentation must be maintained by the county office to support the spot check results. During our audit we noted that field-office personnel did not always comply with these requirements. Our findings included: 1) for 4 of the 12 county offices reviewed, the production spot checks were not performed on a monthly basis; 2) for 1 of the 12 county offices reviewed, the mandatory production spot check procedures for an FSA county office employee were not performed; and 3) for 13 of the 55 production spot checks reviewed, there was a lack of evidence that the production spot checks had been performed.

CCC increases the risk of making improper payments if it does not perform the required eligibility procedures regarding producer monitoring. Also, if collateral reported by producers is not properly verified, there is a risk that loans will not be adequately collateralized, which may expose CCC to losses not supported by Statutory requirements.

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*Recommendations*

We recommend that:

10. CCC management emphasize the importance of ensuring that all required forms and documents be obtained and approved by the county office and COC prior to the disbursement of the loan or LDP. For this purpose, the county office should consider maintaining a checklist of the required forms and documents that must be approved and maintained in the producer file. The checklist should be updated annually to properly reflect any changes made to the producer's existing information. County office management should perform quality control procedures by periodically reviewing producer files to ensure that the required documentation and checklist are maintained and updated accordingly.
11. CCC continue to train county office personnel on the program requirements over the loan and LDP processes and the related spot check requirements.
12. County office management should ensure that all random and mandatory spot checks are performed in a timely manner. Furthermore, county office management should ensure that the loan and LDP spot checks performed are supported by sufficient production evidence maintained in the producer's loan or LDP file. Discrepancies not within tolerance should be reviewed, approved, and resolved by the COC. CCC management should emphasize to the State offices the importance of performing adequate quality controls to monitor the county offices' completion of spot checks and the performance of annual reviews of county office spot check files for compliance with the applicable program handbook.

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Status of Prior Year Noncompliance and Other Matters Reported

Fiscal Year 2003 Finding	Fiscal Year 2004 Status
<p><b>Federal Information Systems Management Act (FISMA)</b> – CCC needs to improve its level of compliance with FISMA by implementing additional controls and processes supporting its entity-wide security program and operating device security.</p>	<p>During fiscal year 2004 CCC took several actions to address prior year information security and contingency planning weaknesses. For example:</p> <ul style="list-style-type: none"> <li>• CCC engaged contractor support to have security risk assessment and security plans completed for major general support systems and applications. A significant number of risk assessments and plans have been completed and were in draft form during fiscal year 2004.</li> <li>• As part of CCC’s remediation actions, many technical security weaknesses were addressed and new security guidance memos were issued.</li> <li>• In 2003, CCC personnel participated on a USDA-wide contingency planning task force to review contingency planning software development and maintenance tools. Because of CCC’s active involvement in this task force, CCC was one of the pilot agencies to test the new software during fiscal year 2004.</li> </ul> <p>Therefore, in fiscal year 2004 the presentation of the issue was modified to reflect current year operations and continues to be reported as a non-compliance with FISMA.</p>
<p><b>Debt Collection Improvement Act of 1996 (DCIA)</b> – CCC was not in substantial compliance with one provision of DCIA, and receivables older than 60 days were not always converted by the county office personnel to claim status and reported to CCC’s centralized debt servicing system.</p>	<p>CCC commenced training selected county office personnel during fiscal year 2003 on the organization-wide policies and procedures over the monitoring of delinquent debts and has made significant progress. However, as reported in the <i>Improvement Needed in Financial Accounting and Reporting Policies and Procedures</i> section of Exhibit 2, county office personnel did not comply with the timeliness requirements for following up on outstanding debts.</p> <p>Therefore, in fiscal year 2004 the presentation of the issue was modified to reflect current year operations and continues to be reported as a non-compliance with DCIA.</p>

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Status of Prior Year Noncompliance and Other Matters Reported

Fiscal Year 2003 Finding	Fiscal Year 2004 Status
<p><b>Federal Financial Management Improvement Act of 1996 (FFMIA)</b> – CCC was not in compliance with OMB Bulletin 01-02 and FFMIA as follows:</p> <ul style="list-style-type: none"> <li>• Information security controls and contingency planning capabilities in accordance with OMB Circular A-130 Federal financial management systems</li> <li>• Financial systems controls in accordance with OMB Circular A-127</li> </ul>	<p>CCC implemented several corrective actions to improve controls and processes supporting its financial systems during fiscal year 2004. CCC is currently in the process of implementing enhancements to its funds control system functionality by the interfacing of the e-Funds control system to the CORE general ledger. However, as reported in the <i>Improvement Needed in Financial System Functionality and Related Processes</i> section of Exhibit 1, certain additional improvements could be made to financial systems functionality and related processes.</p> <p>Therefore, in fiscal year 2004 the presentation of the issue was modified to reflect current year operations and continues to be reported as a non-compliance with FFMIA.</p>

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Status of Prior Year Material Weaknesses Reported

Fiscal Year 2003 Finding	Type	Fiscal Year 2004 Status
<p>Improvement needed in information security controls</p>	<p>2003 – Material Weakness 2004 – Material Weakness</p>	<p>During fiscal year 2004, CCC took several actions to address prior years' information security and contingency planning weaknesses. For example:</p> <ul style="list-style-type: none"> <li>• CCC engaged contractor support to perform security risk assessments and security plans for major general support systems and applications in support of the certification and accreditation effort. A significant number of risk assessments and plans were completed during fiscal year 2004; however, they are still in draft form and not yet finalized.</li> <li>• In fiscal year 2003, CCC personnel participated in a pilot contingency planning task force to review contingency planning software development and maintenance tools. Because of CCC's active involvement in this task force, CCC was one of the pilot agencies to test the new software during fiscal year 2004.</li> </ul> <p>Therefore, in fiscal year 2004 the presentation of the issue was modified to reflect current year operations and continues to be reported as a material weakness, as well as non-compliance with the Federal Information Security Management Act of 2002 (FISMA).</p>

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Status of Prior Year Material Weaknesses Reported

Fiscal Year 2003 Finding	Type	Fiscal Year 2004 Status
<p><b>Improvement needed in financial system functionality and related processes</b></p>	<p>2003 – Material Weakness 2004 – Material Weakness</p>	<p>CCC implemented several corrective actions to improve controls and processes supporting its financial systems during fiscal year 2004. CCC is currently in the process of implementing enhancements to its funds control system functionality by the interfacing of the e-Funds control system to the CORE general ledger. However, certain additional improvements still need to be made to the financial systems' functionality and related processes.</p> <p>Therefore, in fiscal year 2004 the presentation of the issue was modified to reflect current year operations and continues to be reported as a material weakness.</p>
<p><b>Improvement needed in funds control mechanisms</b></p>	<p>2003 – Material Weakness 2004 – Material Weakness</p>	<p>CCC has made improvements to its funds control process including the establishment of an obligations taskforce in an attempt to provide oversight for the recording of obligations and enhancements of its e-Funds Control application software. However, the obligations taskforce experienced limited success in accomplishing its objectives in fiscal year 2004 and significant improvements are still necessary to fully integrate CCC's financial systems.</p> <p>Therefore, in fiscal year 2004 the presentation of the issue was modified to reflect current year operations and continues to be reported as a material weakness for 2004.</p>

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Status of Prior Year Material Weaknesses Reported

Fiscal Year 2003 Finding	Type	Fiscal Year 2004 Status
<p><b>Improvement needed in financial accounting and reporting policies and procedures</b></p>	<p>2003 – Material Weakness 2004 – Reportable Condition</p>	<p>CCC has taken significant steps to improve internal controls and reduce the number of post-closing entries, including those related to producer payment accruals.</p> <p>Additionally, CCC has made progress in establishing claims for the outstanding amounts due and in following up on outstanding debts for achieving compliance with the Debt Collection Improvement Act of 1996 (DCIA).</p> <p>Therefore, in fiscal year 2004 the presentation of the issue was modified to reflect current year operations and is reported as a reportable condition in our fiscal year 2004 report.</p>
<p><b>Improvement needed in budgetary accounting and reporting policies and procedures</b></p>	<p>2003 – Material Weakness 2004 – Material Weakness</p>	<p>CCC has improved its process to reconcile budgetary to proprietary information by making the process more effective and timely and has made improvements in its budgetary financial systems; however, we continue to note material year-end adjustments in the budget area. As such, we continue to note the need for improvement in CCC's budgetary accounting policies and procedures in fiscal year 2004.</p> <p>Therefore, the presentation of this issue was modified to reflect current year operations and continues to be reported as a material weakness for 2004.</p>



United States  
Department of  
Agriculture

**Exhibit 5**

Farm and Foreign  
Agricultural  
Services

Commodity Credit  
Corporation

1400 Independence  
Avenue, SW  
Stop 0581

Washington, DC  
20250-0581

NOV 05 2004

**TO:** Wanda Philippi  
Regional Inspector General  
Office of Inspector General

Cathy Supernaw  
Senior Partner  
Kylneveld Peat Marwick Goerdeler (KPMG)

**FROM:** Kristine M. Chadwick  
Controller, Commodity Credit Corporation

**SUBJECT:** Response to the Draft Combined Independent Auditor's Report on the  
Commodity Credit Corporation's (CCC) Fiscal Year 2004 Comparative  
Financial Statements

We have reviewed KPMG's Draft Combined Independent Auditor's Report dated October 29, 2004, 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 the 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 Elizabeth Russell at (703) 305-1273.

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designated USDA agencies, maintain liaison with numerous other governmental and private trade operations<sup>1</sup>.

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

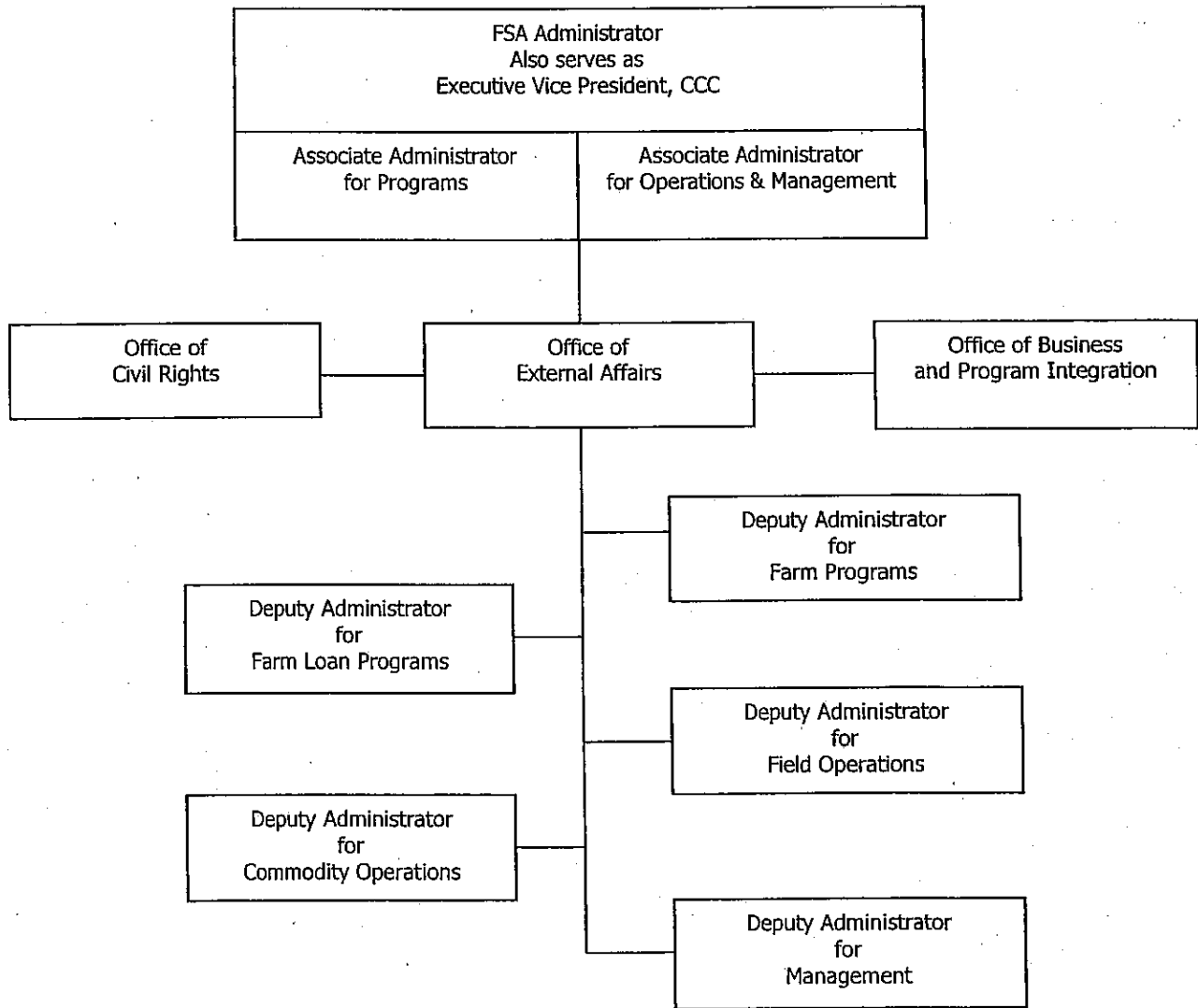
CCC has its own disbursing authority. Rather than issuing payments through the Treasury Department, it utilizes the Federal Reserve banking system to make payments. This disbursing authority allows the Corporation to make payments quickly and get aid and financial support to America's producers without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

CCC has a variety of funding mechanisms (see Appendix B for a listing of CCC accounts with the Treasury Department). 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.

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<sup>1</sup> 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.

**Farm Service Agency Organization Chart**



## Strategic Goals

CCC's strategic goals, objectives, and performance measures are taken from FSA's Annual Performance Plan, since the two entities are so closely related. FSA is in the process of implementing a new budget and performance management system. The cornerstone of that effort is a new strategic plan for fiscal year 2005 - 2010. FSA has developed the Framework, which includes a set of long-term measures for the new plan. The Agency is currently in the process of preparing the new plan and expects to issue it for public review in October 2004. Fiscal year 2005 target goals are not included in this report as they are not yet available.

### 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.*

## Responding to the Nation's Natural Disasters

Unusually harsh weather conditions late in fiscal year 2004 as a result of Hurricanes Charley, Frances, Ivan, and Jeanne resulted in devastation to the Florida citrus fruits and vegetables and nursery industries causing substantial production and tree losses. USDA has pulled out all the stops to aid battered Floridians. The Florida Hurricane Agriculture Disaster Assistance Program provides special disaster relief to producers of citrus, selected tropical fruits, vegetables, and nursery crops located in Florida counties that have received a Presidential disaster declaration. Payments for this assistance are authorized under Section 32 of the Agricultural Act of August 24, 1935, which allows the Secretary of Agriculture to restore producers' purchasing power.

To answer the needs of those producers impacted by the havoc wreaked as a result of Hurricanes Charley and Frances, the Farm Service Agency has requested that \$650 million be made available to reestablish farmers' purchasing power by making payments to Florida producers. Relief will be provided under the following programs administered by CCC.

### **Florida Hurricane Charley Citrus Disaster Program**

Citrus producers will be reimbursed on a per acre basis for each eligible grove. Payments will be based on the severity of destruction as determined by the path of the storms and damage estimates which will take into account various levels of losses generally correlating to the distance from the eye of the

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hurricanes, the average production loss, tree loss, and rehabilitation and cleanup costs. Fruits from groves must have been marketed in both 2003 and 2004. Sign-up begins October 5, 2004.

### **Florida Hurricane Nursery Disaster Program**

Nursery payments will be 25 percent of inventory loss plus a flat rate payment of \$250 per acre to address general cleanup costs from the hurricanes. Sign-up begins October 26, 2004.

### **Florida Hurricane Vegetable Disaster Program**

Payments for vegetable and selected tropical fruit producers will be based on a per acre basis, and payments for plasticulture (production practices where the soil has been bedded, fumigated, fertilized, and plastic-mulch laid) vegetable producers will be based on the type of planting application or method installed or completed at the time the hurricanes hit. Sign-up begins November 9, 2004.

Each producer's payment is limited to \$80,000 under all three of these programs. Payment rates will be 5 percent less for producers who did not obtain Federal Crop Insurance or coverage under the Noninsured Crop Disaster Assistance Program.

### **Industry Collaboration**

The Farm Service Agency continued industry collaboration in providing hurricane relief. After providing 280,000 servings of milk to Florida victims of Hurricane Charley, FSA continued working with New York-based East Side Entrees, Feed the Children, and Tetra-Pak to provide an additional 140,000 servings in the relief effort for Florida victims of Hurricane Frances. East Side Entrees Dairies donated the milk, Tetra-Pak donated the packaging, and FSA provided surplus nonfat dry milk. The 420,000 donated servings of milk for the two hurricane relief efforts were valued at about \$185,000.

### **Emergency/Disaster Assistance**

Unreasonably dry conditions in many other parts of the country have seriously affected many farmers and ranchers. Using every tool available, the Bush Administration has provided timely disaster assistance by quickly implementing the Agricultural Assistance Act of 2003, which included a crop disaster assistance program that reimburses producers for qualifying crop losses in either 2001 or 2002. The timetable for implementation was hastened and sign-up consequently began several weeks sooner than previous disaster aid packages, even though this legislation was more complicated.

During fiscal year 2004, the Corporation incurred \$1.1 billion in net costs for emergency assistance programs, compared to \$2.8 billion a year earlier. Program costs were much higher in fiscal year 2003 primarily due to the **2001/2002 Crop Disaster Assistance Program** briefly mentioned above. This program was established to make emergency financial assistance available to producers on a farm that incurred qualifying crop losses in either 2001 or 2002 on an agricultural commodity (other than sugar or tobacco) due to damaging weather or related condition. Sign-up for the 2001/2002 Crop Disaster Assistance Program began on June 6, 2003. Producers with crop losses in both years are only eligible to receive payment for one year. Payments started going out to farmers on June 30, 2003 and, for the fiscal year ended September 30, 2003, \$2.1 billion had been issued to eligible producers. Payments issued in fiscal year 2004 totaled \$708 million. The Agricultural Assistance Act of 2003 extended the **Livestock Compensation Program** (LCP) originally created in 2002, into 2003. The 2003 LCP (LCP-II) is an emergency initiative that provides immediate assistance to eligible owners and cash lessees of certain types of livestock for damages and losses due to any natural disaster. To be eligible for assistance, a producer's livestock headquarters must be physically located in the county with a qualifying disaster. This program provides direct payments to eligible livestock producers. Sign-up for the extended program began on April 1, 2003, through early June. During fiscal year 2003, \$251 million in program costs were incurred for LCP-II. The **2001/2002 Livestock Assistance Program** (LAP), also

authorized by the Agricultural Assistance Act of 2003, made available \$250 million to livestock producers for grazing losses that occurred as a result of drought, severe weather and related causes in either 2001 or 2002. Sign-up began in August and ended in October 2003, with payments being made shortly thereafter. LAP payments to a producer are reduced by the amount of assistance received by that producer under LCP. As of September 30, 2004, \$100 million in program costs had been incurred for LAP.

The **Nonfat Dry Milk Livestock Feed Assistance Program**, announced by the Secretary on July 16, 2004, provides assistance to livestock producers in states that need help in maintaining foundation livestock herds as the result of extreme drought conditions. CCC sells, through feed dealers in the state, a portion of its nonfat dry milk inventory as livestock feed under section 165 of the Federal Agriculture Improvement and Reform Act of 1996. CCC has been working with the U.S. Drought Council in determining the amount of assistance producers need and the states suffering the most severe impact of the drought. States eligible for the first 2004 initiative allocation are Arizona, Idaho, Montana, Nebraska, Nevada, New Mexico, Oregon, Utah and Wyoming.

The **Noninsured Crop Disaster 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 that 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 2004 and 2003, CCC incurred \$122 million and \$240 million in NAP program costs, respectively.

Other emergency assistance programs include the **Hurricane Assistance-Sugarcane Program, Sugar Beet Disaster Program, Quality Loss, and Pasture Recovery** programs.

### **Improving Life in Rural America**

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

#### **Second Anniversary of the 2002 Farm Bill**

This year marks the second anniversary of the Farm Bill signing. As noted by the Secretary, "Our goal over the past two years has been to implement the 2002 Farm Bill as quickly and efficiently as possible. Thanks to the hard work and dedication of USDA employees across the country, we have implemented 95 percent of the bill and the few remaining provisions are nearing completion."

The 2002 Farm Bill, officially known as the "Farm Security and Rural Investment Act of 2002", Public Law 107-171, was signed into law by President Bush on May 13, 2002. The 2002 Farm Bill, which governs Federal farm programs, offers certainty and support for America's farmers and ranchers by providing a generous safety net for farmers without encouraging overproduction and depressing prices. The 2002 Farm Bill overhauled many existing laws and created complex new programs. It impacted CCC by changing the direction of its programs and the nature of assistance it grants. Over \$15 billion in payments have been issued for income support programs, such as the Direct and Counter-Cyclical, Loan Deficiency, Peanut Quota Buy-Out, and Milk Income Loss Contract programs. The discussion that follows includes information on the specifics of these programs.

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**Direct and Counter-Cyclical Program Payments (DCP)**

The DCP replaced the Production Flexibility Contract payment program in fiscal year 2003 for wheat, feed grains, upland cotton, rice, oilseeds, and peanuts as authorized in the 2002 Farm Bill. A major feature gives producers the option of updating historical average acreage bases and crop yields to determine program benefits. The annual sign-up for crop year 2004 DCP began on October 1, 2003. **Direct payments** are available at the option of the producer. Up to 50 percent of the direct payment for a covered commodity, for any of the 2003 through 2007 crop years, may be paid to the producer in advance. Payment rates for direct payments are established by the 2002 Farm Bill and are issued regardless of market prices. Producers are also eligible for **counter-cyclical payments** on farms for which payment yields and base acres are established with respect to the covered commodity, but payments are issued only if effective prices are less than the target prices set in the 2002 Farm Bill. The effective price is equal to the higher of the average loan rate or national average market price received by producers, plus the direct payment rate. Final crop year 2002 counter-cyclical payments for corn, grain sorghum, wheat, barley, oats, soybeans and other oil seeds are zero because the effective prices for these commodities were equal to or exceeded their target prices.

