U. S. Department of Agriculture
Office of Inspector General
Audit Report

U.S. Department of Agriculture Consolidated Financial Statements for Fiscal Year 1997

Audit Report No.
50401-24-FM
July 1998

UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington D.C. 20250

DATE: July 16, 1998

REPLY TO
ATTN OF: 50401-24-FM

SUBJECT: U.S. Department of Agriculture Consolidated Financial Statements for Fiscal Year 1997

TO: Sally Thompson
Chief Financial Officer
Office of the Chief Financial Officer

This report presents the results of our audit of the U.S. Department of Agriculture's (USDA) financial statements for the fiscal year ended September 30, 1997. The report contains our disclaimer of opinion on the fiscal year 1997 financial statements and the results of our assessment of the Department's internal control structure and compliance with laws and regulations.

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

We appreciate the courtesies and cooperation extended to us during the audit.

ROGER C. VIADERO
Inspector General

EXECUTIVE SUMMARY

U.S. DEPARTMENT OF AGRICULTURE CONSOLIDATED FINANCIAL STATEMENTS FOR FISCAL YEAR 1997

PURPOSE

Our audit objectives were to determine whether (1) the financial statements present fairly the financial position, results of operations, and changes in equity in accordance with applicable accounting standards, (2) the internal control structure was adequate to provide reasonable assurance that the Department's internal control objectives were achieved, (3) the Department complied with laws and regulations for those transactions and events that could have a material effect on the financial statements, and (4) the information in the Overview of the Reporting Entity and Supplemental Financial Information sections was materially consistent with the information in the financial statements.

We conducted our audit at the financial offices of various USDA agencies and the Office of the Chief Financial Officer (OCFO) located in Washington, D.C., and its National Finance Center (NFC) located in New Orleans, Louisiana. We also reviewed the policies and procedures followed by the OCFO in its consolidation of the financial statements for the agencies, corporations and mission area listed in exhibit A.

RESULTS IN BRIEF

We are unable to express, and do not express, an opinion on the Department's financial statements for the year ended September 30, 1997. This disclaimer of opinion was substantially impacted by the adverse opinion and the numerous material internal control weaknesses at OCFO/NFC reported in Audit Report No. 11401-3-FM, "Fiscal Year 1997 National Finance Center Review of Internal Control Structure," dated March 1998.

The Department has many serious financial management system problems that impact the Department's ability to provide accurate and reliable reporting on its financial operations. Among the most serious impacts are:

- For the last 6 years, the Department has reported to the President that it is unable to provide reasonable assurance that the Department's financial systems provide information that is relevant, timely, and consistently reported. This difficulty will continue for the foreseeable future.

- Cost data necessary to effectively manage programs may not be reliable.

- The benefits of Government Performance Results Act (GPRA), to measure performance with valid and verifiable data, will be hampered because of the absence of timely and audited data.

- Agency officials cannot be sure that CAS records accurately show the fund balance with the Treasury (cash).

Because the Department's financial information system cannot provide accurate and timely accounting and financial reporting, it is impossible to know how well or poorly an agency has performed. When the underlying information providing the basis for decisions is called into question or when fundamental information is lacking, departmental officials and Congress' ability to make informed, "fact based" decisions is substantially hindered. Our disclaimer of opinion for the last 4 years means that the department, as a whole, does not know whether it correctly reported the monies collected in total, how much money is collected, the cost of its operations, or any other meaningful measure of financial performance. In essence, poor accounting and financial reporting, obscures facts.

In our Report on Internal Control Structure, we identified numerous material internal control weaknesses that have impacted the Department, in some instances, for the last 6 years. While plans have been made to fix these problems, and some actions have been taken to address some of these issues, more must be done. The Department's fiscal year 1997 Federal Managers' Financial Integrity Act (FMFIA) report to the President stated that, except for 37 material internal control weaknesses, it could provide reasonable assurance on its internal control structure. The report further stated that it could not provide assurance that its financial management system conformed with applicable standards and requirements.

Our Report on Compliance with Laws and Regulations noted three instances of material noncompliance with the CFO Act, the Federal Financial Management Improvement Act (FFMIA), and the Antideficiency Act.

KEY RECOMMENDATIONS

We believe the Department must take aggressive and immediate actions to fix these problems. The CFO must assure:

- Old legacy accounting systems are consolidated and new systems implemented/developed that are compliant with existing requirements.

- Subcabinet mission area officials must assume responsibility and control for financial management on their mission area and provide necessary leadership to resolve the problems noted in this report.

AGENCY COMMENTS

The OCFO generally agreed with the findings and recommendations.