In fiscal year 2004, \$5.3 billion in DCP direct payments and \$812 million in DCP counter-cyclical payments were issued to eligible producers. CCC is expecting to disburse \$281 million in counter-cyclical payments for the 2003 crop year rice, peanuts and upland cotton. As of September 30, 2004, CCC had \$372 million in receivables due from producers. This represents overpayments of 2003 counter-cyclical payments. Advance payments were made in January 2004. Subsequent to that, market prices rose, thereby eliminating eligibility for the program. The entire amount paid out for wheat, corn, and sorghum was determined to be overpaid.

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

**Peanut Quota Buy-Out Program**

The 2002 Farm Bill made significant changes to the peanut program, by replacing the peanut marketing system that was established over 60 years ago. The new program's provisions include direct and counter-cyclical program payments, as well as non-recourse loans with marketing loan provisions. A Peanut Quota Buy-Out Program was authorized to compensate quota owners for the lost asset value of their quota through 5 equal installments or a lump sum payment. In fiscal year 2003, \$1.2 billion was disbursed, while only \$25 million were disbursed this year. CCC expects to pay an additional \$41 million in future program payments.

**Other 2002 Farm Bill Income Support Programs**

Other income support programs authorized by the 2002 Farm Bill and effective in fiscal year 2003 are the **Milk Income Loss Contract (MILC) Program** and the **Apple Market Loss Assistance Program (AMLAP-III)**. Under the MILC program, dairy producers enter into contracts with CCC that will end on September 30, 2005, and receive monthly direct payments when domestic milk prices fall below a

specified level. Payments in 2004 were \$246 million, a decrease from 2003 when over \$1.9 billion in payments were made. This considerable drop in payments is the result of higher market prices. MILC payments are authorized when the monthly Boston Class 1 milk price falls below the MILC rate (\$16.94/cwt.). During fiscal year 2003, the average milk price was \$13.90/cwt. During fiscal year 2004, the average milk price rose to \$18.35/cwt. Milk prices fell in the fourth quarter of fiscal year 2004, from a high of \$24.58/cwt. in June 2004. AMLAP-III provides assistance to eligible apple growers to help offset economic losses due to low prices in the U.S. apple market in 2000. Sign-up for AMLAP-III began on October 1, 2002. In fiscal year 2003, expenses for the program totaled \$93 million. In fiscal year 2004, program expenses were minimal.

**Farm Storage Facility Loans (FSFL)**

CCC provides FSFL 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 in 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 \$187 million and \$160 million as of September 30, 2004 and 2003, respectively. The table below presents CCC's performance in regards to 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 for 2000 and 2001.

Performance Goal and Indicator	2000 Target/ Actual	2001 Target/ Actual	2002 Target/ Actual	2003 Target/ Actual	2004 Target/ Actual
Farm Storage Facility Loan Program					
Total bushels of additional on-farm storage capacity built through the FSFL program (millions of bushels)	N/A/56.7	N/A/69.2	76.7/21.4	36.5/45.7	36.5/42.0

Demand for the program in fiscal year 2004 continued to exceed expected levels; however, the trend is expected to turn downward as farmers in some parts of the nation have already constructed the on-farm storage capacity they need. Also, with 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.

**Sugar Storage Facility Loans (SSFL)**

The 2002 Farm Bill directs CCC to establish an SSFL program to provide financing for processors of domestically produced sugar cane and sugar beet to construct or upgrade storage and handling facilities for raw and refined sugar. The loan term can be up to 15 years, with the amount and terms being determined as with any other commercial loan. Loans may be made only for the purchase and installation of eligible storage facilities, permanently affixed handling equipment, or the remodeling of existing facilities. To date, no applications for loans have been filed because sugar processors do not need additional storage or are unable to take on additional debt.

**Bioenergy Program**

CCC's Bioenergy Program, made permanent by the 2002 Farm Bill, was revised to expand industrial consumption of agricultural commodities by promoting their use in the production of ethanol and biodiesel. The Bioenergy Program promotes sustained increases in bioenergy production and related industrial agricultural commodities, and allows the U.S. to reduce dependence on traditional energy sources while providing alternative market opportunities for producers. Expenses incurred in fiscal years 2004 and 2003 amounted to \$115 million and \$167 million, respectively.

**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 2004, marketing loan gains totaled \$149 million; in the prior fiscal year, they totaled \$227 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 \$461 million, a slight decrease from the \$664 million disbursed last fiscal year, but a substantial reduction from the disbursements in fiscal year 2002 of \$5,628 million. This was the result of the sharp decrease in LDP disbursements for soybeans, corn, and upland cotton because their respective market prices and corresponding alternative loan repayment rates increased significantly in 2003. Consequently, the LDP rates decreased significantly, therefore, the producers chose not to receive LDP's.

**Commodity certificates** are available to producers to purchase for use in redeeming collateral pledged to CCC for a commodity loan. The redemption of the loan collateral using commodity certificates may encourage producers to redeem the loan rather than forfeiting or delivering the collateral to CCC at loan maturity. The certificate exchange rate at which the producers purchase the commodity certificates is the market price of the commodity on the date of the purchase. These commodity certificates are not available when the exchange rate exceeds the applicable loan rate. The producers must immediately



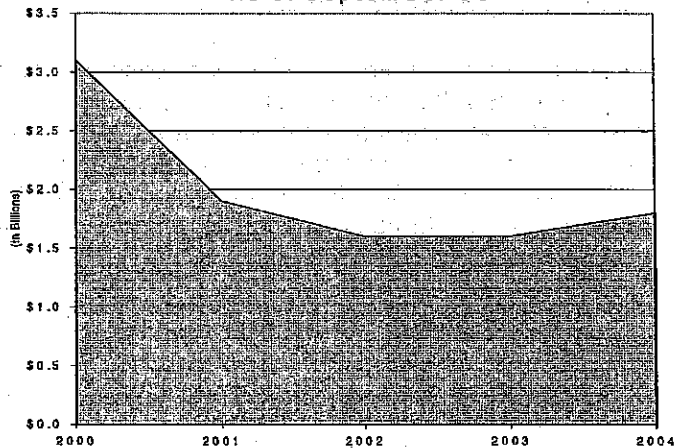
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exchange the commodity certificates purchased for the loan collateral. The difference between the loan rate and the certificate exchange rate (i.e. the market price) is a net cost to CCC. In fiscal year 2004, \$903 million in loans were exchanged for commodity certificates valued at \$635 million, resulting in a \$268 million net cost to CCC. In FY 2003, the equivalent net cost was \$998 million. The reduced net cost in FY 2004 is indicative of improving market prices.

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 continued through fiscal year 2002; however, a slight increase was reflected in fiscal years 2003 and 2004.

Commodity Loans Outstanding  
As of September 30



As of September 30, 2004, commodity loans outstanding were \$1,802 million, compared to \$1,644 million as of September 30, 2003. The majority of loans outstanding are for tobacco, wheat, corn, rice, and cotton.

Marketing assistance loans (MAL's) and LDP's are a major part of the Federal government's agriculture production 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 and will continue to administer MAL's and LDP's as directed by the 2002 Farm Bill. The table below presents CCC's performance in support of this goal. It appears that considering current market prices of commodities and crop conditions in most parts of the nation, there will be less demand for LDP's in the near future.

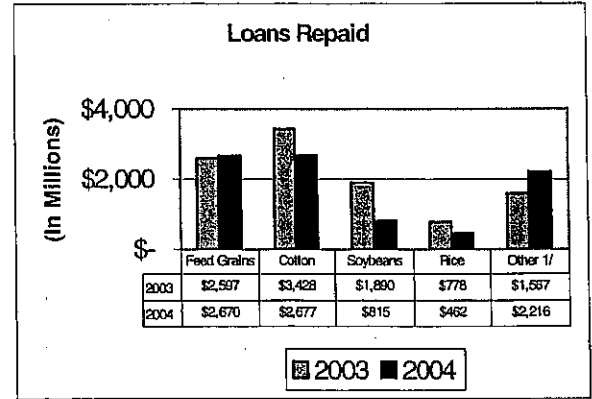
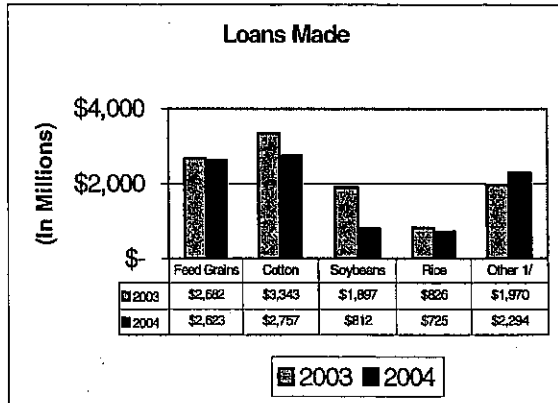
Performance Goal and Indicator	1999 Target/ Actual	2000 Target/ Actual	2001 Target/ Actual	2002 Target/ Actual	2003 Target/ Actual
<b>Marketing Assistance Loans and Loan Deficiency Payments</b>					
Percentage of eligible commodity production placed under marketing assistance loan or loan deficiency payment <sup>a</sup> :					
• Wheat, corn, sorghum, barley, oats and soybeans	N/A/77%	67%/80%	75%/90%	82%/79%	82%/13%
• Upland cotton	N/A/85%	67%/98%	40%/97%	97%/99%	97%/99%

<sup>a</sup> Based on crop year, not a fiscal year. For example, the fiscal year 2002 actual is data for crop year 2001.

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Loans made totaled \$9,211 million and \$10,718 million in fiscal years 2004 and 2003, respectively. Loans repaid totaled \$8,840 million and \$10,280 million in fiscal years 2004 and 2003, respectively. The charts below depict the breakdown of loans made and loans repaid, by commodity.



<sup>1/</sup> Includes wheat, tobacco, honey, sugar, peanuts, oilseeds, and mohair.

In July 2003, the lowest rate CCC has charged for funds advanced to producers for commodity loans since CCC began charging the variable monthly interest rate in 1980, was announced. CCC charged 2 percent per annum for funds advanced during July 2003 for 1996 and subsequent crop year loans and 1 percent per annum for new advances on outstanding crop year loans from 1995 and prior crop years. The last time the U.S. Treasury charged CCC interest rates this low was in 1958.

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.

Maintaining a balance between supply and demand in the marketplace stabilizes the price of tobacco by 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	2001 Actual	2002 Actual	2003 Actual	2004 Actual
Tobacco Price Support Program				
Average tobacco <sup>a</sup> assessment (\$/lb.)	\$ .054	\$ .039	\$ .038	\$ .040
Average price per pound of tobacco <sup>a</sup>	\$1.85	\$1.90	\$1.89	\$1.87

<sup>a</sup> Based on crop year, not a fiscal year. For example, the fiscal year 2004 actual is data for crop year 2003.

**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 in 2002, 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. The Cotton On-line Processing System (COPS) is an electronic system that can be accessed by entities that store cotton owned by CCC or have cotton pledged as collateral for CCC loans. In conjunction with COPS, CCC has an electronic cotton sales system in which potential buyers can access CCC-owned cotton and 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. CCC implemented the Peanut Electronic Warehouse Receipts Pilot project for the 2004 crop year.

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 inventories 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.

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Inventory as of September 30, 2004, totaled \$950 million, compared to \$1,984 million the previous year. Most of the inventory decrease is attributable to the destruction of approximately \$272 million in tobacco inventory and disposition of \$988 million of nonfat dry milk.

As a result of droughts in Kentucky and floods in North Carolina, 1999 was one of the worst of years for tobacco farmers. For this reason, in fiscal year 2001, legislation was passed ordering USDA to buy up much of the harvest that totaled \$599 million.

Because no bids were received to sell this tobacco for export use, CCC's only other authorized option is to destroy the inventory. Destruction of the tobacco inventory continued through 2004.

<b>Commodity</b>	<b>2004</b>	<b>2003</b>
Dairy Products	\$ 606	\$ 1,325
Wheat Products	291	292
Tobacco	2	278
Sugar	8	—
Other	43	89
<b>Total Inventory</b>	<b>\$ 950</b>	<b>\$ 1,984</b>

On March 6, 2003, CCC sold its remaining 21,385 tons of raw cane sugar to the storing warehouse operator. Over a 3-year period, CCC disposed of over one million tons of refined and raw cane sugar. The majority of the sugar stocks was disposed through payment-in-kind programs and unrestricted cash sales to storing sugar processors. CCC acquired \$8 million in loan forfeitures for refined beet sugar during fiscal year 2004. CCC also sold all rice in its inventory during 2003. A total of 4.1 million hundredweight of 2001 crop rice was sold over a 6-month period. All the rice sold was obtained through loan forfeitures.

CCC purchased \$288 million in nonfat dry milk in fiscal year 2004. This brought the nonfat dry milk inventory to \$595 million as of September 30, 2004. Of this amount, \$462 million is expected to be donated through domestic and export donation programs, \$57 million is expected to be disposed under the feed assistance programs and \$52 million is expected to be sold domestically. \$15 million is to be exchanged for pudding, while the remainder of \$9 million is to be used in a nonprofit initiative. Several nonprofit initiatives have been implemented, which involve the donation and exchange of nonfat dry milk to provide assistance to many. The National Nonprofit Humanitarian Initiative helps feed hungry people in the U.S. As part of this initiative, 400 million pounds of CCC-owned nonfat dry milk were delivered to nonprofit, faith-based, and community organizations to help feed hungry people. This one-time only initiative will enable USDA to provide additional outreach to the millions of Americans who suffer from hunger or malnutrition. Orders were accepted beginning September 2003, with deliveries for approved agreements completed by September 2004. On September 17, 2003, it was announced that USDA would donate CCC-owned nonfat dry milk to nonprofit, faith-based and community organizations for use in meal services or for distribution to needy recipients. This program will contribute to USDA's efforts to meet nutritional requirements of those in need and will build on President Bush's Faith-Based Community Initiative. Two exchange programs that were approved in 2003 included one that sought qualified companies to exchange ready-to-eat and instant pudding for CCC-owned nonfat dry milk for use in domestic programs. The other involved the exchange of CCC-owned nonfat dry milk and cash for cheese also for use in domestic programs.

CCC field test results performed in cooperation with the dairy industry indicate there are sufficient benefits for CCC to offer its nonfat dry milk for sale to the industry for conversion into edible casein or caseinate. As a result, CCC will make available up to 300 million pounds of nonfat dry milk, 24 months or older, for casein or caseinate production. Some of the older nonfat dry milk that has been deemed unacceptable for program use, due to the age of the product, will be periodically sold for animal feed.

## Improving the Environment

The Corporation funds several conservation programs, serving to preserve and conserve the Nation's farmland for future generations. As reflected on the Statement of Net Cost, costs associated with the Corporation's conservation programs were \$2,291 million this fiscal year. Last year, costs were \$2,227 million. Costs are expected to remain steady 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.

### **Farmland Protection Program (FPP)**

Under the FPP, 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.

### **Environmental Quality Incentives Program (EQIP)**

The 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. Due to an Office of Management and Budget (OMB) apportionment, NRCS assumed responsibility for program payments for the latter part of fiscal year 2002 and subsequent fiscal years. As a result, CCC transferred \$685 million in fiscal year 2004 and \$442 million in fiscal year 2003 to NRCS to fund the payments.

### **Conservation Reserve Program (CRP)**

The Corporation also funds the CRP, the Nation's premier program for protecting fragile natural resources and enhancing the environment. The purpose of the program is to safeguard millions of acres of American topsoil from erosion, increase wildlife habitat, protect ground and surface water, and improve air and water quality. 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 private sector technical service providers, NRCS, the Forest Service, and the U.S. Fish and Wildlife Service. The acreage cap for the program from is 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, and a continuous sign-up for select environmental priority practice acreage. In fiscal years 2004 and 2003, the Corporation incurred net costs for CRP of \$1,989 million and \$1,781 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.

## Reaching Across the Globe

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, 2004, the principal value of guarantees outstanding under these programs was \$5,042 million, compared to \$4,820 million as of September 30, 2003. This fiscal year, CCC paid \$127 million on defaulted guarantees. In the prior fiscal year, CCC paid \$100 million. Claims and rescheduled export credit guarantee receivables outstanding were \$6,503 million and \$6,743 million as of September 30, 2004 and 2003, 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. This fiscal year, CCC paid \$19 million in bonuses to exporters under this program while last fiscal year, \$52 million was paid. The introduction of butterfat into the program during fiscal year 2003 attributed to the increase in bonuses paid that year. 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 \$124 million in MAP payments this fiscal year, and \$103 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).

This year marks the 50<sup>th</sup> anniversary of the **P.L. 480, Food for Peace Program**. P.L. 480 was enacted in 1954. The objectives of the program are to cut world hunger and poverty in half by 2015, reduce malnutrition, and ensure that people everywhere have enough food at all times for healthy, productive lives. The program uses America's agricultural and scientific talents to fight undernourishment and famine around the world. Through this program, the United States has shipped more than 3 million metric tons of food aid over the last fiscal year and nearly 12 million metric tons over the last five years to feed people around the world. Some of the primary commercial markets today are former food aid recipients including Japan, Western Europe, and South Korea. "The work we do today follows in America's long tradition as an outward-looking nation always willing to share our abundance to help others," said the Secretary, during the 50<sup>th</sup> anniversary celebration.

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, 2004, P.L. 480 Title I direct credit receivables outstanding totaled \$8,726 million, a slight decrease from last year's total of \$9,840 million.

Title II, the U.S. government's major humanitarian food aid program, 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 \$716 million and \$748 million in fiscal years 2004 and 2003, respectively.

In March 2003, USDA Secretary Veneman and AID Administrator Andrew S. Natsios announced the immediate release of 200,000 metric tons of wheat from the Bill Emerson Humanitarian Trust, with another 400,000 tons to be made available and shipped as needed. This provided emergency food assistance to Africa, particularly Ethiopia and Eritrea. Food crises in the Horn of Africa and southern Africa threaten some 38 million people with starvation. The commodities were provided through P.L. 480, Title II and were distributed mainly through private voluntary organizations. A portion of the wheat from the reserve was exchanged for rice, so that a combination of commodities was made available to feed the people of Iraq. The U.S. worked in close partnership with international institutions and other nations as well as private voluntary organizations, which ensured the rapid delivery of humanitarian relief for Iraq.

During fiscal year 2003, the largest P.L. 480, Title II purchase in recent years was announced with the acceptance of offers for up to 229,000 metric tons (505 million pounds) of processed and packaged commodities for food assistance programs worldwide. This was the largest processed and whole grain packaged commodity purchase in over five years. Iraq was the largest beneficiary of the purchase, receiving 105,000 metric tons of commodities, including wheat flour, milled rice, vegetable oil, and great northern beans.

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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 \$67 million in fiscal year 2004, and \$110 million in fiscal year 2003. Direct credits outstanding under the program as of September 30, 2004, were \$295 million. As of September 30, 2003, direct credits were \$352 million.

Commodity donations under **Section 416(b)** of the 1949 Act help to reduce CCC's surplus commodity inventories, while also helping countries in need. Donations under this authorization totaled \$137 million in fiscal year 2004, and \$330 million in fiscal year 2003.

### Reporting Financial Information

The Corporation's 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 CCC in accordance with generally accepted accounting principles 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 follows.

The Corporation had a higher Fund Balance with Treasury as of September 30, 2004, compared to the prior year, in part due to the collection of \$341 million received in FY 2004 from the Department of Transportation (DOT) - Maritime Administration (MARAD), reducing the receivable established in FY 2003 when CCC began calculating and recording reimbursements due from DOT, MARAD. This receivable represented the 20% excess freight costs incurred in prior program years, as well as amounts due for Ocean Freight Differential cost reimbursements. Also contributing to the increase is the receipt of \$244 million too late in fiscal year 2004 to be used to repay Treasury borrowings.

Selected Items from the Balance Sheet As of September 30 (In Millions)		
Line Item	2004	2003
Fund Balance with Treasury	\$ 3,213	\$ 2,597
Cash	--	51
Accounts Receivable (Public)	439	43
Accounts Payable (Federal)	811	1,205
Cumulative Results of Operations	(15,033)	(25,282)

CCC has continued to improve 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 in a timely manner, while also reducing the number of outstanding transactions. This resulted in no cash timing differences involving transactions with the public as of September 30, 2004.

The sharp increase in accounts receivable with the public is the result of overpayments in direct cyclical payments to producers for wheat, corn and sorghum. As a result, a receivable was established in fiscal year 2004 for approximately \$372 million.

The decrease in the accounts payable to other Federal agencies is attributable to the liability for allocation transfers, payable to USAID, which is \$322 million lower this year compared to last year. In



fiscal year 2004, advance obligational authority of \$951 million was granted, increasing the liability. At USAID's request, CCC transferred \$1 billion during FY 2004 to partially liquidate the fiscal year 2003 liability, and reduced the liability for \$180 million in recoveries.

CCC incurred over \$12 billion in realized losses in fiscal year 2004, and \$23 billion in fiscal year 2003. This unreimbursed loss represents the majority of the balance of Cumulative Results of Operations. 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. During fiscal years 2004 and 2003, CCC received \$22,937 million and \$17,684 million, respectively, in reimbursements for prior year losses incurred.

The net cost of operations for CCC's domestic programs totaled \$12,186 million in fiscal year 2004 compared to \$21,019 million in the prior year. As shown in the table to the right and on the supporting schedule to the Statement of Net Cost disclosed in the footnotes, Direct and Counter-Cyclical expenses were the largest costs in both fiscal years 2004 and 2003. These program expenses were higher in 2003 due to the \$2.6 billion accrual of program payments that year, as well as improved market prices in 2004.

Summary of Net Cost of Operations Domestic Programs (In Millions)		
Program	FY 2004	FY 2003
Commodity Operations	\$ (156)	\$ 1,777
Farm Income Support	2,484	5,316
Direct & Counter-Cyclical	6,510	8,896
Emergency Assistance	1,057	2,803
Conservation Programs	2,291	2,227
Total	<u>\$ 12,186</u>	<u>\$ 21,019</u>

During 2004, CCC provided funding, through non-expenditure transfers, to other Departmental and Federal agencies for programs created by the 2002 Farm Bill. These transfers, totaling \$1,892 million, are reflected on the Statement of Changes in Net Position as transfers out of budgetary resources without reimbursement.

## Implementing the President's Management Agenda

### Improving Financial Management

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 improve Federal management, remedy long-standing problems, and deliver results that matter to the American people.

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

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. Several standard monthly reconciliations are in place and additional analysis tools are being developed to examine and verify financial data before its release. These reconciliations continue to be enhanced and improved upon.

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Biannually, financial managers convene to develop means and strategies to improve financial management in the coming years. Several new management initiatives have been identified thus far, 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. In fiscal years 2004 and 2003, quarterly financial statements were prepared as required by OMB. This assisted in improving the reporting process. 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.

**Clean Audit Opinion**

CCC has displayed its commitment to improving financial management and performance and accountability to the American people through earning an unqualified (clean) audit opinion on its fiscal year 2003 financial statements. Receiving a clean audit opinion is an indicator of sound financial management policies and procedures. It gives assurances to the public that the financial statement data is fairly stated in all material respects. It also allows the user to place a high degree of reliability on the information and to use the data to make informed decisions and manage resources wisely. Achieving this goal meant overcoming many obstacles. In the past, CCC has had difficulties in meeting 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 continues to make 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	2003	2004
Unqualified	X	X		X				X <sup>a</sup>	X	X	X
Qualified						X					
Disclaimer			X		X		X	X <sup>a</sup>			

<sup>a</sup> 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.

**Reducing Erroneous Payments**

A component of the President's Management Agenda is the initiative to reduce erroneous payments. The Improper Payments Information Act (IPIA) of 2002, signed into law in late November 2002, greatly expanded the Bush Administration's efforts to identify and reduce erroneous payments in the government's programs and activities. This guidance promises to improve the integrity of the government's payments and improve the efficiency of its programs and activities. Under this legislation, each executive agency, in accordance with OMB guidance, is directed to review all of its programs and activities annually. Those programs and activities that may be susceptible to significant erroneous payments must be identified and estimates of the annual amount of improper payments must be submitted to Congress before March 31 of the following applicable year.

In fiscal year 2004, OMB required a statistical sample of commodity loan payments to determine the projected erroneous payment amount and rate. In July 2004, FSA awarded a contract to perform the

statistical sampling for CCC's MAL program and to recommend actions to reduce erroneous payments in the future. FSA has completed its risk assessment of the MAL program and, while the determination was that the program has a low risk for improper payments, the statistical sampling process will confirm the actual level of erroneous payments. The sampling contractor will also provide information concerning the cause of erroneous payments and recommendations on how CCC can reduce or eliminate those causes. The primary cause of erroneous payments is the information provided by the producer concerning the collateral being offered for the loan. CCC has introduced new technology to assist in the confirmation of the type of commodities grown by the producer and determination as to whether the quantity being offered is reasonable. The sampling work and related analysis is targeted for completion by December 2004.

#### **Budget and Performance Integration**

FSA is fully engaged in this major reform initiative and has requested to be the lead agency in the Department's implementation. The goal is to "get to green" for integrating budget and performance on the President's Management Agenda Scorecard. To achieve this goal, the Agency is clearly linking day-to-day program activities with the long-term strategic goals and identifying the full cost of the program activities, as well as the costs associated with achieving the various strategic goals and objectives.

#### **Strategic Management of Human Capital**

FSA has fully adopted the USDA Human Capital Plan for fiscal years 2003 to 2007 and continues to be active on the USDA Human Capital Accountability Team.

#### **Competitive Sourcing**

USDA is well prepared to address this initiative. USDA Mission Areas and Offices are working to comply with OMB's direction to reduce operating costs and improve service to the public. USDA has accomplished much to improve its program by accomplishing the following:

- Updating competitive sourcing plan
- Directly converting and competing positions
- Establishing a competitive sourcing office
- Forming a Department-wide OMB Circular A-76 working group.
- Establishing competitive sourcing program staff in several agencies (one of which is FSA)

FSA currently has no future planned competitive sourcing activity due to the restriction placed on FSA in House Resolution 2673, the Consolidated Appropriations Act, enacted on January 23, 2004. This bill contains language that limits FSA's ability to implement and conduct competitive sourcing studies.

**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.

#### **Management Controls**

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**

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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 4 of the FMFIA requires an annual assessment of whether the agency's financial management systems comply with government-wide requirements. If the agency's systems do not comply, plans must be developed to address the non-conformances. Appendix D presents CCC's reporting on FMFIA.

#### Legal Compliance

As reported in the 2003 audit report, there were two instances of noncompliance with the following laws and regulations that are required to be reported under the *Government Auditing Standards* and OMB Bulletin No. 01-02, as described in the following.

**Federal Information Security Management Act (FISMA).** FISMA, passed as part of the E-Government Act of 2002, requires that Federal agencies: (1) provide a comprehensive framework for ensuring the effectiveness of information security controls over information resources that support Federal operations and assets; (2) provide effective government-wide management and oversight of the related information security risks; (3) provide for development and maintenance of minimum controls required to protect Federal information and information systems; (4) provide a mechanism for improved oversight of Federal agency information security programs; (5) acknowledge that commercially developed information security products offer advanced, dynamic, robust, and effective information security solutions, reflecting market solutions for the protection of critical information infrastructures important to the national defense and economic security of the nation that are designed, built, and operated by the private sector; and (6) recognize that the selection of specific technical hardware and software information security solutions should be left to individual agencies from among commercially developed products. OMB Circular A-130, *Management of Federal Information Resources*, provides further information security guidance.

The auditors noted that during fiscal year 2003, FSA and CCC had made much progress with its information security program in order to meet FISMA and OMB Circular A-130 guidelines (FSA provides and maintains the IT infrastructure supporting CCC general support systems and major applications.). However, FSA and CCC needs continued improvement with its entity wide security and contingency planning programs to fully meet those guidelines.

**Debt Collection Improvement Act of 1996 (DCIA).** The 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 the U.S. Treasury for the purpose of collection by cross-servicing or the offset program. The auditors' tests of compliance disclosed instances where CCC was not in compliance with certain provisions of the DCIA. Specifically, it was noted that due process was not performed in a timely manner to ensure that some eligible debts are forwarded to Treasury for cross-servicing or the offset program within the timeframes established by DCIA.

#### FFMIA Report

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

#### **Prompt Payment**

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.

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.

In fiscal year 2004, CCC made 16 million payments that were subject to the provisions of the Prompt Payment Act. These payments totaled \$19,453 million. Of these payments, .31% of them were paid late. This is an improvement over last year when CCC made 17 million payments totaling \$26,113 million. Of these payments, .46% were paid late.

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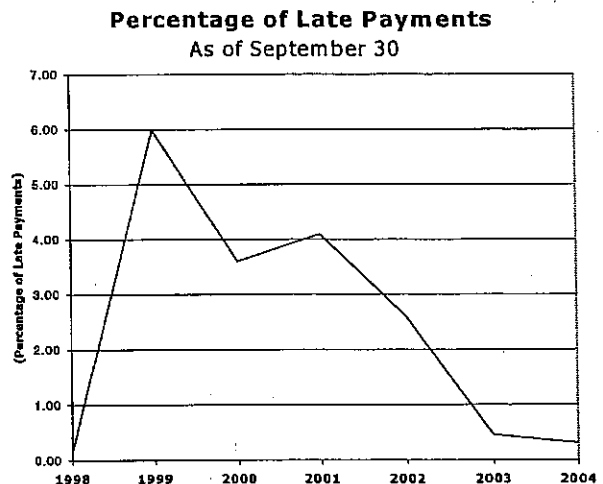
A comparison of the percentage of payments made late, by fiscal year, is presented. In fiscal year 1998, 0.16% of payments were late. However, only \$13,925 million in payments were subject to Prompt Payment Act provisions. The dramatic increase in late payments in fiscal year 1999 was due to the backlog 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.

**Electronic Funds Transfer (EFT)**

CCC continues its use of 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.

Performance in relation to vendor EFT payments fell from last year as depicted in the table below due in large part to the unwillingness of rural vendors to accept payment by EFT, and system constraints for reporting detail information to support EFT payments to large corporations. The system that allows vendors to download and access necessary payment detail information is only available for payments initiated by our Kansas City Finance Office's Centralized Disbursement System. The system will not be redesigned to report vendor payments to our 2,400 service centers because the Service Centers will begin using the National Finance Center for vendor payments by October 1, 2005.

Percentage of Payments Made via EFT As of September 30			
Payment Recipient	2002	2003	2004
Vendor	54%	47%	35%
Producer	77%	74%	78%



As shown in the table, 78% of producer payments were made via EFT this year, a slight increase from the 74% reported in fiscal year 2003. History has shown that the recurring-type producer payments (income support, 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. The slight increase in the EFT volume for producer payments is the result of system modifications that allow assignees to receive their payment via EFT, and providing a web service that allows producers to review their detailed payment history via the Internet. However, future producer payment performance will be tempered as Treasury has adopted more lenient requirements for waiver from receiving payments via EFT.

**Debt Collection**

The DCIA 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.

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In fiscal year 2004, CCC referred 6,853 debts valued at \$68 million, to the TOP. In fiscal year 2003, CCC referred 6,522 debts, valued at \$61 million. In both fiscal years 2004 and 2003, 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 2004, CCC referred 1,834 debts valued at \$17 million, for cross servicing. In fiscal year 2003, CCC referred 1,349 debts, valued at \$11 million. CCC collected less than \$1 million from cross servicing in each of the last two fiscal years.

CCC continues to maintain a very strong internal debt management program. CCC collected \$7 million and \$9 million, respectively, in fiscal years 2004 and 2003 by internal administrative offset. CCC also collected from delinquent debtors via internal collection efforts \$14 million and \$17 million, respectively, in fiscal years 2004 and 2003. In addition, CCC also collected another \$2 million from debts referred to the Justice Department in fiscal year 2004, and \$2 million in fiscal year 2003.

The DCIA Compliance Review Team was established in January 2003. Since then, the team has traveled to 6 State Offices and 23 County Offices, resolving \$9.6 million in debt. In FY 2004, the DCIA team continued to tighten the controls over compliance. County offices are now required to certify to their State office quarterly, their compliance with DCIA and CCC policy for both receivables and claims. The State offices are required to certify to the Headquarters semi-annually, their state's compliance. In addition, quarterly reports have been developed to provide information on the status of receivables not in compliance with DCIA. These reports keep senior management aware of the issues Debt Management must deal with on a monthly basis in order to continue to be in compliance with requirements set forth by DCIA.

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 below presents CCC's performance in support of this goal.

<b>Performance Goal and Indicator</b>	<b>2000 Target/ Actual</b>	<b>2001 Target/ Actual</b>	<b>2002 Target/ Actual</b>	<b>2003 Target/ Actual</b>	<b>2004 Target/ Actual</b>
<b>Financial Management</b>					
Decrease the average volume of the CCC delinquent domestic debt portfolio as it relates to farm programs (number) <sup>a</sup>	N/A/ 10,973	N/A/ 9,441	8,120/ 11,234 <sup>c</sup>	7,065/ 11,860 <sup>e</sup>	10,674/ 14,328
Decrease the average age of CCC delinquent domestic debt portfolio (years) <sup>b</sup>	N/A/5.2	N/A/3.44	3.0/3.32	2.5/3.41 <sup>d</sup>	2.5/2.4

- <sup>a</sup> This performance goal was first established in the fiscal years 2002/2003 Annual Performance Plan, therefore, targets for prior years do not exist.
- <sup>b</sup> This performance goal was first established in the fiscal years 2001/2002 Annual Performance Plan, therefore, targets for prior years do not exist.
- <sup>c</sup> In fiscal year 2003, the 2002 Farm Bill was implemented and new farm program support programs were established. Some of these programs affected payments that had already been issued in fiscal year 2002.
- <sup>d</sup> In fiscal year 2003, a debt reconciliation team worked with field offices in moving aged receivables into the delinquent domestic debt portfolio. The average age shown above is for delinquent claims only. The average age of all CCC domestic receivables was just over 1 year.

**Making Government More Accessible**

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

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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 affected 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 2002 Farm Bill changes that may impact their participation in USDA programs.

#### **Applying for Programs over the Internet**

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 elect to participate in the eLDP initially visit their local FSA Service Center to sign-up for the eLDP and complete the LDP application to provide farming information. The FSA Service Center provides the producer with a user ID to access the eLDP Internet application. The FSA Service Center also establishes 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 are able to initiate a request for eLDP through the Internet. Valid eLDP requests that meet the criteria for the approved application parameters established by the local Service Centers are processed and payments calculated, certified and disbursed. This initial beta process was successful on a small scale early in 2002. The next phase of eLDP was a beta expansion for 2002 crops covering at least one site in each state. The strategy for eLDP was 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. Nationwide deployment of all commodities, except cotton, was completed in September 2004. The targeted implementation for cotton is scheduled for October 2004.

For crop year 2005, CCC will implement a web-enabled application to provide Service Centers and producers the capability to e-file applications for DCP program benefits. Service Center employees will be the first to pilot the web-based application. Access will subsequently be opened to the public allowing producers to sign up for the program from their home computer, thus saving a trip to the Service Center.



**Food Aid Request Entry System (FARES)**

CCC is developing a number of important government-to-business services on its Internet architecture. The FARES, a 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 I was implemented on January 2, 2003. Requirements are being developed for Phase II of FARES to allow PVO's to enter their Annual Estimated Requirements via the web.

**Electronic Distribution**

CCC's Electronic Distribution Project Phase III (ED3) provides disbursement statements and storage invoices electronically for customers and businesses interacting with the Processed Commodities Inventory Management System. Currently, FSA is working on the inclusion of Grain Inventory Management System storage invoices in ED3. This additional function is expected to be in production during fiscal year 2005.

**USDA Customer Statement**

In support of the USDA Office of the Chief Information Officer's (OCIO) initiative to improve and expand customer access to information, CCC implemented processes to provide USDA customers access to FSA/CCC payment information and Farm Loan debt. CCC will enhance the services provided for the USDA Customer Statement to offer access to FSA acreage reporting information and to provide access to a Geographical Information System representation of the customer's Common Land Unit (CLU) with the crop reports graphically displayed on the CLU.

CCC implemented a web-based application to provide FSA and CCC customers on-line access to financial information, such as payments, collections, debts, and 1099-G, Certain Government Payments Reports. Customers have access to both summary and detailed information, thus eliminating the need to request information from the local Service Center. Summary financial data has been linked to the USDA Customer Statement with the capability for customers to "drill" into the detail.

**Financial Services**

CCC implemented a web-based Financial Services (FS) application which allows Service Center employees and customers, e.g., producers, financial institutions, to electronically submit direct deposit profiles, assignments, and joint payments.

**General Sales Manager (GSM) Web Portal**

CCC implemented a web portal to allow U.S. banks and commodity exporters participating in the GSM programs to electronically submit Registrations, Evidence of Exports, and Notices of Default. The GSM System supports the USDA in its objectives to provide approximately four thousand guarantees to U.S. exporters and financial institutions each year, worth about \$3.5 billion to \$4.5 billion. The USDA FSA and the USDA Foreign Agricultural Service (FAS) are jointly responsible for program, administrative, and financial functions related to CCC's Export Credit Guarantee programs.

**Freight Entry, Bid Entry, and Evaluation System**

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.

***Modernize and Innovate the Delivery of Agricultural Systems (MIDAS)***

FSA has begun the development and implementation of the modernization of Farm Program delivery. This process, known as MIDAS, will provide "real time" transactions and uniform business processes. FSA will make available the option of electronically applying for Direct and Counter-cyclical Program (DCP) payments, Loan Deficiency Payments (LDP), and Milk Income Loss Contract Program (MILC) payments. The ultimate objective is to deliver farm programs through an intuitive, web-based system of relational databases that pre-populate best practices to improve the workplace for FSA employees, increase producer program participation, and enable FSA to better serve the American public. In addition, the design and documentation of streamlined business processes will leverage the Common Computing Environment's (CCE) hardware, software, data, and capabilities, and maximize FSA's investment in geospatial data and Graphical Information Systems (GIS) technologies.

**Making the Workplace More Efficient**

***Information Technology Infrastructure***

The standardization of the information technology 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 SCAs 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
- Peripheral equipment including printers, routers, network server
- Common administrative applications
- 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 implemented in fiscal year 2003 include the installation of servers with relational database capability in the SCA service centers to support the GIS data layers and the multi-user access to GIS applications. Another key infrastructure component 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.

The following initiatives reflect FSA's modernization initiative to manage information technology in a manner that enhances productivity, customer service, and information sharing. FSA is modernizing its business processes to eliminate redundancy and provide consistent automated processes that will support the enterprise-wide modernization effort. The modernized applications will fulfill the requirements of the President's Management Agenda by delivering customer-centric electronic applications.

***National Payment Service (NPS)***

CCC implemented a web-enabled National Payment Service to support payment requests for web-enabled FSA/CCC program delivery systems, such as eLDP and Milk Income Loss Contracts. FSA Service Center employees access the NPS to review payment requests and apply late payment interest penalties, debt

offsets, voluntary receivable repayments, assignments and joint payments, and electronically sign and certify payments.

**Geospatial Information Systems (GIS)**

CCC is implementing a number of GIS tools to provide Service Centers with access to digital geospatial data to maintain a digital database of aerial photography, soils information, customer information, and farm records, and to eliminate the printing and storage of paper maps. As the CLU digitization is completed, more Service Centers will have access to these tools, thus enabling further integration with program delivery. The GIS digital layer and the CLU and Land Use layers will be housed in a sharable and accessible Geo-Spatial Data Warehouse.

**CRP General Signup Offer Process (GSOP)**

During 2003, CCC implemented a workstation based Conservation Reserve Program General Offer system. This system leveraged the GIS soils layer, the GIS hydrologic layer, and the FSA CLU to significantly streamline the collection and evaluation of applicant offer information. This new software performed the technical determination for land eligibility and Environmental Benefits Index scoring, resulting in reduced time to process an offer from days to 45 minutes and saved FSA \$8 million to \$11 million in technical service costs. During 2004, CCC updated the general signup offer system to a web-based system to further streamline and leverage the automated GIS information available in the Service Center Agencies.

**Producer Eligibility**

CCC implemented a web-based eligibility determination service used in the delivery of farm programs and the determination of program payments. This service will be shared by NRCS in the delivery of the Environmental Quality Incentives Program.