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(Prepared by USDA)

UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington D.C. 20250

REPORT OF THE OFFICE OF INSPECTOR GENERAL

TO: Sally Thompson
Chief Financial Officer
Office of the Chief Financial Officer

We attempted to audit the accompanying Statement of Financial Position of the U.S. Department of Agriculture (USDA) as of September 30, 1997, and the related Statement of Operations and Changes in Net Position for the fiscal year then ended. These financial statements are the responsibility of the Department's management.

We concluded that, overall, the Department could not provide sufficient, competent evidential matter to support numerous material line items on its financial statements. For example:

- We were unable to substantiate the "Fund Balances with U.S. Treasury and Cash," totaling over $37 billion, because reconciliation procedures of the Office of the Chief Financial Officer's National Finance Center (OCFO/NFC), Forest Service and the Food and Nutrition Service were not sufficient. For example, the OCFO/NFC routinely "adjusts" its cash receipts and disbursement records to agree with Treasury records. This methodology would be similar to an individual assuming their bank records were always accurate and "adjusting" their checkbook to equal what the bank had recorded. For fiscal year 1997, OCFO/NFC adjusted this amount by a net of over $847 million to agree with Treasury records without adequately researching and reconciling the differences.

- We were unable to obtain sufficient, competent, evidential matter to support whether "Accounts Receivable," totaling over $2.5 billion, and the related "Revenue From Sales of Goods and Services," totaling over $1.1 billion, and "Accounts Payable" totaling over $2.9 billion, line-items were reasonably stated. For example, we were unable to substantiate Forest Service's accounts receivable because a data file containing $166.3 million in adjustments to the accounts receivable universe had been overwritten and it was not practicable for us to verify the accuracy of the adjusted balances. In addition, the Food and Nutrition Service (FNS) could not provide sufficient competent evidential matter to support its gross accounts receivable, non-Federal, for the Food Stamp Program (FSP), totaling over $942 million, and the impact this balance would have on "Unexpended Appropriations," "Appropriated Capital Used," and "Operating/Program Expenses." We also noted that the Central Accounting System (CAS) maintained by the OCFO/NFC does not provide accounts receivable and payable detail that can be reconciled to the general ledger.

- Sufficient, competent, evidential matter was also unavailable to support whether "Credit Program Receivables," totaling over $71 billion, and "Estimated Losses on Loan and Foreign Credit Guarantees," totaling over $2.6 billion, and the related affect on "Credit Reform Program Subsidy" expense and "Appropriated Capital Used," were reasonably stated.

- "Property, Plant and Equipment, Net," totaling over $9.5 billion, was unreliable, in part, because the Forest Service has not yet completed physical inventories and valuations for its real property. Additionally, the capitalization threshold to be used in reporting the value of real property was changed from $5,000 to $100,000 without obtaining sufficient evidence to justify the change or show that the increase would not materially affect the financial statements.

- We were unable to determine whether the "Total Equity of the U.S. Government," totaling over $41.4 billion was accurate. Because we issued a disclaimer of opinion on the Department's fiscal year 1996 Statement of Financial Position, we were unable to determine whether the "Net Position, Beginning

Balance, as Previously Reported," totaling over $33.4 billion, was presented fairly. In addition, the Office of Management and Budget (OMB), requires detailed disclosure of material amounts in the Notes to the Financial Statements. The Department did not disclose the detail needed to explain its non-operating changes because of the lack of information recorded in the OCFO/CAS. Non-operating changes consist of increases and decreases in the components of an agency's net worth that are not reported on the Statement of Operations, but are required to be reported on the Statement of Changes in Net Position with details disclosed in the footnotes. Note 22, "Non-Operating Changes" discloses "Other Increases" totaling over $17 billion and "Other Decreases" totaling over $22 billion. This disclosure is not informative and does not meet the disclosure requirement.

- A material part of the Department's financial information system is comprised of the OCFO/NFC's CAS. For the last 7 years, we have reported numerous material internal control weaknesses in the operation of the OCFO/NFC. The OCFO/NFC annually processes in excess of $5.6 billion in salary payments to about 100,000 USDA employees and over $7.3 billion in other payments. While the Center has developed a corrective action plan, that if properly implemented, should correct the accounting system problems, the internal control weaknesses are severe and have remained outstanding for extensive timeframes. We issued an adverse opinion on this system's control structure (see Audit Report No. 11401-3-FM, "Fiscal Year 1997 National Finance Center Review of Internal Control Structure"). Problems noted with the CAS that impact our audit opinion include:

    - OCFO/NFC had not performed certification and recertification reviews required by OMB Circular A-130, "Management of Federal Information Resources," for a large number of systems. Certifications and/or recertifications provide assurances that systems have adequate security to prevent misuse or unauthorized access to or modification of information. OCFO/NFC developed a plan in 1995 to perform the certification and/or recertification for all systems by the end of fiscal year 1997. During fiscal year 1997, 35 certifications and/or recertifications were performed. As of September 30, 1997, 33 applications had never been certified or were overdue for recertification, approximately 25 percent of all applications, including the purchase order and payroll processing systems.