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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**, Vacant, *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**, Michael W. Yost, *Associate Administrator, Programs, FSA*

**Vice President**, Thomas B. Hofeller, *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 W. Williams, *Deputy Administrator for Management, FSA*

**Deputy Vice President**, John A. Johnson, *Deputy Administrator for Farm Programs, FSA*

**Deputy Vice President**, Douglas W. Frago, *Deputy Administrator, Field Operations, FSA*

**Deputy Vice President**, Larry Walker, *Director, Economic & Policy Analysis Staff, FSA*

**Deputy Vice President**, Thomas A. Weber, *Associate Chief, NRCS*

**Deputy Vice President**, Jose J. Acevedo, *Acting Deputy Chief, Programs, NRCS*

**Deputy Vice President**, P. Dwight Holman, *Deputy Chief, Management, NRCS*

**Secretary**, Thomas B. Hofeller, *Executive Assistant to the Administrator, FSA*

**Deputy Secretary**, Karen A. Malkin, *Acting Director, Strategic Planning Staff, FSA*

**Assistant Secretary**, Monique B. Randolph, *Staff Assistant, Strategic Planning Staff, FSA*

**Controller**, Kristine M. Chadwick, *Director, Financial Management Division, FSA*

**Treasurer**, Linda Herbert, *Deputy Director, Financial Management Division, FSA*

**Chief Accountant**, Dwight T. Tayman, *Chief, Financial Accounting and Reporting Branch, Financial Management Division, FSA*

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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 Facility and Sugar Storage Facility 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 Facility and Sugar Storage Facility 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

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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	2000 Target/ Actual	2001 Target/ Actual	2002 Target/ Actual	2003 Target/ Actual*	2004 Target
<b>Increase the number of acres enrolled in CRP and increase the number of Conservation Reserve Enhancement Program (CREP) agreements.</b>					
Number of acres enrolled in CRP (million acres, cumulative)	32.8/31.4	33.9/33.6	34.2/33.9	34.3/34.1	35.6
• General sign-up (competitive) enrollment (million acres, cumulative)	30.9/30.2	32.3/32.0	31.8/31.8	31.7/31.6	32.3
• Continuous (including CREP) enrollment (million acres, cumulative)	1.4/1.2	1.6/1.6	2.4/2.1	2.7/2.5	3.4
Acres of high environmental sensitivity enrolled in CREP (million acres, cumulative)	0.25/0.08	0.5/0.19	0.3/0.36	0.5/0.05	0.7
Acres planted with trees (million acres, cumulative)	2.0/2.5	2.3/2.9	3.0/3.1	3.2/3.2	3.5
Acres enrolled in the Prairie Pothole, Chesapeake Bay, Great Lakes, Long Island Sound, and Long Leaf Pine national conservation priority areas (million acres, cumulative)	7.2/7.2	7.7/7.8	8.1/8.0	8.2/8.1	8.7
Approved CREP agreements (number)	15/12	20/18	25/24	30/26	33
<b>Reduce soil erosion, protect water and air quality, restore wetlands, and improve wildlife habitat by establishing conservation cover and/or installing priority practices.</b>					
<b>Soil Erosion</b>					
• Reduced soil erosion (million tons/year)	N/A/407	N/A/428	431/447	449/446	459
<b>Water and Air Quality</b>					
• Reduced sheet and rill erosion (million tons/year)	N/A/166	N/A/178	180/215	216/214	220
• Reduced wind erosion — also a measure of air quality (million tons/year)	N/A/241	N/A/250	251/232	233/232	239
• Reduced nitrogen applications on land under long-term land retirement contract (thousand acres)	N/A/605	N/A/634	N/A/681	691/655	731
• Reduced phosphorus applications on land under long-term land retirement contract (thousand acres)	N/A/87	N/A/97	N/A/104	106/103	111
• Acres established in conservation buffers, including filter strips and riparian buffers <sup>1</sup> (million acres, cumulative)	1.4/1.3	1.6/1.7	2.2/2.1	2.4/2.4	2.9
• Carbon sequestered in soil and vegetation through long-term retirement of crop and grazing land (million metric tons/year)	N/A/15.2	N/A/16.1	16.4/16.3	16.8/17	17.8
<b>Wetlands</b>					
• Restored acres of wetlands <sup>2</sup> (million acres, cumulative)	1.6/1.5	1.7/1.7	1.8/1.7	1.9/1.9	2.1
<b>Wildlife Habitat (million acres, cumulative)</b>					
• Acres planted with vegetative covers defined as best suited for wildlife	17.1/16.6	18.8/18.2	18.2/18.1	18.1/18.1	19
• Land restored to ecosystems with high benefits for wildlife <sup>3</sup>	N/A/2.1	N/A/2.6	2.9/3.3	3.5/3.5	3.9

\* Year-end estimates based on preliminary data.

## Appendix C Performance Goals for Conservation Programs

- <sup>1</sup> 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.
- <sup>2</sup> Primarily wetland restoration, which includes adjacent upland.
- <sup>3</sup> 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 4 nonconformances related to the Corporation as reported in FSA's fiscal year 2004 FMFIA Report.

Section 4 of the FMFIA Report Material Nonconformances in Financial Systems
<p><b>Material Weakness:</b> Foreign credit subsidiary and credit reform systems are not fully automated and integrated into CCC's Core Accounting System (CORE).</p> <p><b>Year Identified in FMFIA Report:</b> 2000</p> <p><b>Deficiency Status:</b> Corrected.</p> <p><b>Actual Completion Date:</b> Fiscal year 2004</p> <p><b>Corrective Actions:</b></p> <ol style="list-style-type: none"> <li>1. Replaced the former Financial Management System accounting structure in the APLUS system with the CORE accounting structure. Implemented APLUS to CORE.</li> <li>2. Completed implementation of the new General Sales Manager (GSM) system (Modules 1-4) interface with CORE.</li> </ol>
<p><b>Material Weakness:</b> Improvement needed in financial system functionality and related processes.</p> <p><b>Year Identified in FMFIA Report:</b> 2003</p> <p><b>Revised Target Completion Date:</b> Fiscal year 2005</p> <p><b>Corrective Actions:</b></p> <ol style="list-style-type: none"> <li>1. Reviewed contractor study of posting models and prioritized posting logic changes.</li> <li>2. Standard operating procedures for the feeder systems were consolidated to improve interface controls between feeder systems and CORE.</li> </ol> <p><b>Planned Corrective Actions:</b></p> <ol style="list-style-type: none"> <li>1. Complete financial posting logic review of transactions that may have a material impact on CCC's financial statements.</li> <li>2. Implement any changes to financial posting logic which may have a material impact on CCC's financial statements and record posting adjustments in CORE general ledger to correct errors.</li> <li>3. Perform the review of the consolidated standard operating procedures between the feeder systems and CORE.</li> </ol>



Appendix D  
FMFIA ReportingSection 4 of the FMFIA Report  
Material Nonconformances in Financial Systems *(Continued)***Material Weakness:**

Improvement needed in information security controls:

- Risk assessment process
- Information Technology (IT) security plans
- Security vulnerability scans
- System certification background
- Background investigations
- Contingency planning network security weaknesses

**Year Identified in FMFIA Report:** 2003**Revised Target Completion Date:** Fiscal year 2005**Corrective Actions:**

1. Contract to develop required risk assessments (RA) are in place, work is in progress, and many RA's have been delivered.
2. Contract to develop required IT security plans (SP) is in place, work is in progress, and many SPs have been delivered.
3. Majority of vulnerabilities found during the audit are resolved. Steps have been taken to mitigate future vulnerabilities. The patch updating process has been automated to ensure timely mitigation.
4. Contracts to develop Certification & Accreditation (C&A) are in place and work is in progress.
5. Security controls (system authorization and logical access) are being improved.

**Planned Corrective Actions:**

1. Efforts are underway to standardize contingency plans utilizing OCIO's software, Strohl Systems Living Disaster Recovery Planning System (LDRPS). FSA/CCC was one of the pilot agencies.
2. Contingency plans for applications and general support systems have been developed and are currently undergoing table top testing as part of the C&A process. Once this testing is completed, the Disaster Recovery plans will be entered to Strohl's LDRPS.
3. Improve background checks. Develop plans to fund, prioritize, and initiate the process to perform and update background investigations for employees as needed.

**Appendix D  
FMFIA Reporting**

**Section 4 of the FMFIA Report**  
**Material Nonconformances in Financial Systems (Continued)**

**Material Weakness:**

Improvement needed in funds control mechanisms and in budgetary accounting and reporting policies and procedures

**Year Identified in FMFIA Report:** 2004

**Target Completion Date:** Fiscal year 2005

**Corrective Actions:**

1. In March 2004, CCC sent out a selected sample of obligations to FSA/CCC offices. CCC received responses and adjustment documentation from these offices in early April 2004. Based on these responses, CCC deobligated amounts no longer needed. This has become a standard quarterly process to ensure the accuracy and reliability of the obligation amounts.
2. The review and certification of obligations was expanded to include all programs for the July 2004 balances. The obligation team will develop a process to implement this review on a quarterly basis. This process will also support the Office of the Chief Financial Officer (OCFO) requirement.
3. A contractor was engaged and began meeting with program and financial divisions in June 2004. CCC has categorized the existing programs into areas of commonality by the way the obligation is currently established. These categories will be used to document standard processes for recording obligations with common triggering business events. The contractor will provide recommendations on how obligations can be determined or estimated based on the business events identified.

**Planned Corrective Actions:**

1. Add or restructure transaction codes for obligations in CORE to reduce manual postings. Implement an automated process to accumulate obligation data from program systems to post on a monthly basis into CORE. Provide improved reports on obligations to program managers.
2. Develop and implement changes in program and financial software to record obligations. This task will be identified as part of the MIDAS project being implemented by the Farm Program Directorate and Financial Management Division. This modernization effort will include the obligation recognition requirements at the transaction level in the new business processes being developed.

**Material Weakness:**

Improvement needed in financial accounting and reporting policies and procedures

**Year Identified in FMFIA Report:** 2003

**Target Completion Date:** Fiscal year 2005

**Corrective Actions:**

1. Established a task force to review, revise, and recommend CCC policies and procedures needed to ensure sufficient and complete accruals are reflected on the financial statements.
2. Provided training to financial management personnel on agency accrual policies and procedures.
3. Policies to record accruals for programs have been approved.

**Planned Corrective Actions:**

1. Procedures are being developed and documented by program to identify and record accruals.

**Appendix E  
CCC Remediation Plan**

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

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

<b>1.1: Foreign program feeder systems do not comply with OMB Circular A-127.</b>			
	<b>Corrective Action</b>	<b>Target Date</b>	<b>Status</b>
1.1.1	Complete implementation of new GSM system to be interfaced directly to CORE general ledger.	06/2004	<b>Completed 6/2004</b> – Migration of foreign credit programs accounting data from FSA CORE to CCC CORE was completed 4/26/04. Interface of the GSM system to CCC CORE was implemented 6/30/04.
1.1.2	Replace the former FMS accounting structure in the P.L. 480 Title I feeder system (APLUS) with the CORE accounting structure.	06/2004	<b>Completed 6/2004</b> – Accounting structure changes were completed in FY 2003. Interface of the APLUS system to CCC CORE was implemented 06/30/04.
<b>1.2: CORE financial systems do not comply with OMB Circular A-127.</b>			
1.2.1	CCC will establish a team to develop a project plan to complete research, and recommend entity-wide policies and procedures needed for management to perform adequate review of all obligations. The process should provide for central management control and review, to ensure adequate support for recorded amounts exists and sufficient consideration is given to the legitimacy of unliquidated obligation amounts.	06/2003	<b>Completed 06/2003.</b>
1.2.2	Document and publish an obligation and deobligation policy for CCC.	09/2003	<b>Completed 06/2003.</b>
1.2.3	Establish a standard process to require the review and certification of open obligations by program offices.	09/2003	<b>Completed 6/2004</b> – In March 2004, CCC sent out a selected sample of obligations, as of January 2004, to FSA/CCC offices. CCC received responses and adjustment documentation from these offices in early April. Based on these responses, CCC deobligated balances as of July, October, January, and April month-end records. This has become a standard quarterly process to ensure the accuracy and reliability of the obligation amounts.

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Appendix E  
CCC Remediation Plan

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

1.2: CORE financial systems do not comply with OMB Circular A-127, <i>Continued</i>		
Corrective Action	Target Date	Status
1.2.4 Expand the obligation review and certification process to include all open obligations and programs having disbursements during the fiscal year. Identify and group programs with specific obligation and disbursement events.	09/2004	The review and certification of obligations was expanded, to include all programs, (not just those required by the OCFO for program balances with no activity in the last 2 years) for the July 2004 balances. The obligation team will develop a process to implement this review on a quarterly basis. This process will also support the OCFO requirement. A contractor was engaged and began meeting with program and financial divisions in June 2004. CCC has categorized the existing programs into areas of commonality by the way the obligation is currently established. These categories will be used to document standard processes for recording obligations with common triggering business events. The contractor will provide recommendations on how obligations can be determined or estimated based on the business events identified.
1.2.5 Identify and implement changes to current financial management processes and systems to improve the accuracy and timeliness of obligation amounts in core financial systems.	09/2005	Add or restructure transaction codes for obligations in the core accounting system (CORE) to reduce manual postings. Implement an automated process to accumulate obligation data from program systems and post on a quarterly basis into CORE. Provide improved reports on obligations to program managers.
1.2.6 Develop and implement changes in program and financial software to record obligations. Phase II will be all remaining programs.	To Be Determined	The target date for completing this task will be identified as part of the MIDAS project being implemented by the Farm Program Directorate and Financial Management Division. This modernization effort will include the obligation recognition requirements at the transaction level in the new business processes being developed. Input to the MIDAS project will come from the analysis covered at 1.2.5.

**Appendix E  
CCC Remediation Plan**

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

<b>1.3:</b>			
	<b>Corrective Action</b>	<b>Target Date</b>	<b>Status</b>
1.3.1	Establish a task force to review, revise, and recommend CCC policies and procedures needed to ensure sufficient and complete accruals are reflected on the financial statements.	01/2004	Completed 2/2004.
1.3.2	Review, revise, and publish accrual and policies and procedures	06/2005	Current policies and procedures are being analyzed. A contractor is assisting in analyzing and documenting the procedures. The revised due date for completion and implementation is June 2005.
1.3.3	Provide training to financial management personnel on agency accrual policies and procedures.	06/2004	Completed 6/2004.

<b>1. Compliance with Federal Financial Management Systems Requirements Estimated Resources Needed for Corrective Actions</b>		
<b>Fiscal Year</b>	<b>Full-Time Equivalents (FTEs)</b>	<b>Dollars</b>
2004	10	\$1.75 million
2005	3	\$200 thousand
2006	3	\$300 thousand

Appendix E  
CCC Remediation Plan

2. Compliance with Applicable Federal Accounting Standards

CCC is in substantial compliance with this requirement.

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

3.1 Concerns about CORE posting models:

Posting models used for recording inventory sales and purchases.

	Corrective Action	Target Date	Status
3.1.1	CCC has prepared a Statement of Work (SOW) requesting an evaluation of its accounting environment by outside sources. The SOW is designed to identify posting logic updates and any required changes. This will ensure the necessary budgetary entries are posted with the corresponding proprietary entries. The contractor will provide a report to CCC management detailing the results of their analysis.	09/2003	Completed 11/2003.
3.1.2	Complete financial posting logic review of transactions that may have a material impact on CCC's financial statements. Reviews are being performed by: <ul style="list-style-type: none"> <li>• subject matter experts (Phase 1),</li> <li>• Financial Accounting Division (Phase 2), and</li> <li>• Financial Management Division (FMD) managers (Phase 3).</li> </ul>	03/2005	Reviews are in progress.
3.1.3	Implement any changes to financial posting logic which may have a material impact on CCC's financial statements.	06/2005	See 3.1.2 above.

Appendix E  
CCC Remediation Plan

<b>3. Noncompliance with the U.S. Government Standard General Ledger (SGL) at the Transaction Level, <i>Continued</i></b>			
<b>3.2 Improvements needed in interface controls between feeder systems and CORE.</b>			
Reconciling items between the feeder systems and CORE need to be identified and cleared on a timely basis.			
	<b>Corrective Action</b>	<b>Target Date</b>	<b>Status</b>
3.2.1	CCC has prepared an SOW requesting an evaluation of its accounting environment by outside sources. The SOW contractor will provide an analysis of the treatment of the feeder system accounting relationships with CORE. This will provide a basis for resolving differences and limiting adjustments identified in the 2002 audit. The contractor will provide a report to CCC management detailing the results of their analysis.	09/2003	Completed 11/2003.
3.2.3	Implement improved interface controls between feeder systems and CORE.	06/2005	Standard operating procedures for the feeder systems are being consolidated to improve interface controls between feeder systems and CORE.

<b>3. Noncompliance with the U.S. Government Standard General Ledger (SGL) at the Transaction Level</b>		
<b>Estimated Resources Needed for Corrective Actions</b>		
<b>Fiscal Year</b>	<b>Full-Time Equivalents (FTEs)</b>	<b>Dollars</b>
2004	3	\$215 thousand
2005	1	0
2006	-	-

**COMMODITY CREDIT CORPORATION**

Management's Discussion and Analysis  
September 30, 2004

**Appendix E  
CCC Remediation Plan**

<b>4. Information Security Policies, Procedures and Practices</b>		
<b>Areas of Noncompliance</b>		
<b>No.</b>	<b>Information Security Policy, Procedure, or Practice</b>	<b>Instance</b>
1	Completion of FSA/CCC System Security Plans.	FSA/CCC security plans have not been updated on a regular basis.
2	Consistently perform risk assessments for FSA/CCC systems.	FSA/CCC risk assessments not performed on a regular basis.
3	Enhance information security control posture for the FSA/CCC county offices.	Logical access and authorization policies need to be strengthened.
4	Implement framework to address contingency planning for FSA/CCC county offices.	County offices need to update and test contingency plans for FSA/CCC applications.
5	Implement vulnerability scanning process for FSA/CCC systems prior to production.	FSA/CCC systems should be scanned for vulnerabilities prior to placing into production as part of life cycle process.
6	Re-emphasize the need for system administrators to maintain computer devices in a secure manner.	Assure physical safeguards in place at county offices housing FSA/CCC applications.
7	Conduct formal Certification & Accreditation (C&A) process for FSA/CCC applications and general support systems.	FSA/CCC applications need to be formally certified and accredited.
8	Continue efforts to address recovery testing on a regular basis for National Information Technology Center hosted FSA/CCC applications.	Assure all FSA/CCC applications are tested on a regular basis.
9	Enhance employee and contractor background checks and update policies and procedures.	Assure background checks are processed based on job functions.

<b>Corrective Actions</b>			
	<b>Detailed steps</b>	<b>Target Dates</b>	<b>Actual Dates</b>
1	Update security plans for all FSA/CCC financial applications.	07/2004	<b>Completed 07/2004</b> Security was updated for all systems as part of Phase 1 C&A process.
2	Update risk assessments for all FSA/CCC financial applications	07/2004	<b>Completed 07/2004</b> Risk Assessments were updated for all systems as part of Phase 1 C&A Process.
3	Update AS400 log files to show trail of when user profiles were last used or modified. Grant access on need-to-know basis using standard security request forms.	09/2004	Target date has been changed from 07/2004 to 09/2004. New form has been developed and is being finalized with instructions to be released to the field with the update of Handbook 6-IRM.



**Appendix E  
CCC Remediation Plan**

<b>Corrective Actions</b>			
	<b>Detailed steps</b>	<b>Target Dates</b>	<b>Actual Dates</b>
4	Develop and test contingency plans for FSA/CCC financial applications.	12/2004	Ongoing. Contingency Disaster Plans are being developed as part of the Phase 2 C&A process and will be tested.
5	Conduct scans on all servers hosting FSA/CCC financial applications on a regular basis.	07/2004	<b>Completed 7/2004</b> Scan policy developed and scans are being processed monthly.
6	FSA will work with the new Information Technology Service to strengthen the physical security in field office computer rooms housing FSA/CCC applications.	09/2004	Draft memo on physical security developed and in final review for formal implementation.
7	Conduct formal C&A process for all FSA/CCC financial applications.	09/2005	C&A process is ongoing on all financial applications. Phase 1 is completed. Phase 2 is ongoing.
8	Create prioritized schedule for FSA/CCC applications to be tested.	09/2004	<b>Completed 7/2004.</b> A formal list and test plan of CCC applications has been developed as part of the Agency Disaster Recovery Plan.
9	Develop strategy plan to perform security clearance and background checks on all personnel accessing FSA/CCC applications.	10/2004	Strategy Plan has been developed for the IT divisions and will be expanded to include all of FSA divisions.
10	Implement a formal Configuration Control Board for FSA/CCC financial systems.	9/2004	<b>Completed 4/2004</b> FSA will follow the ITS Change Control Board and process for all applications.

<b>4 Information Security Policies, Procedures and Practices</b>		
<b>Estimated Resources Needed for Corrective Actions</b>		
<b>Fiscal Year</b>	<b>Full-Time Equivalents (FTEs)</b>	<b>Dollars</b>
2004	10	\$1.3 million
2005	3	\$500 thousand
2006	-	-

**Commodity Credit Corporation  
Consolidated Balance Sheets**

**As of September 30, 2004 and 2003  
(Dollars in Millions)**

	<u>2004</u>	<u>2003</u>
<b>Assets:</b>		
<b>Intragovernmental:</b>		
Fund Balance with Treasury (Note 2)	\$ 3,213	\$ 2,597
Accounts Receivable, Net (Note 3)	400	466
Other	3	6
<b>Total Intragovernmental Assets</b>	<u>\$ 3,616</u>	<u>\$ 3,069</u>
Cash		
	-	51
Accounts Receivable, Net (Note 3)	439	43
<b>Loans and Credit Program Receivables:</b>		
Commodity Loans, Net (Note 4)	\$ 1,798	\$ 1,715
Credit Program Receivables, Net (Note 5)	8,272	8,484
Other Foreign Receivables, Net	294	348
<b>Subtotal</b>	<u>\$ 10,364</u>	<u>\$ 10,547</u>
Commodity Inventories, Net (Note 6)		
	141	276
General Property and Equipment, Net (Note 7)	48	29
Other	35	91
<b>Total Assets</b>	<u><u>\$ 14,643</u></u>	<u><u>\$ 14,106</u></u>
<b>Liabilities:</b>		
<b>Intragovernmental:</b>		
Accounts Payable	\$ 811	\$ 1,205
Debt to the Treasury (Note 8)	12,468	21,836
<b>Other:</b>		
Resources Payable to Treasury	\$ 6,029	\$ 6,482
Deposit and Trust Liabilities (Note 9)	2,126	1,184
Other (Note 10)	468	797
<b>Subtotal</b>	<u>\$ 8,623</u>	<u>\$ 8,463</u>
<b>Total Intragovernmental Liabilities</b>	<u>\$ 21,902</u>	<u>\$ 31,504</u>
Accounts Payable		
	315	486
Credit Guarantee Liabilities (Note 5)	240	22
Environmental and Disposal Liabilities (Note 11)	15	13
<b>Other Liabilities:</b>		
Accrued Liabilities (Note 12)	\$ 4,923	\$ 4,852
Deposit and Trust Liabilities (Note 9)	502	873
Other (Note 10)	32	2
<b>Subtotal</b>	<u>\$ 5,457</u>	<u>\$ 5,727</u>
<b>Total Liabilities</b>	<u><u>\$ 27,929</u></u>	<u><u>\$ 37,752</u></u>
<b>Commitments and Contingencies (Notes 5 and 13)</b>		
<b>Net Position:</b>		
Unexpended Appropriations	1,647	1,536
Capital Stock	100	100
Cumulative Results of Operations	(15,033)	(25,282)
<b>Total Net Position</b>	<u><u>\$ (13,286)</u></u>	<u><u>\$ (23,646)</u></u>
<b>Total Liabilities and Net Position</b>	<u><u>\$ 14,643</u></u>	<u><u>\$ 14,106</u></u>

The accompanying notes are an integral part of these statements.

**Commodity Credit Corporation**  
**Consolidated Statements of Net Cost (Note 14)**

**For the Fiscal Years Ended September 30, 2004 and 2003**  
**(Dollars in Millions)**

	<u>2004</u>	<u>2003</u>
<b>Net Program Costs:</b>		
<b>Intragovernmental Costs:</b>		
Imputed Costs	\$ 999	\$ 900
Reimbursable Costs	85	147
Borrowing Interest Expense	321	349
Other	(184)	193
Total Intragovernmental Gross Costs	<u>1,221</u>	<u>1,589</u>
Less: Intragovernmental Earned Revenue	<u>(135)</u>	<u>(114)</u>
Intragovernmental Net Costs	<u>\$ 1,086</u>	<u>\$ 1,475</u>
<b>Gross Costs with the Public:</b>		
Grants and Direct Payments	11,781	19,009
Credit Program Subsidy	(979)	(1,128)
Commodity Programs	2,276	5,770
Stewardship Land Acquisition	26	48
Other	(989)	(527)
Total Gross Costs with the Public	<u>12,115</u>	<u>23,172</u>
Less: Earned Revenue from the Public	<u>(1,510)</u>	<u>(3,802)</u>
Net Costs with the Public	<u>10,605</u>	<u>19,370</u>
<b>Net Cost of Operations</b>	<u><u>\$ 11,691</u></u>	<u><u>\$ 20,845</u></u>

The accompanying notes are an integral part of these statements.

**Commodity Credit Corporation**  
**Consolidated Statements of Changes in Net Position**

**For the Fiscal Year Ended September 30, 2004**  
**(Dollars in Millions)**

	Cumulative Results of Operations	Capital Stock	Unexpended Appropriations
Beginning Balances	\$ (25,282)	\$ 100	\$ 1,536
Budgetary Financing Sources:			
Appropriations Received	-	-	24,941
Appropriations Transferred - In	-	-	175
Appropriations Transferred - Out	-	-	(15)
Other Adjustments	-	-	(9)
Appropriations Used	24,981	-	(24,981)
Nonexchange Revenue	29	-	-
Transfers In Without Reimbursement	46	-	-
Transfers Out Without Reimbursement	(3,266)	-	-
Other Financing Sources:			
Imputed Financing	999	-	-
Transfers In Without Reimbursement	25	-	-
Transfers Out Without Reimbursement	(1,076)	-	-
Other	202	-	-
Total Financing Sources	<u>21,940</u>	<u>-</u>	<u>111</u>
Net Cost of Operations	<u>(11,691)</u>	<u>-</u>	<u>-</u>
Ending Balances	<u>\$ (15,033)</u>	<u>\$ 100</u>	<u>\$ 1,647</u>

The accompanying notes are an integral part of these statements.

**Commodity Credit Corporation**  
**Consolidated Statements of Changes in Net Position, *continued***

**For the Fiscal Year Ended September 30, 2003**  
**(Dollars in Millions)**

	<b>Cumulative Results of Operations</b>	<b>Capital Stock</b>	<b>Unexpended Appropriations</b>
Beginning Balances	\$ (19,899)	\$ 100	\$ 1,383
Budgetary Financing Sources:			
Appropriations Received	-	-	20,446
Appropriations Transferred - In	-	-	159
Appropriations Transferred - Out	-	-	(323)
Other Adjustments	-	-	(10)
Appropriations Used	20,119	-	(20,119)
Nonexchange Revenue	5	-	-
Transfers In Without Reimbursement	34	-	-
Transfers Out Without Reimbursement	(4,322)	-	-
Other Financing Sources:			
Imputed Financing	900	-	-
Transfers In Without Reimbursement	13	-	-
Transfers Out Without Reimbursement	(2,012)	-	-
Other	725	-	-
Total Financing Sources	<u>15,462</u>	<u>-</u>	<u>153</u>
Net Cost of Operations	<u>(20,845)</u>	<u>-</u>	<u>-</u>
Ending Balances	<u>\$ (25,282)</u>	<u>\$ 100</u>	<u>\$ 1,536</u>

The accompanying notes are an integral part of these statements.

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

For the Fiscal Years Ended September 30, 2004 and 2003  
 (Dollars in Millions)

	2004		2003	
	Budgetary	Non-Budgetary Credit Program Financing Accounts	Budgetary	Non-Budgetary Credit Program Financing Accounts
<b>Budgetary Resources:</b>				
Budget Authority:				
Appropriations Received	\$ 24,941	\$ -	\$ 20,446	\$ -
Borrowing Authority	29,004	692	49,343	1,277
Net Transfers (+/-)	(1,781)	-	(2,202)	-
Unobligated Balance:				
Beginning of Period	1,340	2,096	1,196	1,461
Net Transfers, Actual (+/-)	(2)	-	(315)	-
Spending Authority from Offsetting Collections:				
Earned:				
Collected	13,931	1,090	14,008	1,439
Receivable from Federal Sources	(669)	150	1,499	59
Change in Unfilled Customer Orders:				
Advance Received	941	-	292	-
Subtotal	14,203	1,240	15,799	1,498
Recoveries of Prior Year Obligations	1,848	12	1,200	8
Permanently not Available	(40,856)	(123)	(47,536)	(416)
<b>Total Budgetary Resources</b>	<b>\$ 28,697</b>	<b>\$ 3,917</b>	<b>\$ 37,931</b>	<b>\$ 3,828</b>
<b>Status of Budgetary Resources:</b>				
Obligations Incurred:				
Direct	\$ 2,431	\$ 1,274	\$ 2,642	\$ 1,732
Reimbursable	25,070	-	33,949	-
Subtotal	27,501	1,274	36,591	1,732
Unobligated Balance:				
Apportioned	813	2,627	752	2,068
Exempt from Apportionment	1	6	9	1
Unobligated Balance not Available	382	10	579	27
<b>Total Status of Budgetary Resources</b>	<b>\$ 28,697</b>	<b>\$ 3,917</b>	<b>\$ 37,931</b>	<b>\$ 3,828</b>
<b>Relationship of Obligations to Outlays:</b>				
Obligated Balance, Net, Beginning of Period	\$ 5,789	\$ (32)	\$ 4,305	\$ 24
Obligated Balance, Net, End of Period:				
Accounts Receivable	(1,379)	(316)	(2,049)	(166)
Unfilled Customer Orders from Federal Sources	-	(1)	-	(1)
Undelivered Orders	1,885	87	2,072	120
Accounts Payable	5,090	1	5,766	15
Outlays:				
Disbursements	26,515	1,311	32,408	1,721
Collections	(14,872)	(1,090)	(14,300)	(1,439)
Subtotal	11,643	221	18,108	282
Less: Offsetting Receipts	-	(601)	-	(1,293)
<b>Net Outlays</b>	<b>\$ 11,643</b>	<b>\$ (380)</b>	<b>\$ 18,108</b>	<b>\$ (1,011)</b>

The accompanying notes are an integral part of these statements.

**Commodity Credit Corporation  
Consolidated Statements of Financing (Note 16)**

**For the Fiscal Years Ended September 30, 2004 and 2003  
(Dollars in Millions)**

	2004	2003
<b>Resources Used to Finance Activities:</b>		
<b>Budgetary Resources Obligated:</b>		
Obligations Incurred	\$ 28,775	\$ 38,323
Less: Spending Authority from Offsetting Collections and Recoveries	17,303	18,505
Obligations Net of Offsetting Collections and Recoveries	11,472	19,818
Less: Offsetting Receipts	601	1,293
Net Obligations	10,871	18,525
<b>Other Resources:</b>		
Transfers In/Out without Reimbursement	(1,051)	(1,999)
Imputed Financing from Costs Absorbed by Others	999	900
Other	202	725
Net Other Resources Used to Finance Activities	150	(374)
<b>Total Resources Used to Finance Activities</b>	<b>11,021</b>	<b>18,151</b>
<b>Resources Used to Finance Items not Part of the Net Cost of Operations:</b>		
Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered but not Yet Provided	(1,198)	(2,204)
Resources that Fund Expenses Recognized in Prior Periods	1,670	1,750
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	(1,649)	(1,773)
Other	(8,867)	(10,322)
Resources that Finance the Acquisition of Assets	11,313	16,597
Other Resources or Adjustments to Net Obligated Resources that Do Not Affect Net Cost of Operations	1,335	2,587
<b>Total Resources Used to Finance Items Not Part of the Net Cost of Operations</b>	<b>2,604</b>	<b>6,835</b>
<b>Total Resources Used to Finance the Net Cost of Operations</b>	<b>8,417</b>	<b>11,516</b>
<b>Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:</b>		
<b>Components Requiring or Generating Resources in Future Periods:</b>		
Upward/Downward Reestimates of Credit Subsidy Expense	14	4
Increase in Exchange Revenue Receivable from the Public	880	750
Other	1,698	1,670
Total Components of Net Cost of Operations that will Require or Generate Resources in Future Periods	2,592	2,424
<b>Components not Requiring or Generating Resources:</b>		
Depreciation and Amortization	59	120
Revaluation of Assets or Liabilities	(627)	267
Other	1,250	6,518
Total Components of Net Cost of Operations that will not Require or Generate Resources	682	6,905
<b>Total Components of Net Cost of Operations that will not Require or Generate Resources in the Current Period</b>	<b>3,274</b>	<b>9,329</b>
<b>Net Cost of Operations</b>	<b>\$ 11,691</b>	<b>\$ 20,845</b>

The accompanying notes are an integral part of these statements.

**Note 1 - Significant Accounting Policies, *continued*****Cash**

Treasury 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.

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.

Accounts receivable are adjusted by a valuation allowance based on historical collection, write-off information, and other analysis, which reduces the receivables to their estimated net realizable value.

**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 (Note 5) 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 their estimated 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.

**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 (see Note 5);
- 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. CCC uses the Balances Approach Reestimate Calculator for computing the subsidy reestimates



**Note 1 - Significant Accounting Policies, continued**

for its foreign Credit Reform programs and the Treasury Credit Reform Certificate Program guidelines for the accounting and reporting of its other subsidy reestimates and amortization.

Consistent with USDA agencies and in order to meet reporting requirements, CCC calculates and pays Treasury interest income and expense for its Credit Reform programs based on actual data through August 31, rather than 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 the Statement of Federal Financial Accounting Standards (SFFAS) No. 3, *Accounting for Inventory and Related Property*, issued by the Federal Accounting Standards Advisory Board, represent commodities acquired by the Corporation. They are eventually sold or otherwise disposed of to satisfy or help economic goals.

Inventories are initially 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 and income support levels are established by statute, inventory acquisitions are usually recorded 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. Actual cost is prevalent with: (a) simultaneous acquisition and disposition for commodity export programs; and (b) dispositions of commodities previously pledged as price support loan collateral, which are acquired and simultaneously disposed of 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.

The cost of commodity inventories sold to other Federal entities is classified as an expense with the public since the commodities being sold are originally purchased or otherwise acquired from a public source.

Commodity inventories are reported at the lower of cost or net realizable value through the use of a commodity valuation allowance. This allowance is based on the estimated loss on commodity dispositions, 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 related to placing the asset into service, such as freight, installation, and testing. Purchases of personal property valued at \$25,000 or more, with a useful life of 2 years or greater, are capitalized. Personal property and equipment is depreciated on a straight-line basis. Automated Data Processing (ADP) equipment has a service life of 5 years, while non-expendable administrative property is depreciated over a service life range of 5 to 10 years. There is no salvage value associated with personal property and equipment.

In addition, internal use software valued at \$100,000 or more with a useful life of 2 years or greater is capitalized. Internal use software development cost are accumulated and are capitalized upon completion. In accordance with SFFAS No. 10, *Accounting for Internal Use*

**Note 1 - Significant Accounting Policies, *continued***

*Software*, capitalized software development costs include contractor developed software, purchased software, and internally developed software. Capitalized internal use software costs are amortized over a period of 5 years, beginning with the first year the software is fully operational. Also included are costs incurred by FSA which are 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.

**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 Notes 11 and 12, result from the accrual of unpaid amounts due for various CCC programs, where the budgetary resources for the programs will not be made available until the subsequent fiscal year.

**Resources Payable to Treasury**

Resources payable to Treasury represent the net resources of the pre-Credit Reform programs. These net resources are held as working capital. Excess funds not needed for working capital (after liquidating all liabilities) are returned to Treasury.

**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 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.

**Allocation Transfers and Shared Appropriations**

OMB guidance requires that the parent agency in an allocation transfer report the activity in its financial statements unless the allocation transfer is material to the child's financial statements, except for the Statement of Budgetary Resources. For this reason, FSA allocation transfer programs are not included on the Corporation's Statement of Budgetary Resources. Additionally, CCC is the parent agency in an allocation transfer relationship with

**Note 1 - Significant Accounting Policies, continued**

AID for P.L. 480 Title II transportation and other cost related to foreign donations. As such, this allocation transfer is included on the Statement of Budgetary Resources.

The Hazardous Waste Departmental activity (where CCC is the child agency) is recorded in a shared account that retains the fund symbol identified with the original appropriation from which monies are advanced. CCC's portion of this activity is included in these financial statements.

**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 were made to the fiscal year 2003 statements to conform to the current year's presentation. These changes in format were made to more closely conform to the form and content guidelines issued by OMB.

See Note 16 for a discussion of a reclassification on the Statement of Financing.

COMMODITY CREDIT CORPORATION

Notes to Financial Statements  
September 30, 2004 and 2003

**Note 2 - Fund Balance with Treasury**

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

	(In Millions)	
	<u>2004</u>	<u>2003</u>
Revolving Funds	\$ 871	\$ 165
Appropriated Funds	<u>2,342</u>	<u>2,432</u>
Total Fund Balance with Treasury	<u>\$ 3,213</u>	<u>\$ 2,597</u>

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

	(In Millions)	
	<u>2004</u>	<u>2003</u>
Unobligated Balance:		
Available	\$ 3,479	\$ 2,876
Unavailable	397	615
Obligated Balance not yet Disbursed	<u>4,501</u>	<u>4,674</u>
Subtotal	8,377	8,165
Less Borrowing Authority not yet Converted to Fund Balance	<u>(5,164)</u>	<u>(5,568)</u>
Total Fund Balance with Treasury	<u>\$ 3,213</u>	<u>\$ 2,597</u>

The unavailable balance represents unobligated resources not yet apportioned by OMB and unobligated appropriations from prior years that are no longer available for new obligations.

Total unobligated balances and obligated balances not yet disbursed do not agree with the corresponding fund balance with Treasury amounts presented above because CCC borrows funds from Treasury at the time certain obligations are disbursed. Borrowing authority not yet converted to fund balance represents unobligated and obligated amounts recorded at September 30, 2004 and 2003, which will be funded by future borrowings.

In addition, amounts presented in the above schedule do not agree with the corresponding

line items on the Statement of Budgetary Resources due to OMB reporting requirements for allocation transfers. The total unobligated balance and obligated balance not yet disbursed on the Statement of Budgetary Resources is \$9,206 million and \$9,193 million as of September 30, 2004 and 2003, respectively. The difference of \$829 million and \$1,028 million, respectively, represents allocation transfer activity with AID and FSA. See Note 1 for information on CCC's allocation transfer relationships.

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.

COMMODITY CREDIT CORPORATION

Notes to Financial Statements  
September 30, 2004 and 2003

**Note 3 - Accounts Receivable, Net**

Accounts receivable as of September 30, is as follows:

	(In Millions)	
	2004	2003
<u>Intragovernmental:</u>		
Due from Treasury	\$ 54	\$ 12
Due from Transportation	283	613
Due from Other Federal Agencies	63	29
Subtotal	<u>400</u>	<u>654</u>
Less: Allowance for Doubtful Accounts	<u>(--)</u>	<u>(188)</u>
Total Intragovernmental Accounts Receivable, Net	<u>\$ 400</u>	<u>\$ 466</u>
<u>Public:</u>		
Claims Receivable	\$ 85	\$ 74
Notes Receivable	10	3
Interest Receivable	15	18
Other	400	54
Subtotal	<u>\$ 510</u>	<u>\$ 149</u>
Less: Allowance for Doubtful Accounts	<u>(71)</u>	<u>(106)</u>
Total Public Accounts Receivable, Net	<u>\$ 439</u>	<u>\$ 43</u>

The Cargo Preference provisions of the Food Security Act of 1985 provide for the reimbursement of certain transportation costs the Corporation incurs under foreign assistance programs. In fiscal year 2003, CCC established a receivable from the Department of Transportation (DOT) for freight costs exceeding 20 percent of the total cost of commodities donated and ocean freight expenses. This is authorized by Section 901d(b) of the Merchant Marine Act, 1938. Because these billings are subject to review and adjustment by DOT, CCC recognizes an allowance against the receivable until such time as management determines that

amounts scheduled for collection from DOT are appropriate. In fiscal year 2004, DOT's Office of General Counsel agreed with CCC's billing methodology. As a result, CCC received \$469 million in payments from DOT.

Other public receivables consist of amounts due from program overpayments. Due to improving market conditions in fiscal year 2004, CCC established receivables for Counter-Cyclical program overpayments in the amount of \$372 million as of September 30, 2004.

COMMODITY CREDIT CORPORATION

Notes to Financial Statements  
September 30, 2004 and 2003

**Note 3 - Accounts Receivable, Net, *continued***

The changes in the allowance for doubtful accounts on intragovernmental and public receivables for the fiscal years ended September 30, are as follows:

	(In Millions)	
	2004	2003
<u>Intragovernmental:</u>		
Allowance – Beginning of Fiscal Year	\$ 188	\$ --
Provision for Doubtful Accounts	<u>(188)</u>	<u>188</u>
Allowance - End of Fiscal Year	<u>\$ --</u>	<u>\$ 188</u>

	(In Millions)	
	2004	2003
<u>Public:</u>		
Allowance – Beginning of Fiscal Year	\$ 106	\$ 112
Provision for Doubtful Accounts	<u>(35)</u>	<u>(6)</u>
Allowance - End of Fiscal Year	<u>\$ 71</u>	<u>\$ 106</u>

COMMODITY CREDIT CORPORATION

Notes to Financial Statements  
September 30, 2004 and 2003

**Note 4 – Commodity Loans, Net**

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

	(In Millions)	
	2004	2003
Tobacco	\$ 738	\$ 719
Wheat	311	377
Corn	179	255
Soybeans	53	59
Rice	288	102
Cotton	115	65
Other Commodities	<u>118</u>	<u>67</u>
Total Commodity Loans	1,802	1,644
Accrued Interest Receivable	84	119
Less: Allowance for Losses	<u>(88)</u>	<u>(48)</u>
Total Commodity Loans, Net	<u>\$ 1,798</u>	<u>\$ 1,715</u>

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

	(In Millions)	
	2004	2003
Allowance - Beginning of Fiscal Year	\$ 48	\$ 177
Less: Charge-offs	(149)	(229)
Add: Provision for Doubtful Accounts	<u>189</u>	<u>100</u>
Allowance - End of Fiscal Year	<u>\$ 88</u>	<u>\$ 48</u>

**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 the Federal Credit Reform Act of 1990, as amended. 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.

Net credit program receivables, or the value of assets related to direct credits and loans, and the defaulted credit guarantees, are 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 (SCGP), 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, 2004 and 2003, 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



**Note 5 - Credit Program Receivables, Net, *continued***

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 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,
- defaults, 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.

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. This is a major contributor to the significant downward subsidy reestimates for CCC's foreign Credit Reform programs, resulting in a net downward reestimate of \$1,121 million and \$330 million in fiscal years 2004 and 2003, respectively.

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. 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.

**Note 5 - Credit Program Receivables, Net, continued**

In fiscal year 2004, CCC changed the methodology for risk assignment consistent with the country of obligation. Previously, a weighted average of country risk in a region was used for regional program contracts and the destination country risk was used for third country banking contracts.

CCC has received numerous defaults under the SCGP, principally for guarantees for exports to Indonesia. The SCGP guarantees concerned are valued at \$182 million of which CCC's share is approximately \$118 million. As of the end of fiscal year 2004, CCC had paid claims on these contracts totaling \$24 million.

**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 Paris Club's Heavily Indebted Poor Countries (HIPC) Initiative. Discussions are currently in progress with a number of countries which, if successful, may affect CCC.

Other than as stated above, 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 the 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** provided loans to apple producers who suffered 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 obtained 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 was three years and the interest rate was equivalent to the rate of interest charged on the Treasury securities of comparable maturity.

COMMODITY CREDIT CORPORATION

Notes to Financial Statements  
September 30, 2004 and 2003

**Note 5 - Credit Program Receivables, Net, *continued***

A summary of CCC's net credit program receivables as of September 30, is as follows:

	(In Millions)	
	2004	2003
<u>Direct Credit and Loan Programs:</u>		
Pre-1992:		
P.L. 480 Title I	\$ 3,385	\$ 3,575
Post-1991:		
P.L. 480 Title I	1,091	875
Debt Reduction Fund	129	121
Food for Progress*	—	273
Farm Storage Facility	189	171
Boll Weevil Program	3	3
Apple Loan Program	1	5
<u>Defaulted Credit Guarantees:</u>		
Pre-1992 Export Credit Guarantees	2,526	2,795
Post-1991 Export Credit Guarantees	948	666
<b>Total Credit Program Receivables, Net</b>	<b><u>\$ 8,272</u></b>	<b><u>\$ 8,484</u></b>

\*The Food for Progress debt was purchased by the P.L. 480, Title I program in fiscal year 2004.