- The control structure policies and procedures state that access to online systems and data is controlled to minimize unauthorized access. However, we have again reported this key internal control as a material internal control weakness. Also, we have again noted that accesses have been granted to individuals who should not have access authority. We determined that the current security configuration does not allow for a cross check of client agency personnel with access to OCFO/NFC systems to active duty personnel on the payroll/personnel database; a material internal control weakness. As a result, we are unable to provide reasonable assurance to the users of OCFO/NFC systems that individuals are prohibited from gaining access to or modifying data for which they are not authorized. We believe that the risk of willful or inadvertent manipulation of financial system data or programs is unacceptably high.

- OCFO/NFC's applications, many of which are old and poorly documented, result in internal control weaknesses and operational inefficiencies.

- Security requirements for the system are poor. For example, some systems (e.g., TINQ, the system which updates time and attendance data) were only designated with "update" capability; therefore, a person with "read only" access must also be given "update" capability.

- We have noted instances where modifications were made to application programs without adequate authorization and testing. This resulted in data being processed inaccurately and, when identified, subsequent modifications to correct the erroneous information. Poor program documentation also impairs the efficient development and testing of program changes. Because of these serious problems, we can give no assurance that existing applications and modifications to applications, are appropriately documented, tested, secured, and meet user and regulatory requirements. This control procedure impacts the processing of all of the data at the Center.

- The OCFO/NFC has identified numerous automated and manual reconciliation routines to attempt to ensure that data is accurately and timely recorded in the general ledger. We have reported since 1992, that many of the reconciliation procedures are not effective.

- We noted numerous methodologies for affecting adjustments to financial information without sufficient controls to assure that the adjustments were appropriate, authorized, documented, processed accurately, and approved by user agencies.

- As previously reported, the general ledger at the OCFO does not conform with the U.S. Government Standard General Ledger (SGL); and general ledger accounts were not always appropriately crosswalked to the financial statements as required by SGL. For example, equity balances were derived from manipulations of various general ledger asset, liability, revenue and expense accounts. The audit trail from the general ledger to supporting documentation is cumbersome, and, in some cases, nonexistent. In addition, subsidiary ledger detail does not exist for certain general ledger balances.

Since we were not able to apply alternate auditing procedures to satisfy ourselves as to the value of assets, liabilities, equity, and related revenues and expenses of the USDA, the scope of our work was insufficient to enable us to express, and we do not express, an opinion on these financial statements.

The Overview and Supplemental Information (OSI) provides explanatory analysis for the users of USDA's financial statements and it summarizes fiscal year 1997 results. The information is produced from the same financial systems as the financial statements. Because we were unable to express an opinion on the financial statements, we can provide no assurances on the OSI. In addition, any financial information relating to the Alternative Agricultural Research and Commercialization Corporation (AARCC) and the Department's Working Capital Fund (WCF) has not been audited because the entities had not provided complete, auditable financial statements to us as of the date of this report.

We have also issued a report on the Department's internal controls which includes four reportable conditions and a report on the Department's compliance with laws and regulations which includes three instances of noncompliance.

ROGER C. VIADERO
Inspector General

June 5, 1998

UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington D.C. 20250

REPORT OF THE OFFICE OF INSPECTOR GENERAL ON INTERNAL CONTROL STRUCTURE

TO: Sally Thompson
Chief Financial Officer
Office of the Chief Financial Officer

We attempted to audit the accompanying consolidated financial statements of the USDA for the fiscal year ended September 30, 1997, and have issued our report thereon dated June 5, 1998. In planning and performing our audit of the consolidated financial statements of the USDA for the fiscal year ended September 30, 1997, we considered its internal control structure for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

MANAGEMENT'S RESPONSIBILITY FOR INTERNAL CONTROL STRUCTURE

The management of USDA is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of the internal control structure policies and procedures. The objectives of an internal control structure are to provide management reasonable, but not absolute assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with the agency's prescribed basis of accounting. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and may not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In its fiscal year 1997 Federal Managers' Financial Integrity Act (FMFIA) report, the Secretary of Agriculture reported to the President of the United States that except for 37 material control weaknesses, USDA as a whole, could provide reasonable assurance that its systems of management control complied with the objectives of Section 2. However, the Department was unable to provide assurance that its financial management systems complied with Section 4 because of 11 material deficiencies which result in a system that does not conform to certain standards, principles, and other specifications to ensure that Federal managers have timely, relevant, and consistent financial information for decision-making purposes.

OIG'S EVALUATION OF USDA'S INTERNAL CONTROL STRUCTURE

For the purpose of this report, we have classified the USDA's significant internal control structure policies and procedures into the following categories:

- Administrative Costs - consists of policies and procedures associated with disbursing funds for salaries and administrative expenses.

- Treasury - consists of policies and procedures associated with disbursing and collecting cash, reconciling cash balances, and managing debt.

- Financial Reporting - consists of policies and procedures associated with processing accounting entries and preparing the USDA's annual financial statements.

- Direct Loans and Grants - consists of policies and procedures associated with authorizing and disbursing loans, accruing interest on loans, and collecting loan repayments.

- Guaranteed Loans - consists of policies and procedures associated with authorizing and disbursing payments, authorizing guarantees, and accruing interest and collecting repayments on defaulted guaranteed loans.

- Insurance Premiums and Claims - consists of policies and procedures associated with processing catastrophic risk program fees and reinsured company premiums and indemnities for these insurance policies.

- Property and Inventory - consists of policies and procedures associated with acquisition, maintenance and disposition of property and/or inventory.

- Food Stamp Redemption - consists of the policies and procedures associated with coupons being redeemed and applied against the USDA's fund balance at the Treasury.

- Performance Measures - consists of policies and procedures associated with recording and accounting for data supporting reported performance measures to permit reliable and complete performance information.

For each of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation. We assessed control risk and performed tests of USDA's internal control structure. We also obtained an understanding of relevant internal control structure policies and procedures designed to determine that data supporting reported performance measures are properly recorded and accounted for to permit preparation of reliable and complete performance information. However, our objective was not to provide an opinion on the performance measures. Accordingly, we do not express such an opinion.

In making our risk assessment, we considered the Department's FMFIA reports as well as our prior and current audit efforts and other independent auditor reports on financial matters and internal accounting control policies and procedures. We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants and Office of Management and Budget (OMB) Bulletin No. 93-06. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to have reasonable assurance that the following objectives are met:

(1) Transactions are properly recorded and accounted for to permit the preparation of reliable financial statements and to maintain accountability over assets;

(2) Funds, property, and other assets are safeguarded against loss from unauthorized use or disposition;

(3) Transactions, including those related to obligations and costs, are executed in compliance with (a) laws and regulations that could have a direct and material effect on the Principal Statements, and (b) any other laws and regulations that OMB, USDA, or we have identified as being significant for which compliance can be objectively measured and evaluated; and

(4) Data that supports reported performance measures are properly recorded and accounted for to permit the preparation of reliable and complete performance information.

Matters that we consider to be reportable conditions are presented in the "Findings and Recommendations" section of this report.

FINDINGS AND RECOMMENDATIONS

FINDING NO. 1

Improvements Needed in Financial Management System and Procedures

The Department has recognized the need to improve its financial systems to correct the serious problems disclosed by the financial statement audits of the prior 6 fiscal years as well as the Department's FMFIA process. The Department has indicated that it is committed to correcting these problems in a timely and prudent manner.

For example, the Department created the Financial Information System Vision and Strategy (FISVIS) Project Team to develop the financial systems, standards, and definitions necessary to implement a Foundation Financial Information System. This "vision" establishes the framework for eliminating or modernizing financial systems in the Department. Currently, several agencies have projects underway that focus on modernizing their financial systems.

The Department's existing financial information system is comprised of the six administrative and program accounting systems operated by various USDA agencies. This system does not always process and report departmentwide financial information timely or accurately. We noted that the system was not integrated with its subsystems and did not fully adhere to Federal Financial Management System Requirements (FFMSR). In addition, the delay in implementing the Foundation Financial Information System (FFIS) has a significant impact on the Department's financial and program operations. Without the FFIS, the Department must rely on the CAS to provide the critical information needed for decision making. However, the CAS has many significant problems. As a result, Department officials will continue to function without timely, accurate, reliable, and consistent financial information. This will hinder their ability to make informed decisions when the need for such information is a crucial factor in the management of the Department, due to downsizing.