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)			
	Credit Receivables, Gross	Interest Receivable, Gross	Allowance for Uncollectible Accounts	Credit Program Receivables, Net
<u>2004</u>				
P.L. 480 Title I	<u>\$ 6,244</u>	<u>\$ 71</u>	<u>\$ (2,930)</u>	<u>\$ 3,385</u>

	(In Millions)			
	Credit Receivables, Gross	Interest Receivable, Gross	Allowance for Uncollectible Accounts	Credit Program Receivables, Net
<u>2003</u>				
P.L. 480 Title I	<u>\$ 7,545</u>	<u>\$ 75</u>	<u>\$ (4,045)</u>	<u>\$ 3,575</u>

COMMODITY CREDIT CORPORATION

Notes to Financial Statements  
September 30, 2004 and 2003

**Note 5 - Credit Program Receivables, Net, *continued***

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)

	Credit Receivables, Gross	Interest Receivable, Gross	Subsidy Allowance	Credit Program Receivables, Net
<u>2004</u>				
P.L. 480 Title I	\$ 2,483	\$ 30	\$ (1,422)	\$ 1,091
Debt Reduction Fund	524	3	(398)	129
Farm Storage Facility	187	3	(1)	189
Boll Weevil Program	10	--	(7)	3
Apple Loan Program	<u>1</u>	<u>--</u>	<u>--</u>	<u>1</u>
Total	<u>\$ 3,205</u>	<u>\$ 36</u>	<u>\$ (1,828)</u>	<u>\$ 1,413</u>

(In Millions)

	Credit Receivables, Gross	Interest Receivable, Gross	Subsidy Allowance	Credit Program Receivables, Net
<u>2003</u>				
P.L. 480 Title I	\$ 2,294	\$ 23	\$ (1,442)	\$ 875
Debt Reduction Fund	334	1	(214)	121
Food for Progress	352	11	( 90)	273
Farm Storage Facility	160	7	4	171
Boll Weevil Program	10	--	(7)	3
Apple Loan Program	<u>4</u>	<u>--</u>	<u>1</u>	<u>5</u>
Total	<u>\$ 3,154</u>	<u>\$ 42</u>	<u>\$ (1,748)</u>	<u>\$ 1,448</u>

COMMODITY CREDIT CORPORATION

Notes to Financial Statements  
September 30, 2004 and 2003

**Note 5 - Credit Program Receivables, Net, *continued***

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

(In Millions)

	Credit Receivables, Gross	Interest Receivable, Gross	Allowance for Uncollectible Accounts	Credit Program Receivables, Net
<u>2004</u>				
Export Credit Guarantee Programs	<u>\$ 4,709</u>	<u>\$ 21</u>	<u>\$ (2,204)</u>	<u>\$ 2,526</u>

(In Millions)

	Credit Receivables, Gross	Interest Receivable, Gross	Allowance for Uncollectible Accounts	Credit Program Receivables, Net
<u>2003</u>				
Export Credit Guarantee Programs	<u>\$ 4,943</u>	<u>\$ 30</u>	<u>\$ (2,178)</u>	<u>\$ 2,795</u>

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

(In Millions)

	Credit Receivables, Gross	Interest Receivable, Gross	Subsidy Allowance	Credit Program Receivables, Net
<u>2004</u>				
Export Credit Guarantee Programs	<u>\$ 1,794</u>	<u>\$ 27</u>	<u>\$ (873)</u>	<u>\$ 948</u>

(In Millions)

	Credit Receivables, Gross	Interest Receivable, Gross	Subsidy Allowance	Credit Program Receivables, Net
<u>2003</u>				
Export Credit Guarantee Programs	<u>\$ 1,799</u>	<u>\$ 28</u>	<u>\$ (1,161)</u>	<u>\$ 666</u>

COMMODITY CREDIT CORPORATION

Notes to Financial Statements  
September 30, 2004 and 2003

**Note 5 - Credit Program Receivables, Net, *continued***

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

	(In Millions)	
	2004	2003
Subsidy Allowance – Beginning of Fiscal Year	\$ 1,748	\$ 1,712
Subsidy expense for current year disbursements:		
Interest rate differential	21	28
Default costs (net of recoveries)	11	20
Other subsidy costs	<u>3</u>	<u>3</u>
Total subsidy expense	35	51
Adjustments:		
Loan modifications	141	58
Subsidy allowance amortization	(11)	44
Loans written off	(229)	--
Other	<u>457</u>	<u>12</u>
Balance before reestimates	2,141	1,877
Subsidy reestimates:		
Interest rate reestimate	(1)	(1)
Technical/default reestimate	<u>(312)</u>	<u>(128)</u>
Total subsidy reestimates	<u>(313)</u>	<u>(129)</u>
Subsidy Allowance – End of Fiscal Year	<u>\$ 1,828</u>	<u>\$ 1,748</u>

COMMODITY CREDIT CORPORATION

Notes to Financial Statements  
September 30, 2004 and 2003

**Note 5 - Credit Program Receivables, Net, *continued***

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

(In Millions)

	<u>Subsidy Expense for New Direct Loans Disbursed</u>					<u>Mods.</u>	<u>Reestimates</u>			<u>Grand Total</u>
	<u>Interest Differential</u>	<u>Defaults</u>	<u>Fees and Other Colls.</u>	<u>Other</u>	<u>Total</u>	<u>Total</u>	<u>Interest Rate</u>	<u>Technical</u>	<u>Total</u>	
<b>2004</b>										
P.L. 480, Title I	\$ 21	\$ 10	\$ --	\$ 3	\$ 34	\$ 141	\$ (3)	\$ (201)	\$ (204)	\$ (29)
Debt Reduction Fund	--	--	--	--	--	--	--	(118)	(118)	(118)
Farm Storage Facility	--	1	--	--	1	--	2	7	9	10
<b>Total</b>	<u>\$ 21</u>	<u>\$ 11</u>	<u>\$ --</u>	<u>\$ 3</u>	<u>\$ 35</u>	<u>\$ 141</u>	<u>\$ (1)</u>	<u>\$ (312)</u>	<u>\$ (313)</u>	<u>\$ (137)</u>

(In Millions)

	<u>Subsidy Expense for New Direct Loans Disbursed</u>					<u>Mods.</u>	<u>Reestimates</u>			<u>Grand Total</u>
	<u>Interest Differential</u>	<u>Defaults</u>	<u>Fees and Other Colls.</u>	<u>Other</u>	<u>Total</u>	<u>Total</u>	<u>Interest Rate</u>	<u>Technical</u>	<u>Total</u>	
<b>2003</b>										
P.L. 480, Title I	\$ 28	\$ 19	\$ --	\$ 3	\$ 50	\$ 58	\$ (1)	\$ 45	\$ 44	\$ 152
Debt Reduction Fund	--	--	--	--	--	--	--	(83)	(83)	(83)
Food for Progress	--	--	--	--	--	--	--	(82)	(82)	(82)
Farm Storage Facility	--	1	--	--	1	--	--	(8)	(8)	(7)
<b>Total</b>	<u>\$ 28</u>	<u>\$ 20</u>	<u>\$ --</u>	<u>\$ 3</u>	<u>\$ 51</u>	<u>\$ 58</u>	<u>\$ (1)</u>	<u>\$ (128)</u>	<u>\$ (129)</u>	<u>\$ ( 20)</u>

Subsidy reestimates are calculated on cumulative disbursements for all cohorts.

COMMODITY CREDIT CORPORATION

Notes to Financial Statements  
September 30, 2004 and 2003

**Note 5 - Credit Program Receivables, Net, *continued***

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

(In Millions)

	2004	2003	Current Year Over (Under) Prior Year
P.L. 480 Title I	\$ 60	\$ 65	\$ (5)
Farm Storage Facility	<u>61</u>	<u>44</u>	<u>17</u>
Total	<u>\$ 121</u>	<u>\$ 109</u>	<u>\$ 12</u>

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

(In Millions)

	<u>Face Value</u>		<u>Guaranteed*</u>	
	Post-1991 Outstanding Principal	Post-1991 Outstanding Interest	Post-1991 Outstanding Principal	Post-1991 Outstanding Interest
<u>2004</u>				
Export Credit Guarantee Programs	<u>\$ 5,042</u>	<u>\$ 113</u>	<u>\$ 4,833</u>	<u>\$ 60</u>

(In Millions)

	<u>Face Value</u>		<u>Guaranteed*</u>	
	Post-1991 Outstanding Principal	Post-1991 Outstanding Interest	Post-1991 Outstanding Principal	Post-1991 Outstanding Interest
<u>2003</u>				
Export Credit Guarantee Programs	<u>\$ 4,820</u>	<u>\$ 75</u>	<u>\$ 4,657</u>	<u>\$ 34</u>

\* 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.



**Note 8 – Debt to the Treasury**

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

	(In Millions)	
	2004	2003
Debt – Beginning of Fiscal Year:		
Principal: Interest Bearing	\$ 21,741	\$ 9,162
Non-Interest Bearing	--	11,263
Accrued Interest Payable	<u>95</u>	<u>66</u>
Total Debt Outstanding – Beginning of Fiscal Year	21,836	20,491
New Debt:		
Principal: Interest Bearing	18,371	35,026
Accrued Interest Payable	<u>123</u>	<u>171</u>
Total New Debt	18,494	35,197
Repayments:		
Principal: Interest Bearing	(27,735)	(22,447)
Non-Interest Bearing	--	(11,263)
Accrued Interest Payable	<u>(146)</u>	<u>(142)</u>
Total Repayments	(27,881)	(33,852)
Interest Refinanced	19	--
Debt – End of Fiscal Year		
Principal: Interest Bearing	12,396	21,741
Accrued Interest Payable	<u>72</u>	<u>95</u>
Total Debt Outstanding – End of Fiscal Year	<u>\$ 12,468</u>	<u>\$ 21,836</u>

CCC may borrow interest-free up to the amount of its unreimbursed realized losses. For interest bearing notes, interest is accrued at a rate 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 non-interest bearing notes first. Once these are liquidated, repayments are then applied to interest bearing notes.

In fiscal years 2004 and 2003, CCC was fully reimbursed for its prior year net realized losses. In fiscal year 2003, CCC paid down its non-interest-bearing note based upon the agreement with Treasury. In fiscal year 2004, Treasury

returned \$28 million in interest paid by CCC, rather than having CCC establish a non-interest bearing note and subsequently repaying it.

The total amount of debt principal and interest refinanced was \$10,330 million and \$12,372 million in fiscal years 2004 and 2003, respectively. These amounts are included in the total amounts of new debt and repayments in the table above. Of these amounts, \$10,311 million and \$12,372 million consisted of outstanding principal rolled over in fiscal years 2004 and 2003, respectively. Accrued interest rolled over into notes payable was \$19 million in fiscal year 2004 and less than \$1 million in fiscal year 2003.

**Note 8 – Debt to the Treasury, *continued***

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 1.25% to 2.125% during fiscal year 2004 and from 1.00% to 1.75% during fiscal year 2003.

Interest expense incurred on these borrowings was \$100 million and \$162 million for fiscal years 2004 and 2003, respectively.

The fiscal year 2004 and 2003 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. For all Credit Reform programs, principal repayments are required only at maturity, but are permitted at any time during the term of the loan.

Interest expense incurred on borrowings associated with the Credit Reform programs amounted to \$221 million and \$187 million in fiscal years 2004 and 2003, respectively.

COMMODITY CREDIT CORPORATION

Notes to Financial Statements  
September 30, 2004 and 2003

**Note 8 – Debt to the Treasury, *continued***

Total debt outstanding, by program and maturity date, as of September 30, 2004, is as follows:

<u>Program</u>	<u>Debt</u> (In Millions)	<u>Maturity Date</u>
CCC Borrowing Authority	\$ 8,738	Jan. 1, 2005
Export Credit Guarantees	756	Sep. 30, 2006
	277	Sep. 30, 2007
	79	Sep. 30, 2008
	88	Sep. 30, 2009
	136	Sep. 30, 2010
	124	Sep. 30, 2011
	1	Sep. 30, 2012
	3	Sep. 30, 2014
	6	Sep. 30, 2015
	6	Sep. 30, 2016
	16	Sep. 30, 2017
P.L. 480 Direct Credits	127	Sep. 30, 2018
	309	Sep. 30, 2019
	71	Sep. 30, 2020
	53	Sep. 30, 2021
	65	Sep. 30, 2022
	50	Sep. 30, 2023
	59	Sep. 30, 2024
	282	Sep. 30, 2025
	79	Sep. 30, 2026
	114	Sep. 30, 2027
	56	Sep. 30, 2031
	537	Sep. 30, 2032
Debt Reduction	31	Sep. 30, 2012
	25	Sep. 30, 2018
	1	Sep. 30, 2021
	23	Sep. 30, 2022
	13	Sep. 30, 2026
	2	Sep. 30, 2028
Farm Storage Facility Loans	27	Sep. 30, 2008
	53	Sep. 30, 2009
	51	Sep. 30, 2010
	60	Sep. 30, 2011
	72	Sep. 30, 2012
Boll Weevil	4	Sep. 30, 2008
Apple Loans	2	Sep. 30, 2007
Total Debt Outstanding	<u>\$ 12,396</u>	

COMMODITY CREDIT CORPORATION

Notes to Financial Statements  
September 30, 2004 and 2003

**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)	
	2004	2003
<u>Intragovernmental:</u>		
Agricultural Marketing Service/Food and Nutrition Service	\$ 763	\$ 503
Animal and Plant Health Inspection Service	1	1
Foreign Agricultural Service	127	--
Natural Resources Conservation Service	<u>1,235</u>	<u>680</u>
Total Intragovernmental Deposit and Trust Liabilities (Note 17)	<u>\$ 2,126</u>	<u>\$ 1,184</u>
<u>Public:</u>		
No-Net-Cost Tobacco Program	\$ 439	\$ 633
P.L. 480 Program/Debt Reduction Financing Fund	7	188
Export Credit Guarantee Programs	8	39
Other	<u>48</u>	<u>13</u>
Total Public Deposit and Trust Liabilities	<u>\$ 502</u>	<u>\$ 873</u>

**Note 10 – Other Liabilities**

Other liabilities as of September 30, are as follows:

	(In Millions)	
	2004	2003
<u>Intragovernmental:</u>		
Excess Subsidy Payable to Treasury	\$ 451	\$ 769
Other	<u>17</u>	<u>28</u>
Total Other Intragovernmental Liabilities	<u>\$ 468</u>	<u>\$ 797</u>
<u>Public:</u>		
Payable to Producers	<u>\$ 32</u>	<u>\$ 2</u>

These liabilities are considered current.

**Note 11 – Environmental and Disposal Liabilities**

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. CCC recorded an estimate of the total liability for investigation and remediation of affected sites of \$15 million and \$13 million at September 30, 2004 and 2003, respectively, based on actual cleanup costs at similar sites. This liability is not covered by budgetary resources.

**Note 12 - Accrued Liabilities**

Accrued liabilities as of September 30, are as follows:

	(In Millions)	
	2004	2003
<u>Liabilities Covered by Budgetary Resources:</u>		
Income Support Programs	\$ 3,098	\$ 2,980
Export Programs	89	154
Cotton User Marketing Certificates	36	45
Other Programs	<u>2</u>	<u>3</u>
Subtotal	<u>\$ 3,225</u>	<u>\$ 3,182</u>
<u>Liabilities Not Covered by Budgetary Resources:</u>		
Conservation Reserve Program (Note 13)	\$ 1,663	\$ 1,634
Bioenergy Program	<u>35</u>	<u>36</u>
Subtotal	<u>1,698</u>	<u>1,670</u>
Total Accrued Liabilities	<u>\$ 4,923</u>	<u>\$ 4,852</u>

Liabilities covered by budgetary resources for income support programs include accruals for direct payments, counter-cyclical payments, and

Loan Deficiency Program payments among others.

These liabilities are considered current.

**Note 13 – Commitments and Contingencies**

Sales and other disposition commitments are not reflected in the accounts, but are considered in establishing the allowance for loss on commodity inventories.

**Wetland Reserve Program (WRP)**

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 years ended September 30, 2004 and 2003, were \$26 million and \$48 million, respectively. At September 30, 2004 and 2003, CCC's undelivered orders on current contracts were \$76 million and \$103 million, respectively.

**Note 13 – Commitments and Contingencies, continued****Dairy Export Incentive Program (DEIP)**

The DEIP 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 for the fiscal years ended September 30, 2004 and 2003, were \$15 million and \$52 million, respectively. At September 30, 2004 and 2003, CCC's undelivered orders on current contracts were zero and \$14 million, respectively.

**Market Access Program (MAP)**

The MAP 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 for the fiscal years ended September 30, 2004 and 2003, were \$116 million and \$103 million, respectively. At September 30, 2004 and 2003, CCC's undelivered orders on current contracts were \$187 million and \$184 million, respectively.

**Environmental Quality Incentive Program (EQIP)**

EQIP was reauthorized by the 2002 Farm Bill to provide a voluntary conservation program for farmers and ranchers that promote agricultural production and environmental quality as compatible national goals. Program expenses for the fiscal years ended September 30, 2004 and 2003, were \$64 million and \$102 million, respectively. At September 30, 2004 and 2003, CCC's undelivered orders on current contracts were \$222 million and \$305 million, respectively.

**Noninsured Crop Disaster Assistance Program (NAP)**

The 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 years ended September 30, 2004 and 2003, were \$122 million and \$240 million, respectively. It is estimated that \$324 million will be disbursed in fiscal year 2005.

**Commodity Acquisition**

Commitments to acquire commodities represent the contract value of commodities not yet delivered under CCC purchase contracts. Such commitments amounted to \$110 million and \$138 million at September 30, 2004 and 2003, respectively.

**Hazardous Waste Program**

Payments for site inspection and cleanup, as well as operations and maintenance, totaled \$4 million and \$7 million for fiscal years 2004 and 2003, respectively. At September 30, 2004, CCC estimates the range of potential loss to be between \$15 million and \$58 million.

In fiscal year 2005, 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.

**Conservation Reserve Program (CRP)**

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 2018 is \$32 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, 2004 and 2003, accrued liabilities for CRP totaled \$1,663 million and \$1,634 million, respectively.

**Note 13 – Commitments and Contingencies, *continued*****Leases**

Future minimum rental payments required under FSA operating leases for state office space, for which CCC is directly liable as of September 30, 2004 and 2003, were \$11 million and \$18 million, respectively.

Allocated rent expense, net of reimbursements, was \$62 million and \$54 million for the fiscal years ended September 30, 2004 and 2003, respectively. This allocated rent expense is recognized as part of the CCC imputed financing and imputed costs.

**Legal Disputes and Claims**

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

As of September 30, 2004, there are no legal disputes and/or claims that are likely to result in an unfavorable outcome for CCC.

**Note 14 – Disclosures Related to the Statement of Net Cost****Credit Program Subsidy**

Credit program subsidy costs for the fiscal years ended September 30, 2004 and 2003, were negative \$979 million and negative \$1,128 million, respectively, due to downward re-estimates of subsidy.

**Other Program Costs**

Other program costs for the fiscal years ended September 30, 2004 and 2003, were negative

\$989 million and negative \$527 million, respectively.

Amounts in ( ) on the face of the Statement represent the establishment of receivables or claims for program payment refunds. They also represent downward adjustments to the allowances on receivables and inventories.

COMMODITY CREDIT CORPORATION

Notes to Financial Statements  
September 30, 2004 and 2003

**Note 14 – Disclosures Related to the Statement of Net Cost, *continued***

**Earned Revenue**

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

	(In Millions)	
	2004	2003
Intragovernmental Earned Revenue:		
Commodity Inventory Sales	\$ 800	\$ 774
Interest Income	129	107
Less: Intra-Agency Eliminations	<u>(794)</u>	<u>(767)</u>
Total Intragovernmental Earned Revenue	<u>135</u>	<u>114</u>
Earned Revenue from the Public:		
Commodity Inventory Sales	777	3,209
Interest Income	705	575
Other	<u>28</u>	<u>18</u>
Total Earned Revenue from the Public	<u>1,510</u>	<u>3,802</u>
 Total Earned Revenue	 <u>\$ 1,645</u>	 <u>\$ 3,916</u>

Commodity inventory sales to the public decreased from \$3,209 million in fiscal year 2003 to \$777 million in fiscal year 2004 due to increased upland cotton market prices, which negatively affected commodity certificate exchanges in fiscal year 2004.