The USDA is a large and complex organization employing more than 100,000 people with 12,000 locations worldwide. This diversity in operations requires agency managers to have timely, accurate, and consistent financial information in order to make decisions that result in effective program delivery at the lowest cost. Complete and comprehensive financial reports promote proper stewardship of Federal resources, facilitates decision making, accommodates streamlining, and improves program delivery by improving the ability of program managers to make reasoned financial decisions. Financial systems should provide complete, comprehensive, and reliable financial reports that meet the needs of program managers and satisfy legislative mandates. Good financial information enables managers to make decisions concerning resource allocation, and allocate resources to programs that are demonstrated to be effective and efficient.

The Department will continue to be unable to provide reasonable assurance to the President that the Department's financial management systems can provide timely, accurate, and consistent financial information. OMB Circular A-127, "Financial Management Systems," requires financial systems to be in place to process and record financial events effectively and efficiently and to provide complete, timely, reliable, consistent, and useful financial information for decision makers and the public.

The Department's financial management system, overall, is unable to meet many of the requirements established by OMB Circular A-127, and the Federal Financial Management Improvement Act (FFMIA) of 1996. For example, two large financial systems are unable to process transactions in accordance with the U.S. Standard General Ledger (SGL). Therefore, the Department cannot easily and accurately provide financial information to its managers, Congress, and the public. Sound accounting and financial systems are the backbone of any agency's financial management processes and operations.

Material control weaknesses have been cited in our audit reports on USDA's financial statements, since our initial audit of the fiscal year 1991 financial statements. These material control weaknesses have resulted in significant scope limitations and have been a major factor in USDA's inability to achieve an unqualified opinion on its financial statements. In addition, these control weaknesses in OCFO/NFC's CAS resulted in our issuing an adverse opinion on the internal control structure of the OCFO/NFC for fiscal year 1997.

Our disclaimer of opinion for the last 4 years means that no one knows whether the Department, as a whole, correctly reported the monies collected in total, how much money is collected, the cost of its operations, or other meaningful measures of financial performance. In essence, poor accounting and financial reporting, obscures facts. As a result, users of information reported or taken from the underlying accounting systems, as a whole, risk making errant decisions - whether for budget purposes or operationally - because they relied on questionable information in making decisions.

Financial System Weaknesses Continue

The Department's financial information system is comprised of six general ledgers which account for different agency program and administrative functions. In addition, in order to manage the USDA's seven program mission areas and 31 agencies, the Department operates 70 financial management systems that include 142 applications. Many systems were developed to address specific agency needs with little guidance, coordination, or departmental oversight. Standardization and data interchange were frequently not addressed. As a result, information is often incompatible, the financial information produced is unreliable, and not available in a timely manner. While improvements have been made and more effective processes are forthcoming, other enhancements are still needed in order to timely, accurately, and efficiently prepare the financial statements and related supporting data. Details follow:

- We have reported weaknesses in the estimation and reestimation of loan subsidy costs, and allowance for losses since the fiscal year 1992 audit of the Rural Development's financial statements (known as the Farmers Home Administration at that time). This weakness continues to exist for the Rural Development mission area (see Audit Report No. 50401-21-FM, "Audit of Rural Development's Consolidated Financial Statements for Fiscal Year 1997," dated June 1998) and the Farm Service Agency (FSA) Farm Credit Program (FCP). Generally, these agencies needed to improve their procedures for accumulating and documenting relevant, sufficient, and reliable data used to support their allowances for losses, and loan subsidy costs. This weakness was considered by us during the audit and provided the basis for our qualification on credit program receivables and estimated losses on loan guarantees.

  Other problems we noted relating to credit reform matters include:

  There are different credit reform reporting standards for the budget and financial statements. For example, the budget only requires reestimates whenever a cohort is 90 percent disbursed. Statement of Federal Financial Accounting Standards (SSFAS) No. 2, "Accounting for Direct Loans and Loan Guarantee," currently requires annual estimates. This problem impacts staffing and timeliness of the financial statement process.

Conflicting priorities of the budget and other issues have impacted the timeliness of both accomplishment of corrective actions on credit reform problems and development of credit reform entries for the financial statements.

The Department recognizes the need to improve its procedures for accumulating and documenting relevant, sufficient, and reliable data used to establish and reestimate loan subsidy costs and its loan allowances. Rural Development has established a task force, which includes OIG, to overcome this longstanding problem. We are also working with FSA officials in this area.

- We have also noted significant problems in the Commodity Credit Corporation's (CCC) financial management operations. While improvements have been made and more effective processes are forthcoming through a new accounting system scheduled for implementation in 1999, other enhancements are still needed. Our audit disclosed problems with procedures and controls for computing estimates/reestimates for foreign credits (loans), and reconciling subsidiary records and control accounts. As a result, substantial adjustments were required so that CCC's multibillion dollar financial statements would not be materially misstated.

- The Food and Nutrition Service (FNS) has not yet corrected its material internal control weakness related to food stamp recipient claims. The agency's procedures for establishing, recording, adjusting, collecting, and reporting of claims needs strengthening. Food stamp recipient claims represent the material portion of FNS' account balance for gross accounts receivable, non-Federal. This balance was based on the FNS 209, Status of Food Stamp Claims Against Households reports, prepared by State agencies. In our prior financial statement audits, we reported that the FNS 209s were unsupported, inaccurate, and incomplete. FNS did not have compensating controls or alternate procedures for providing relevant, sufficient, and reliable data on which to base a reasonable estimate of the account balance and its related allowance for bad debt. FNS' accounting records did not permit the application of alternate procedures that would enable us to satisfy ourselves as to the value of these assets. As a result, we are unable to assess the reasonableness of the $942 million included in the gross accounts receivable, non-Federal, balance for the Food Stamp Program (FSP).

We believe that FNS made significant commitments in fiscal year 1997 to address the longstanding issue with food stamp recipient claims. For example, as noted in the fiscal year 1997 FMFIA report, FNS issued comprehensive review and self-assessment guidance to regional offices and State agencies. This guidance represents the common standards that FNS will use to provide overall assurance for the management of the recipient claims process. By performing reviews that meet the common standards, FNS plans to be able to provide assurances in three areas: (1) The accuracy of information presented on the FNS 209, (2) the validity of the beginning or ending balance for the State agency, and (3) whether significant backlogs exist for recipient claim referrals. During fiscal year 1998, FNS plans to use the guidance issued in fiscal year 1997 to focus management reviews on recipient claims. Also, during fiscal year 1998, FNS plans to complete the evaluation of the accuracy of State agency balances reported on the FNS 209. If the reviews meet the common standards, the results should provide a basis for assessing the reasonableness of the amount included in the gross accounts receivable, non-Federal, balance for the FSP.

- Our audits of the Forest Service financial statements continue to disclose significant control problems with its financial information system. We noted that continuing financial management deficiencies prevented Forest Service from preparing complete, reliable, timely, and consistent financial statements and the internal controls were not sufficient to safeguard assets or to ensure that field level financial records were accurate.

  For example, our review of selected line-items disclosed that adjustments totaling over $1.9 billion were needed. We found errors in the recognition and classification of revenues which resulted in an initial $234 million understatement of timber sale revenues and $217 million overstatement of other revenues (e.g., interest and penalty revenues). In researching the cause of the errors, Forest Service identified another $129 million in needed adjustments. The errors resulted from deficiencies in accounting practices that had been followed by OCFO/NFC and the Forest Service for a number of years.

  Other problems with the Forest Service control structure were caused by its use of stand alone, disparate accounting systems that are not interfaced with the CAS. Additional problems were caused because the Forest Service uses the CAS to generate its primary system of accounts.

- We also noted that the Department has not established an adequate allowance for loss on administrative accounts receivable maintained by the OCFO/NFC. Although guidance was issued in the USDA Financial and

Accounting Standards Manual (FASM), we noted that no allowance had been established for the administrative accounts receivable as of September 30, 1997.

The Chief Financial Officers (CFO) Act of 1990 requires agencies to develop and maintain an integrated agency accounting and management system, including financial reporting and internal control which:

- Complies with applicable accounting principles, standards, and requirements, and internal control standards,

- complies with policies and requirements prescribed by OMB, and

- provides for complete, reliable, consistent, and timely information which is uniform and responsive to management's needs.

Achieving the reforms required by financial management legislation is essential because the Department needs accurate financial information and appropriate internal controls to effectively manage the Department's vast resources including over $140 billion in assets, 100,000 personnel, and a budget of about $60 billion. Until FFIS is successfully implemented, and planned enhancements to other agencies' financial management systems are completed, the Department will not have the financial information to support their decision-making process. Good financial management is more than the ability to develop accurate financial reports. It is being able to provide managers with clear visibility and control over inventories, and being able to effectively balance scarce resources with critical needs. In summary, effective financial management is essential to ensuring that the Department's resources are productively employed in meeting the Department's mission.

Reconciliation of Subsidiary Ledger Detail

There are material weaknesses in the procedures used by agencies to reconcile general ledger accounts to subsidiary ledgers and/or Treasury reports. We have reported these problems since our initial audit of the fiscal year 1991 financial statements. As a result, large, unidentified differences are carried for extended periods and the reliability of departmental reports is questionable.