COMMODITY CREDIT CORPORATION

Notes to Financial Statements  
September 30, 2004 and 2003

**Note 14 - Disclosures Related to the Statement of Net Cost, *continued***

Net cost of operations as of September 30, are as follows:

2004

(In Millions)

	Commodity Operations	Income Support Programs	Conservation Programs	Foreign Programs	Other	Combined Total	Eliminations	Consolidated Total
<b>Net Program Costs:</b>								
<b>Intragovernmental Gross Costs:</b>								
Imputed Costs	\$ 40	\$ 766	\$ 175	\$ 11	\$ 7	\$ 999	\$ --	\$ 999
Reimbursable Costs	--	2	12	815	50	879	(794)	85
Borrowing Interest Expense	(1)	96	17	207	2	321	--	321
Other	4	--	--	(188)	--	(184)	--	(184)
Total Intragovernmental Gross Costs	43	864	204	845	59	2,015	(794)	1,221
Less: Intragovernmental Earned Revenue	(800)	(7)	--	(122)	--	(929)	794	(135)
Intragovernmental Net Costs	\$ (757)	\$ 857	\$ 204	\$ 723	\$ 59	\$ 1,086	\$ --	\$ 1,086
<b>Gross Costs with the Public:</b>								
Grants and Direct Payments	--	9,235	2,068	306	172	11,781	--	11,781
Credit Program Subsidy	--	9	--	(988)	--	(979)	--	(979)
Commodity Programs	2,276	--	--	--	--	2,276	--	2,276
Stewardship Land Acquisition	--	--	26	--	--	26	--	26
Other	(899)	64	(6)	(120)	(28)	(989)	--	(989)
Total Gross Cost with the Public	1,377	9,308	2,088	(802)	144	12,115	--	12,115
Less: Earned Revenue from the Public	(778)	(114)	(1)	(617)	(2)	(1,510)	--	(1,510)
Net Costs with the Public	601	9,194	2,087	(1,419)	142	10,605	--	10,605
<b>Net Cost of Operations</b>	<b>\$ (156)</b>	<b>\$ 10,051</b>	<b>\$ 2,291</b>	<b>\$ (696)</b>	<b>\$ 201</b>	<b>\$ 11,691</b>	<b>\$ --</b>	<b>\$ 11,691</b>

2003

(In Millions)

	Commodity Operations	Income Support Programs	Conservation Programs	Foreign Programs	Other	Combined Total	Eliminations	Consolidated Total
<b>Net Program Costs:</b>								
<b>Intragovernmental Gross Costs:</b>								
Imputed Costs	\$ 30	\$ 712	\$ 144	\$ 8	\$ 6	\$ 900	\$ --	\$ 900
Reimbursable Costs	--	79	38	750	47	914	(767)	147
Borrowing Interest Expense	13	135	19	179	3	349	--	349
Other	5	--	--	188	--	193	--	193
Total Intragovernmental Gross Costs	48	926	201	1,125	56	2,356	(767)	1,589
Less: Intragovernmental Earned Revenue	(774)	(8)	--	(99)	--	(881)	767	(114)
Intragovernmental Net Costs	\$ (726)	\$ 918	\$ 201	\$ 1,026	\$ 56	\$ 1,475	\$ --	\$ 1,475
<b>Gross Costs with the Public:</b>								
Grants and Direct Payments	--	16,123	1,984	695	207	19,009	--	19,009
Credit Program Subsidy	--	(7)	--	(1,121)	--	(1,128)	--	(1,128)
Commodity Programs	5,770	--	--	--	--	5,770	--	5,770
Stewardship Land Acquisition	--	--	48	--	--	48	--	48
Other	(55)	83	(7)	(554)	6	(527)	--	(527)
Total Gross Cost with the Public	5,715	16,199	2,025	(980)	213	23,172	--	23,172
Less: Earned Revenue from the Public	(3,212)	(102)	1	(491)	2	(3,802)	--	(3,802)
Net Costs with the Public	2,503	16,097	2,026	(1,471)	215	19,370	--	19,370
<b>Net Cost of Operations</b>	<b>\$ 1,777</b>	<b>\$ 17,015</b>	<b>\$ 2,227</b>	<b>\$ (445)</b>	<b>\$ 271</b>	<b>\$ 20,845</b>	<b>\$ --</b>	<b>\$ 20,845</b>

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

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

As of September 30, 2004, there are no obligations incurred under apportionment category A, while obligations incurred under apportionment category B consists of \$3,705 million direct and \$25,070 million reimbursable.

As of September 30, 2003, obligations incurred under apportionment category A were \$6 million direct, while obligations incurred under apportionment category B consisted of \$4,368 million direct and \$33,949 million reimbursable.

The majority of the amounts 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 remaining balance represents rescissions of budget authority. The amounts were \$40,979 million and \$47,952 million as of September 30, 2004, and 2003, respectively.

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, 2004, is \$21,262 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 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 non-interest bearing notes first. Once these are liquidated, repayments are then applied to interest bearing notes.

CCC has a separate permanent indefinite 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. Consistent with USDA agencies and in order to meet reporting requirements, CCC calculates and pays interest expense based on data through August 31, rather than September 30. 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

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

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 under-recorded 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 periods.

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 2004 in the fiscal year 2006 Budget of the United States Government Program and Financing Schedules (P&F Schedules). Since the P&F Schedules for 2004 are not currently available, a reconciliation to the SF-133 and Statement of Budgetary Resources for fiscal year 2004 cannot be performed. The 2006 Budget of the United States Government is expected to be published in February 2005 and will be available on OMB's website ([www.whitehouse.gov/omb](http://www.whitehouse.gov/omb)) at that time.

The SF-133 and the Statement of Budgetary Resources for fiscal year 2003 has been reconciled to the fiscal year 2003 actuals on the P&F Schedules presented in the Budget of the United States Government. A table presenting this comparison appears on the following page.

COMMODITY CREDIT CORPORATION

Notes to Financial Statements  
September 30, 2004 and 2003

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

The comparison of selected line items of the fiscal year 2003 Statement of Budgetary Resources to the actuals on the fiscal year 2003 P&F Schedules presented in the Budget of the United States Government is as follows:

(In Millions)

Line	SBR Amount	P&F Amount	Difference <sup>1/</sup>	Portion of Difference Resulting From Reporting Requirements <sup>2/</sup>
Total Budgetary Resources/Status of Resources	\$ 41,759	\$ 41,733	\$ 26	\$ 20
Total New Obligations	38,323	38,315	8	2
Offsetting Collections-Collected	15,739	15,738	1	1
Offsetting Collections-Collectable	1,558	1,554	4	4
Budgetary Resources-Net Transfers	(2,202)	(2,134)	(68) <sup>1/</sup>	0
Unobligated Balance-Net Transfers	(315)	(336)	21 <sup>1/</sup>	1
Authority to Borrow	48,585	19,468	29,117 <sup>1/3/</sup>	0
Portion Applied to Repay Debt	(45,902)	(16,872)	(29,030) <sup>4/</sup>	0
Recoveries of Prior Year Obligations	1,208	1,202	6	0
Unobligated Balance-Beginning of Year	2,657	2,645	12	12
Unobligated Balance-End of Year	3,436	3,421	15	15
Obligated Balance-Beginning of Year	4,329	4,327	2	2
Obligated Balance-End of Year	5,757	5,755	2	2
Outlays	18,390	18,391	1	1

<sup>1/</sup> The majority of the differences are the result of two items: One involves the reporting of a \$20 million transfer to the Forest Service on the P&F Schedule which was not reported on the SBR because it had previously been reported on the SBR in fiscal year 2002. The other results from \$68 million reflected as amounts yet to be transferred in fund 12X4336 to fund 72-12X4336. The amount in fund 72-12X4336 (AID) was understated by the \$68 million and has subsequently been adjusted to bring the two funds into agreement. The remainder is the result of differences in line item classifications, expired accounts, and rounding.

<sup>2/</sup> The Departmental shared appropriation amounts for CCC's portion of the Hazardous Waste fund, 12X0500, are not included in the P&F amounts presented here. This fund is reported at the Departmental level in the Budget of the United States Government and therefore, is not presented by agency. However, the SBR amounts presented here do include this fund activity. For this reason, a portion of the difference includes the activity for this fund. In addition, the SBR includes expired accounts, whereas certain lines on the P&F do not include expired accounts (per OMB, Circular A-11, Exhibit 130K). As a result, a portion of the difference includes the expired account activity reported on the SBR. Furthermore, as a result of reporting requirements, which specify that certain line items agree, rounding differences occur.

<sup>3/</sup> This difference includes \$29,030 million which represents line classification inconsistencies between the SBR and P&F, due to P&F/MAX system reporting requirements for specific activity to be reported on this line. As a result, the P&F amount does not include current year Borrowing Authority Realized and the Reductions to Borrowing Authority. The difference is offset on another P&F line (see <sup>4/</sup>).

<sup>4/</sup> The difference of \$29,030 million represents line classification inconsistencies between the SBR and P&F, due to P&F reporting requirements for specific activity to be reported on this line. The P&F amount does not include the current year Actual Repayments of Debt, due to P&F/MAX system limitations which requires that the repayments to Treasury reflected on this line include those repayments that are based solely on offsetting receipts; CCC's repayments to Treasury includes other collection activities. The difference is offset on another P&F line (see <sup>3/</sup>).

**Note 16 - Disclosures Related to the Statement of Financing**

At September 30, 2004 and 2003, CCC's Liabilities Not Covered by Budgetary Resources as disclosed in Notes 11 and 12 were \$1,713 million and \$1,683 million, respectively. These amounts are reported in the Other line within the Components Requiring or Generating Resources in Future Periods section of the Statement of Financing, and represent program liabilities that are accrued in the current fiscal year but funded in the following fiscal year.

As discussed in Note 1 under Allocation Transfers and Shared Appropriations, 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 P.L. 480 Title II transportation and other administrative costs in connection with foreign donations. The reconciling item related to this allocation transfer amounted to \$926 million in fiscal year

2004, and \$1,137 million in fiscal year 2003. It 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 \$1,335 million and \$2,587 million as of September 30, 2004 and 2003, respectively.

As discussed in Note 1 under Reclassifications, a reclassification was made to the fiscal year 2003 Statement of Financing to conform to the current year's presentation. Prior to fiscal year 2003, inventory losses had been netted against commodity inventories on the Resources That Finance the Acquisition of Assets line, since the amounts were insignificant. During fiscal years 2003 and 2004, large inventory losses were incurred due to the destruction of tobacco. On the fiscal year 2003 Statement of Financing, these losses, which amounted to \$322 million, were included on this line. According to OMB guidelines, inventory losses are to be reflected on the Revaluation of Assets or Liabilities line. Therefore, for fiscal year 2004 comparative reporting, both fiscal year 2004 and 2003 inventory losses are included on the Revaluation of Assets or Liabilities line.

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

	(In Millions)	
	2004	2003
Cost of Sales	\$ 2,158	\$ 5,339
Cost of Donations	645	730
Claims Receivables	(1,316)	330
Bad Debt Expenses/Allowances	(171)	(458)
Upward Credit Subsidy Re-estimate Accruals	(238)	357
Allocation Transfers from FSA for the Conservation Programs	172	215
Other	--	5
<b>Total</b>	<b>\$ 1,250</b>	<b>\$ 6,518</b>

**Note 17 - Disclosures Not Related to a Specific Statement****Related Party Transactions**

CCC makes disbursements for many FSA programs, which are funded through allocation transfers from FSA. During fiscal years 2004 and 2003, FSA transferred to CCC \$132 million and \$159 million, respectively. These transfers plus prior year carryovers were used to make payments by CCC in the approximate amount of \$172 million and \$216 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 certain commodities for domestic feeding programs. 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, 2004 and 2003, the related deposit and trust liabilities for AMS and FNS were \$530 million and \$503 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, 2004 and 2003, were \$297 million and \$121 million, respectively.

CCC transferred \$4 million to FAS and an additional \$2 million to FSA during each of the fiscal years 2004 and 2003, for salaries and expenses for administering the foreign Credit Reform programs.

During fiscal years 2004 and 2003, outlays under reimbursable agreements with other USDA agencies amounted to \$45 million and \$40 million, respectively. Interagency accruals, reflecting amounts due and payable on reimbursable agreements as of September 30, 2003, were \$2 million.

During the fiscal years ended September 30, 2004 and 2003, the Corporation transferred \$210 million and \$378 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 \$1 million as of September 30, 2004 and 2003, respectively. In addition, a deposit and trust liability to cover payments for avian influenza, a poultry disease, on behalf of APHIS was less than \$1 million as of September 30, 2004 and 2003, respectively.

As of September 30, 2004, there was a \$127 million deposit and trust liability to cover payments for the McGovern-Dole International Food for Education and Child Nutrition Program and the Trade Adjustment Assistance Program on behalf of FAS. Additionally, as of September 30, 2004, there was also a deposit and trust liability of \$233 million with AMS to cover payments for the Cattle Feed Program, Livestock Feed Program, Lamb Meat Adjustment Assistance Program and the Florida Hurricane Charley Citrus Disaster Program.

During fiscal year 2004, CCC made several authorized transfers to other USDA agencies. CCC transferred to FNS \$15 million for the Senior's Farmers Market Nutrition Program; \$5 million to Risk Management Agency (RMA) for the Agricultural Management Assistance Program (AMAP); and \$2 million to the Office of the Chief Economist (OCE) for the Biobased Products Program.

During fiscal year 2003, CCC transferred to AMS \$250 million for emergency surplus removal of agricultural commodities and \$1 million for the Peanut Administrative Committee activities; \$15 million to FNS for the Senior's Farmers Market Nutrition Program; \$23 million to Rural Development (RD) for the Renewable Energy Program, \$40 million for the Value-Added Agricultural Produce Market Development Grants, and \$20 million for enhancements to the Broadband Program; \$50 million to Forest Service (FS) for Fire Suppression activities and \$20 million for the Forest Land Enhancement Program; \$2 million to the Office of the Chief Economist (OCE) for the Biobased Products

**Note 17 - Disclosures Not Related to a Specific Statement, *continued***

Program; and \$100 million to FAS for the McGovern-Dole International Food for Education and Child Nutrition Program.

During fiscal years 2004 and 2003, under the 2002 Farm Bill, CCC transferred a total of \$1,659 million and \$1,289 million, respectively, to NRCS for various conservation programs and technical assistance. These programs included WRP, EQIP, Farmland Protection Program, Wildlife Habitat Incentives Program, Klamath Basin, Ground, and Surface Water Conservation Program, Grassland Reserve Program (GRP), Biomass Research and Development and the Conservation Security Program. NRCS is responsible for the administration of these programs. For EQIP and GRP, 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 program payments on behalf of NRCS for these programs and other conservation programs was \$1,235 million and \$680 million as of September 30, 2004 and 2003, respectively.

It should be noted that, although NRCS receives funding for the EQIP program for the 2003 and later years, CCC continues to receive separate funding for this program for the 2002 and earlier program years.

In addition, during fiscal year 2004, CCC expensed \$3 million against prior advances made to the FS for CRP technical assistance and paid RMA \$1 million for technical assistance relating to AMAP.

**Custodial Activity**

Custodial activities as of September 30, are as follows:

	(In Millions)	
	2004	2003
Sources of Collection:		
Repayment of Farm Credit Loans	\$ 1,672	\$ 1,744
Administrative and Other Service Fees	<u>19</u>	<u>4</u>
Total Revenue Collected	1,691	1,748
Disposition of Collection:		
Amounts Transferred to the Farm Service Agency	<u>1,675</u>	<u>1,735</u>
Amounts Yet to be Transferred	<u>16</u>	<u>13</u>
Net Custodial Activity	<u>\$ --</u>	<u>\$ --</u>

**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 program 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 of a 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 fiscal year 2002, funding responsibility for WRP returned to NRCS; however, CCC remains responsible for easements using funding prior to the signing of the 2002 Farm Bill. Listed below are acres purchased using CCC funds.

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

	<u>2004</u>	<u>2003</u>
Easement Acreage Acquired - Beginning of Fiscal Year	1,004,706	971,680
Additions	<u>2,370</u>	<u>33,026</u>
Easement Acreage Acquired - End of Fiscal Year	<u>1,007,076</u>	<u>1,004,706</u>

**REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)**

Schedule 2

Required Supplementary Information (Unaudited)

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

For the Fiscal Year Ended September 30, 2004  
(Dollars in Millions)

	12X4336	(72)12X4336	12X1336	12X2277	12X2278	12342278	1243674	Other	Total Budgetary
<b>Budgetary Resources:</b>									
Budget Authority:									
Appropriations Received	\$ -	\$ -	\$ 603	\$ 172	\$ 1,192	\$ -	\$ 22,938	\$ 36	\$ 24,941
Borrowing Authority	29,004	-	-	-	-	-	-	-	29,004
Net Transfers (+/-)	20,413	763	-	(10)	(9)	-	(22,938)	-	(1,781)
Unobligated Balance:									
Beginning of Period	-	-	384	295	449	-	-	212	1,340
Net Transfers, Actual (+/-)	-	-	-	-	(22)	-	-	20	(2)
Spending Authority from Offsetting Collections:									
Earned:									
Collected	12,535	-	-	25	276	-	-	1,095	13,931
Receivable from Federal Sources	(533)	-	-	-	(148)	-	-	12	(669)
Change in Unfilled Customer Orders:									
Advance Received	941	-	-	-	-	-	-	-	941
Subtotal	12,943	-	-	25	128	-	-	1,107	14,203
Recoveries of Prior Year Obligations	1,479	187	-	-	179	-	-	3	1,848
Permanently not Available	(39,720)	-	-	(1)	(7)	-	-	(1,128)	(40,856)
<b>Total Budgetary Resources</b>	<b>\$ 24,119</b>	<b>\$ 950</b>	<b>\$ 987</b>	<b>\$ 481</b>	<b>\$ 1,910</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 250</b>	<b>\$ 28,697</b>
<b>Status of Budgetary Resources:</b>									
Obligations Incurred:									
Direct	\$ -	\$ -	\$ 530	\$ 245	\$ 1,604	\$ -	\$ -	\$ 52	\$ 2,431
Reimbursable	24,119	950	-	-	-	-	-	1	25,070
Subtotal	24,119	950	530	245	1,604	-	-	53	27,501
Unobligated balance:									
Apportioned	-	-	457	223	68	-	-	65	813
Exempt from Apportionment	-	-	-	-	-	-	-	1	1
Unobligated Balance not Available	-	-	-	13	238	-	-	131	382
<b>Total Status of Budgetary Resources</b>	<b>\$ 24,119</b>	<b>\$ 950</b>	<b>\$ 987</b>	<b>\$ 481</b>	<b>\$ 1,910</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 250</b>	<b>\$ 28,697</b>

**Schedule 2**

**Required Supplementary Information (Unaudited), *continued***

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

**For the Fiscal Year Ended September 30, 2004  
(Dollars in Millions)**

	<u>12X4336</u>	<u>(72)12X4336</u>	<u>12X1336</u>	<u>12X2277</u>	<u>12X2278</u>	<u>12442278</u>	<u>1243674</u>	<u>Other</u>	<u>Total Budgetary</u>
<b>Relationship of Obligations to Outlays:</b>									
Obligated Balance, Net, Beginning of Period	\$ 3,490	\$ 1,105	\$ 154	\$ 75	\$ 877	\$ 72	\$ -	\$ 16	\$ 5,789
Obligated Balance, Net, End of Period:									
Accounts Receivable	(1,153)	-	-	-	(201)	-	-	(25)	(1,379)
Undelivered Orders	772	577	274	125	107	-	-	30	1,885
Accounts Payable	3,875	318	90	-	805	-	-	2	5,090
<b>Outlays:</b>									
Disbursements	23,171	973	320	194	1,739	72	-	46	26,515
Collections	(13,477)	-	-	(25)	(276)	-	-	(1,094)	(14,872)
<b>Net Outlays</b>	<u>\$ 9,694</u>	<u>\$ 973</u>	<u>\$ 320</u>	<u>\$ 169</u>	<u>\$ 1,463</u>	<u>\$ 72</u>	<u>\$ -</u>	<u>\$ (1,048)</u>	<u>\$ 11,643</u>

## Schedule 2

### Required Supplementary Information (Unaudited), *continued*

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

**For the Fiscal Year Ended September 30, 2004  
(Dollars in Millions)**

	12X4397	12X4049	12X4158	Other	Total Non-Budgetary
<b>Budgetary Resources:</b>					
Budget Authority:					
Borrowing Authority	\$ 18	\$ 551	\$ 96	\$ 27	\$ 692
Unobligated Balance:					
Beginning of Period	1,110	673	68	245	2,096
Spending Authority from Offsetting Collections:					
Earned:					
Collected	622	373	53	42	1,090
Receivable from Federal Sources	171	(20)	-	(1)	150
Subtotal	793	353	53	41	1,240
Recoveries of Prior Year Obligations	-	-	12	-	12
Permanently not Available	-	-	(113)	(10)	(123)
<b>Total Budgetary Resources</b>	<b>\$ 1,921</b>	<b>\$ 1,577</b>	<b>\$ 116</b>	<b>\$ 303</b>	<b>\$ 3,917</b>
<b>Status of Budgetary Resources:</b>					
Obligations Incurred:					
Direct	\$ 642	\$ 263	\$ 90	\$ 279	\$ 1,274
Subtotal	642	263	90	279	1,274
Unobligated Balance:					
Apportioned	1,278	1,311	16	22	2,627
Exempt from Apportionment	1	3	-	2	6
Unobligated Balance Not Available	-	-	10	-	10
<b>Total Status of Budgetary Resources</b>	<b>\$ 1,921</b>	<b>\$ 1,577</b>	<b>\$ 116</b>	<b>\$ 303</b>	<b>\$ 3,917</b>

## Schedule 2

### Required Supplementary Information (Unaudited), *continued*

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

**For the Fiscal Year Ended September 30, 2004  
(Dollars in Millions)**

	12X4337	12X4049	12X4158	Other	Total Non-Budgetary
<b>Relationship of Obligation to Outlays:</b>					
Obligated Balance, Net, Beginning of Period	\$ (100)	\$ 7	\$ 48	\$ 13	\$ (32)
Obligated Balance, Net, End of Period:					
Accounts Receivable	(273)	(43)	-	-	(316)
Unfilled Customer Orders from Federal Sources	-	-	(1)	-	(1)
Undelivered Orders	-	47	40	-	87
Accounts Payable	-	-	1	-	1
Outlays:					
Disbursements	645	285	87	294	1,311
Collections	(622)	(373)	(53)	(42)	(1,090)
Subtotal	23	(88)	34	252	221
Less: Offsetting Receipts	(432)	(103)	(12)	(54)	(601)
<b>Net Outlays</b>	<b>\$ (409)</b>	<b>\$ (191)</b>	<b>\$ 22</b>	<b>\$ 198</b>	<b>\$ (380)</b>

## Schedule 3

### Required Supplementary Information (Unaudited)

#### Intragovernmental Amounts

Intragovernmental amounts represent assets, liabilities, and non-exchange revenue between CCC and other Federal agencies. Amounts as of September 30, 2004, are as follows:

#### Intragovernmental Assets:

	(In Millions)		
<u>Agency</u>	<u>Fund Balance With Treasury</u>	<u>Accounts Receivable</u>	<u>Other</u>
Treasury Department	\$ 3,213	\$ 54	\$ --
Transportation Department	--	283	--
Other	--	63	3
Total	<u>\$ 3,213</u>	<u>\$ 400</u>	<u>\$ 3</u>

#### Intragovernmental Liabilities:

	(In Millions)				
<u>Agency</u>	<u>Accounts Payable</u>	<u>Debt to the Treasury</u>	<u>Resources Payable to Treasury</u>	<u>Deposit and Trust Liabilities</u>	<u>Other Liabilities</u>
Treasury Department	\$ --	\$ 12,468	\$ 6,029	\$ --	\$ 452
U.S. Agency for Int'l Dev.	804	--	--	--	--
Other Agriculture Agencies	7	--	--	2,126	16
Total	<u>\$ 811</u>	<u>\$ 12,468</u>	<u>\$ 6,029</u>	<u>\$ 2,126</u>	<u>\$ 468</u>

#### Intragovernmental Non-Exchange Revenue:

	(In Millions)	
<u>Agency</u>	<u>Transfers In</u>	<u>Transfers Out</u>
Treasury Department	\$ --	\$ 1,076
Farm Service Agency	25	--
Total	<u>\$ 25</u>	<u>\$ 1,076</u>
Budgetary Financing Sources:		
Treasury Department	\$ --	\$ 677
Food and Nutrition Service	--	15
Animal and Plant Health Inspection Service	--	210
Natural Resources Conservation Service	44	1,660
U.S. Agency for International Development	--	696
Other	2	8
Total	<u>\$ 46</u>	<u>\$ 3,266</u>

### Schedule 3

#### Required Supplementary Information (Unaudited), *Continued*

Intragovernmental amounts represent assets, liabilities, and non-exchange revenue between CCC and other Federal agencies. Amounts as of September 30, 2003, are as follows:

#### Intragovernmental Assets:

(In Millions)			
<u>Agency</u>	<u>Fund Balance With Treasury</u>	<u>Accounts Receivable</u>	<u>Other</u>
Treasury Department	\$ 2,597	\$ 12	\$ --
Transportation Department	--	425	--
Other	--	29	6
<b>Total</b>	<b><u>\$ 2,597</u></b>	<b><u>\$ 466</u></b>	<b><u>\$ 6</u></b>

#### Intragovernmental Liabilities:

(In Millions)					
<u>Agency</u>	<u>Accounts Payable</u>	<u>Debt to the Treasury</u>	<u>Resources Payable to Treasury</u>	<u>Deposit and Trust Liabilities</u>	<u>Other Liabilities</u>
Treasury Department	\$ --	\$ 21,836	\$ 6,482	\$ --	\$ 769
U.S. Agency for Int'l Dev.	1,202	--	--	--	--
Other Agriculture Agencies	--	--	--	1,184	28
Other	3	--	--	--	--
<b>Total</b>	<b><u>\$ 1,205</u></b>	<b><u>\$ 21,836</u></b>	<b><u>\$ 6,482</u></b>	<b><u>\$ 1,184</u></b>	<b><u>\$ 797</u></b>

#### Intragovernmental Non-Exchange Revenue:

(In Millions)		
<u>Agency</u>	<u>Transfers In</u>	<u>Transfers Out</u>
Treasury Department	\$ --	\$ 2,012
Farm Service Agency	13	--
<b>Total</b>	<b><u>\$ 13</u></b>	<b><u>\$ 2,012</u></b>
<b>Budgetary Financing Sources:</b>		
Treasury Department	\$ --	\$ 959
Agricultural Marketing Service	--	251
Animal and Plant Health Inspection Service	--	378
Natural Resources Conservation Service	34	1,289
Foreign Agricultural Service	--	100
U.S. Agency for International Development	--	1,195
Other Agriculture Agencies	--	150
<b>Total</b>	<b><u>\$ 34</u></b>	<b><u>\$ 4,322</u></b>



**OTHER ACCOMPANYING INFORMATION (UNAUDITED)**

Schedule 4

Other Accompanying Information (Unaudited)

Commodity Credit Corporation  
Change in Inventory, by Commodity

For Fiscal Year 2004  
(In Thousands)

	Unit of Measure	Beginning Inventory October 1, 2003		Acquisitions		Cost of Sales a/		Donations		Other Dispositions b/		Deductions, Net c/		Ending Inventory September 30, 2004	
		Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value
Feed Grains:															
Barley	Bushels	0	\$ (0)	429	\$ 821	(412)	\$ (790)	0	\$ 0	0	\$ 0	0	\$ 0	17	\$ 31
Corn	Bushels	15,675	28,654	18,848	52,122	(22,498)	(58,290)	(233)	(790)	(1)	(5)	(12)	(31)	11,780	21,660
Corn Meal	Pounds	7,564	910	387,551	43,703	(394,456)	(44,518)	82	8	(742)	(103)	0	0	(2)	(0)
Oats	Bushels	0	0	334	433	(294)	(381)	0	0	0	0	0	0	40	52
Sorghum	Bushels	54	109	10,593	34,040	(10,621)	(34,098)	0	0	(0)	(1)	0	0	26	50
Sorghum Grits	Pounds	0	0	8,680	1,205	(8,638)	(1,200)	0	0	(42)	(6)	0	0	(0)	(1)
Total Feed Grains		xxx	29,673	xxx	132,324	xxx	(139,277)	xxx	(781)	xxx	(115)	xxx	(31)	xxx	21,792
Wheat	Bushels	80,755	290,022	56,173	240,170	(51,362)	(220,399)	(4,192)	(16,346)	(4)	(33)	(376)	(2,332)	80,993	291,082
Wheat Flour	Pounds	10,990	1,257	323,136	38,222	(295,964)	(35,107)	(37,952)	(5,927)	(210)	(152)	0	1,707	0	(0)
Wheat Products, Other	Pounds	4,502	451	390,198	41,128	(388,359)	(40,919)	(1,935)	(215)	(821)	(90)	0	0	3,585	355
Rice Products:															
Rice Products	Cwt.	251	2,902	3,076	47,637	(2,633)	(37,665)	(440)	(9,936)	(3)	(32)	0	0	251	2,903
Rice, Rough	Cwt.	18	114	48,207	316,671	(48,202)	(316,842)	0	16	0	0	0	(16)	23	143
Rice, Brown	Pounds	0	0	13,103	2,272	(13,103)	(2,272)	0	0	0	0	0	0	0	0
Cotton, Extra Long Staple	Bales	1	364	2	735	(1)	(427)	0	0	0	0	0	0	2	672
Cotton, Upland	Bales	97	26,712	2,220	572,392	(2,317)	(599,097)	0	0	0	0	0	0	0	7
Dairy Products:															
Nonfat Dry Milk	Pounds	1,440,189	1,294,475	358,717	287,800	(380,744)	(343,658)	(435,555)	(388,087)	(30,607)	(32,064)	(290,852)	(223,851)	661,148	594,615
Butter	Pounds	10,482	11,038	(42)	(44)	(10,302)	(10,743)	0	0	1	(87)	0	0	139	164
Cheese Mozzarella	Pounds	0	0	19,386	9,177	0	0	(19,386)	(9,177)	0	0	0	0	0	(0)
Cheese Regular Price Support	Pounds	18,421	19,694	25,020	28,755	(2,909)	(3,756)	(28,777)	(30,060)	(3,450)	(4,890)	0	1,022	8,305	10,765
Total Dairy Products		xxx	1,325,207	xxx	325,688	xxx	(358,157)	xxx	(427,324)	xxx	(37,042)	xxx	(222,829)	xxx	605,543
Oils & Oilseeds:															
Flaxseed	Cwt.	(0)	0	0	1	(0)	(1)	0	0	0	0	0	0	(0)	0
Sunflower Seed	Cwt.	0	(0)	10	72	(10)	(72)	0	0	0	0	0	0	0	(0)
Sunflower Seed Oil, Processed	Pounds	0	0	22,465	10,337	0	0	(22,465)	(10,337)	0	0	0	0	0	0
Canola Seed	Cwt.	0	0	1	10	(1)	(10)	0	0	0	0	0	0	0	(0)
Crambe Oilseed	Cwt.	0	0	1	7	(1)	(7)	0	0	0	0	0	0	0	0
Sunflower Seed Non-Oil	Cwt.	0	0	3	33	(3)	(33)	0	0	0	0	0	0	0	0
Peanuts	Pounds	1,533	280	4,551	791	(6,289)	(1,071)	0	0	205	0	0	0	(0)	(0)
Soybeans	Bushels	702	3,606	891	6,234	(1,143)	(5,832)	(404)	(3,737)	(0)	(3)	(44)	(256)	2	12
Soybean Products	Pounds	0	0	135,877	14,167	0	0	(135,877)	(14,167)	(0)	(0)	0	0	(0)	(0)
Total Oils and Oilseeds		xxx	3,886	xxx	31,652	xxx	(7,025)	xxx	(28,241)	xxx	(3)	xxx	(256)	xxx	12

Schedule 4

Other Accompanying Information (Unaudited), Continued

Commodity Credit Corporation  
Change in Inventory, by Commodity

For Fiscal Year 2004  
(In Thousands)

	Unit of Measure	Beginning Inventory October 1, 2003		Acquisitions		Cost of Sales a/		Donations		Other Dispositions b/		Deductions, Net c/		Ending Inventory September 30, 2004	
		Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value
Dry Edible Beans	Cwt.	254	\$ 6,105	1,653	\$ 35,356	(1,634)	\$ (34,572)	(42)	\$ (973)	(4)	\$ (117)	0	\$ 0	227	\$ 5,799
Blended Foods	Pounds	63,059	8,360	453,898	69,965	(479,374)	(73,463)	(2,168)	(332)	(608)	(81)	0	0	34,807	4,449
Dry Whole Peas	Pounds	5,394	862	174,817	25,231	(168,852)	(24,700)	1,061	178	(172)	(27)	0	0	12,048	1,544
Lentils Dry	Pounds	14,910	2,471	87,027	22,090	(88,268)	(22,436)	1,834	409	(246)	(56)	0	0	15,257	2,478
Plants & Seeds	Pounds	0	0	2,205	333	(2,205)	(333)	0	0	0	0	0	0	(0)	0
Potatoes Dehydrated	Pounds	0	0	441	165	0	0	(441)	(165)	(0)	0	0	0	(0)	(0)
Sugar, Refined Beet	Pounds	0	0	32,000	7,616	0	0	0	0	0	0	0	0	32,000	7,616
Soybean Salad Oil	Pounds	0	0	117,579	33,221	(117,578)	(33,220)	0	0	(1)	(1)	0	0	0	(0)
Vegetable Oil	Pounds	17,891	7,718	332,914	157,663	(302,651)	(146,380)	(40,019)	(15,437)	(607)	(251)	0	0	7,528	3,313
Pudding	Pounds	0	0	96,143	138,425	0	0	(96,143)	(138,425)	0	0	0	0	(0)	(0)
Raisins	Pounds	0	0	441	184	0	0	(441)	(184)	0	0	0	0	(0)	0
Tobacco:															
Burley	Pounds	73,988	238,050	0	0	0	0	0	0	(73,988)	(238,050)	0	0	0	0
Flue Cured	Pounds	22,632	40,001	0	0	(1,862)	(3,291)	0	0	(18,805)	(34,215)	0	0	1,965	2,495
Total Tobacco		xxx	278,051	xxx	0	xxx	(3,291)	xxx	0	xxx	(272,265)	xxx	0	xxx	2,495
Feed For Govt Facilities	Cwt.	0	0	6	83	(6)	(83)	0	0	0	0	0	0	(0)	0
Tallow	Pounds	0	0	56,214	12,784	(51,805)	(11,904)	(4,409)	(880)	0	0	0	0	(0)	(0)
Subtotal		xxx	0	xxx	12,866	xxx	(11,986)	xxx	(880)	xxx	0	xxx	0	xxx	(0)
Subtotal		xxx	1,984,156	xxx	2,252,204	xxx	(2,107,566)	xxx	(644,567)	xxx	(310,266)	xxx	(223,757)	xxx	950,203
Eliminations of Sales to P.L. 480		0	0	xxx	(793,559)	xxx	793,559	0	0	0	0	0	0	0	0
Total Inventory Operations		xxx	\$ 1,984,156	xxx	\$ 1,458,645	xxx	\$ (1,314,007)	xxx	\$ (644,567)	xxx	\$ (310,266)	xxx	\$ (223,757)	xxx	\$ 950,203

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 losses incurred for conversion, incurred casualties and transit, and shrinkage and spoilage of commodities.

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

Schedule 4

Other Accompanying Information (Unaudited)

Commodity Credit Corporation  
Change in Inventory, by Commodity

For Fiscal Year 2003  
(In Thousands)

	Unit of Measure	Beginning Inventory October 1, 2002		Acquisitions		Cost of Sales a/		Donations		Other Dispositions b/		Deductions, Net c/		Ending Inventory September 30, 2003	
		Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value
Feed Grains:															
Barley	Bushels	11	\$ 20	56	\$ 81	(41)	\$ (59)	(23)	\$ (38)	0	\$ 0	(3)	\$ (5)	0	\$ 0
Corn	Bushels	18,125	33,099	20,158	57,295	(11,494)	(31,338)	(10,840)	(31,651)	(0)	(2)	(275)	1,252	15,675	28,654
Corn Meal	Pounds	2,325	575	335,507	36,274	(316,966)	(34,623)	(12,979)	(1,272)	(324)	(44)	0	0	7,564	910
Oats	Bushels	0	0	7	8	(7)	(8)	0	0	0	0	0	0	(0)	0
Sorghum	Bushels	620	1,174	6,179	20,577	(6,155)	(19,432)	(589)	(2,417)	0	(3)	0	210	54	109
Sorghum Grits	Pounds	0	0	14,555	1,892	(14,644)	(1,891)	0	0	(10)	(1)	0	0	0	0
Total Feed Grains		xxx	34,867	xxx	116,128	xxx	(87,351)	xxx	(35,377)	xxx	(51)	xxx	1,457	xxx	29,673
Wheat	Bushels	101,921	364,156	84,098	391,907	(65,201)	(280,440)	(38,676)	(192,900)	(0)	(3)	(1,387)	7,303	80,755	290,022
Wheat Flour	Pounds	43,700	5,529	643,137	74,622	(458,539)	(56,666)	(216,374)	(26,384)	(934)	(130)	0	4,286	10,990	1,257
Wheat Products, Other	Pounds	3,499	357	375,332	41,539	(318,014)	(34,280)	(56,068)	(7,136)	(248)	(29)	0	0	4,502	451
Rice Products:															
Rice Products	Cwt.	215	2,545	4,961	48,394	(2,784)	(27,426)	(2,138)	(20,572)	(3)	(38)	0	0	251	2,902
Rice, Rough	Cwt.	782	5,341	100,354	662,759	(100,905)	(666,410)	(212)	(1,619)	0	0	0	44	18	114
Cotton, Extra Long Staple	Bales	33	14,052	189	79,433	(221)	(93,121)	0	0	0	0	0	0	1	364
Cotton, Upland	Bales	108	29,477	13,191	3,257,505	(13,201)	(3,260,225)	0	0	(0)	(46)	0	0	97	26,712
Dairy Products:															
Nonfat Dry Milk	Pounds	1,332,037	1,279,093	634,359	511,655	(269,393)	(256,841)	(253,170)	(261,354)	(5,962)	(7,610)	2,319	29,532	1,440,189	1,294,475
Butter	Pounds	0	0	11,337	11,950	(845)	(889)	0	0	(10)	(22)	0	0	10,482	11,038
Cheese Mozzarella	Pounds	0	0	13,664	3,826	0	0	(13,664)	(3,826)	0	0	0	0	0	(0)
Cheese Regular Price Support	Pounds	3,930	4,555	59,873	67,464	(5,081)	(6,650)	(39,830)	(45,035)	(470)	(639)	0	0	18,421	19,694
Total Dairy Products		xxx	1,283,648	xxx	594,894	xxx	(264,381)	xxx	(310,215)	xxx	(8,270)	xxx	29,532	xxx	1,325,207
Oils & Oilseeds:															
Flaxseed	Cwt.	0	3	(0)	(1)	(0)	(2)	0	0	0	0	0	0	0	0
Sunflower Seed	Cwt.	0	0	4	40	(4)	(40)	0	0	0	0	0	0	0	0
Sunflower Seed Oil, Processed	Pounds	0	0	6,611	1,978	0	0	(6,611)	(1,978)	0	0	0	0	0	0
Canola Seed	Cwt.	0	0	8	74	(8)	(74)	0	0	0	0	0	0	0	(0)
Crambe Oilseed	Cwt.	0	0	1	10	(1)	(10)	0	0	0	0	0	0	1,533	280
Peanuts	Pounds	21	1	36,665	6,835	(35,154)	(6,557)	0	0	0	0	0	0	702	3,606
Soybeans	Bushels	2,667	14,105	3,976	23,069	(3,438)	(18,496)	(2,428)	(14,776)	2	0	(76)	(297)	0	(0)
Soybean Products	Pounds	0	0	284,570	27,468	(20,600)	(1,847)	(263,847)	(25,150)	(123)	(470)	0	0	0	(0)
Total Oils and Oilseeds		xxx	14,109	xxx	59,472	xxx	(27,025)	xxx	(41,904)	xxx	(470)	xxx	(297)	xxx	3,886

Continued on Next Page

Schedule 4

Other Accompanying Information (Unaudited), Continued

Commodity Credit Corporation  
Change in Inventory, by Commodity

For Fiscal Year 2003  
(in Thousands)

	Unit of Measure	Beginning Inventory October 1, 2002		Acquisitions		Cost of Sales a/		Donations		Other Dispositions b/		Deductions, Net c/		Ending Inventory September 30, 2003	
		Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value
Dry Edible Beans	Cwt.	486	\$ 13,955	1,860	\$ 44,253	(1,428)	\$ (34,054)	(665)	\$ (17,990)	1	\$ (58)	0	\$ 0	254	\$ 6,105
Blended Foods	Pounds	55,105	7,604	497,310	66,291	(479,502)	(64,670)	(31,048)	(6,829)	(657)	(90)	21,851	6,053	63,059	8,360
Honey	Pounds	0	0	(24)	(15)	24	15	0	0	0	0	0	0	(0)	(0)
Dry Whole Peas	Pounds	2,543	236	127,952	20,846	(126,046)	(20,203)	864	(4)	82	(12)	0	0	5,394	862
Lentils Dry	Pounds	21,669	3,395	112,606	25,287	(119,297)	(26,182)	3	(7)	(70)	(23)	0	0	14,910	2,471
Corn Seed	Pounds	0	0	0	0	0	0	(64)	0	64	0	0	0	0	0
Plants & Seeds	Pounds	0	0	0	0	0	0	(130)	38	130	(38)	0	0	0	(0)
Potatoes Dehydrated	Pounds	0	0	2,601	1,484	0	0	(2,601)	(1,484)	(0)	(0)	0	0	(0)	0
Sugar, Raw Cane	Pounds	357,998	63,903	0	0	(306,478)	(54,706)	0	0	0	0	(51,520)	(9,196)	0	0
Sugar, Refined Beet	Pounds	154,907	37,256	0	93	(154,907)	(37,350)	0	0	0	0	0	0	0	0
Sugar, Refined Cane	Pounds	1,267	255	0	0	(306)	(62)	0	0	0	0	(962)	(194)	0	0
Corn Oil	Pounds	0	0	44	22	0	0	(44)	(22)	0	0	0	0	0	0
Soybean Salad Oil	Pounds	0	0	214,571	48,827	(98,178)	(23,209)	(116,495)	(25,618)	102	0	0	0	0	(0)
Vegetable Oil	Pounds	20,466	6,645	585,002	232,994	(468,254)	(189,925)	(119,278)	(41,923)	(46)	(73)	0	0	17,891	7,718
Veg Dehyd Vegetable Soup	Pounds	0	0	176	153	0	0	(176)	(153)	(0)	(0)	0	0	0	0
Fish, Canned Salmon	Pounds	0	0	287	226	0	0	(287)	(226)	0	0	0	0	0	0
Tobacco:															
Burley	Pounds	149,434	479,259	0	(0)	0	0	0	0	(75,447)	(241,209)	0	0	73,988	238,050
Cigar	Pounds	183	291	0	0	0	0	0	0	(183)	(291)	0	0	0	0
Flue Cured	Pounds	75,333	119,672	0	0	0	0	0	0	(52,701)	(79,671)	0	0	22,632	40,001
Virginia Fire Cured	Pounds	0	0	404	950	0	0	0	0	(404)	(950)	0	0	0	0
Total Tobacco		xxx	599,222	xxx	950	xxx	0	xxx	0	xxx	(322,121)	xxx	0	xxx	278,051
Feed For Govt Facilities	Cwt.	0	0	6	80	(6)	(60)	0	0	0	0	0	0	(0)	0
Subtotal		xxx	2,486,553	xxx	5,788,125	xxx	(5,247,731)	xxx	(730,325)	xxx	(331,454)	xxx	38,988	xxx	1,984,156
Elimination of Sales to P.L. 480		0	0	xxx	(766,609)	xxx	766,609	0	0	0	0	0	0	0	0
Total Inventory Operations		xxx	\$ 2,486,553	xxx	\$ 5,001,516	xxx	\$(4,481,122)	xxx	\$( 730,325)	xxx	\$( 331,454)	xxx	\$ 38,988	xxx	\$ 1,984,156

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 losses incurred for conversion, incurred casualties and transit, and shrinkage and spoilage of commodities.

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