- For the CAS, a few of the problems noted include:
  - Within CAS, the Budget Cost System captures detail accounting data from "feeder systems" when a financial related document/data is processed. The General Ledger System, which receives summary accounting data from "feeder systems," produces internal and external financial reports. To attempt to reconcile these two systems, the OCFO created the Standard Chart of Accounts Reconciliation System (SCARS). We first reported in our fiscal year 1992 USDA consolidated financial statement audit that systemic weaknesses and other problems significantly impacted the usefulness of the reconciliation routines produced by SCARS. While the system quantifies the differences, research to explain why the differences exist is often not performed. Because of higher priorities, actions have not been taken to address these problems. For example, for the period ending February 28, 1998, the SCARS balancing report showed out-of-balance conditions between the budget cost and general ledger systems for USDA agencies, as follows:

Net Obligations	$ 31,122,338.09
Expended Appropriations	(165,953,755.76)
Disbursements	127,645,165.48
Accounts Receivable (Reimbursements)	(2,476,644.16)
Accounts Receivable (Refunds)	(259,380.18)
Accounts Receivable (Revenues)	(127,382,390.69)
Collections	(23,818,115.27)

- We initially reported in our audit of the fiscal year 1992 USDA consolidated financial statements, that weaknesses existed in OCFO/NFC's fund balance with U.S. Treasury reconciliation procedures. During our fiscal year 1997 review, we noted that the OCFO/NFC, despite this issue being reported for 6 years, continues to adjust the Standard Form (SF)-224, Statement of Transactions, to agree with U.S. Treasury records without adequately researching the differences. As of September 30, 1997, OCFO/NFC adjusted the SF-224 to agree with Treasury records by increasing disbursements by $1,021 million and by increasing deposits by $174 million without determining the reasons for the difference. OCFO/NFC attributes these adjustments to the U.S. Treasury reporting requirements, timing differences, and constraints of the present accounting system. As a result, a critical process necessary to detect errors in cash balances and/or activity cannot be accomplished.

- Property, plant, and equipment, and related depreciation amounts in the general ledger, do not reconcile with amounts in the property subsidiary ledger. For example, as of September 30, 1997, we noted almost $2.5 billion of absolute differences which OCFO/NFC could not identify. The lack of proper reconciliation has caused significant problems in the conversion of Forest Service property, plant, and equipment, and related depreciation, into the FFIS general ledger.

- We reported in our fiscal year 1995 General Controls review that there was an approximate $3.5

million difference between the General Ledger and the "Payday Interface Centralized Accounting System (PICA) 35" hold file for miscellaneous transaction types. We noted that reconciliations were not being performed. As of January 31, 1998, we noted that the unreconciled difference between the general ledger and the PICA 35 hold file had increased to $10.5 million for miscellaneous transaction types.

- The Forest Service uses the CAS for its primary accounting system; however, it has several major accounting functions outside of the general ledger. We noted that these functions required manual intervention to ensure that transactions are included in the financial statements. For example, because reconciliations of the manually entered data were not always completed, errors in timber sales revenue, reimbursements, accounts receivable, and property may not be identified and corrected.

- For CCC, our prior and current audits noted that CCC's General Sales Manager (GSM) system, which accounts for a $5.5 billion credit (loan) guarantee program, did not provide timely and accurate data. This necessitated extensive analysis by CCC and a substantial number of large dollar adjustments to the general ledger account balances after yearend closing.

  We noted that (1) a significant amount of fiscal year activity was not included in the GSM system, and (2) evidences of exports were either not always received or entered timely and accurately into the GSM system. In addition, significant differences continued to exist between the bank/exporter records and outstanding credit amounts in the GSM system.

- For FNS, we noted that the general ledger was adjusted to agree with external reports sent to Treasury without providing evidence that these adjustments were always supported. FNS did not have procedures to fully document its fund balance reconciliation process. While the adjustments made during fiscal year 1997 did not have a material affect on the line item, FNS should ensure that the external reports are supported by its accounting system and detail documentation at the time the reports are submitted.

Noncompliance With The U.S. Government Standard General Ledger

Overall, the Department is not in compliance with implementation of the SGL at the transaction level. The CAS (which is used for financial reporting purposes by the majority of the agencies within the Department, including the Forest Service) and the CCC financial management system were implemented prior to the development of the SGL and are not SGL compliant. The OMB and the U.S. Treasury Financial Management Service's regulations require agencies to use the SGL to accumulate and report standard financial data. The SGL Chart of Accounts identifies and defines budgetary, proprietary and memorandum accounts to be used in agencies' accounting systems. Use of the SGL improves data stewardship throughout the Government enabling consistent analysis and reporting both at the agency and governmentwide levels.

In CAS, for example, we noted:

- Certain equity accounts were derived from the manipulation of liability, budgetary, revenue, expense and gain/loss accounts. For example, OMB defines that the line item "Invested Capital" should be determined from the balances in three equity SGL accounts. The CAS derived the balance of its "Invested Capital" line-item using multiple liability, budgetary, revenue, expense, gain/loss and statistical accounts. In addition, OMB defines that the line-item "Unexpended Appropriations" be determined from two equity SGL account balances. The CAS derives the respective balance using eleven budgetary accounts and one equity account. As a result, we have consistently been unable to provide reasonable assurance with respect to the Department's reported equity and question the integrity of the reported balances.

- Five equity accounts, in addition to numerous other accounts, are used to calculate the "Fund Balance with Treasury" line-item. Equity account balances should represent unexpended appropriations or cumulative results of operations (e.g., retained earnings and/or losses) and should have no impact on funds with Treasury.

- The CAS is unable to provide the necessary detail to support the nonoperating changes reported in the financial statements. Nonoperating changes consist of increases and decreases in the components of an agency's net worth that are not reported on the Statement of Operations, but are required to be reported on the Statement of Changes in Net Position with details disclosed in the footnotes.

- The CAS is not able to provide for the correction of errors or other adjustments affecting prior year operations. We noted numerous instances where entries were made to the current year's revenues and/or expenses that should have been reflected as a prior period adjustment. As a result, the Statement of Operations for the fiscal year does not represent actual activity and program and financial managers do not have accurate information on which to base their decisions.

In CCC's financial management system, we noted that the SGL was not implemented at the transaction level and that CCC uses a crosswalk to convert each account or subaccount to the applicable SGL account for consolidation into the Department's financial statements.

Controls Over Adjustments Are Weak

During our audits of CAS, we noted that there are numerous methods of making adjustments to the general ledger and related subsidiary records. For example, there are processes to enable OCFO/NFC to make adjustments to the Budget Cost System only, to the general ledger only, or to both.

The OCFO/NFC control policies and procedures do not provide assurance that adjustments to user agency accounts, financial statements, and reports are authorized and processed accurately. For example, we randomly selected 20 manual CAPS adjustments totaling approximately $276,000 from a universe of over 4,000, and 79 "LEDG82" adjustments totaling approximately $666 million from a universe of over 4,100. We concluded that many of the adjustments were not properly authorized or reviewed, not adequately documented, not appropriate for consolidated financial reporting purposes, not posted to the appropriate fiscal year, and/or not performed timely. We identified that:

- Approximately 25 adjustments contained errors resulting in incorrect general ledger balances.

- Approximately 10 adjustments were recorded to the wrong fiscal year, misstating fiscal year operations.

Overall, we placed reduced reliance on the accuracy of the general ledger because the adjustment processes can bypass controls, are not centralized, are not always approved by user agencies, and are often processed incorrectly without adequate supervisory review and approval.

Audit Trail

The audit trail from CAS general ledger and budget cost system is weak. Without an adequate audit trail, it is not possible to trace activities posted in the general ledger/budget cost system to the subsidiary detail and/or to the supporting documentation. The lack of an audit trail in USDA's WCF has significantly impacted the preparation of the fiscal year 1997 financial statements. WCF accountants have been unable to determine how and when certain entries originated. OCFO/NFC has been unable to provide supporting documentation for these entries making it impossible to determine whether the entries are valid.

Because of the complexities associated with the management code process used by the Forest Service to track and allocate costs for different appropriation and work activities, the costs are presented in the summary level within the CAS general ledger. It is not possible to trace the costs from the general ledger to source documentation.

We reported in a 1992 audit that suspense accounts included entries that had been "carried over" for several years without a determination as to the proper disposition of the transactions. We concluded that an adequate audit trail did not exist for these balances. Our current review disclosed that this condition continues to exist. For example, we identified a general ledger account that contained a "carryover" balance of $84 million that was in the suspense status for an extended period without being cleared out of suspense.

In summary, OIG and the Department have reported many material weaknesses with the financial management systems in the Department. While planning is ongoing to modernize some of these systems, we believe that a stronger CFO oversight process is needed to assure these long standing problems are resolved and on a coordinated departmentwide basis. A CFO led approach is also needed to assure that long standing credit reform problems dealing with system, resource, and budget verses financial processes, are resolved.

For those problems where corrective actions are ongoing, we are making no additional recommendations.

RECOMMENDATION NO. 1a

Reassess the FISVIS "vision" to assure that it addresses all agency financial management systems within the Department and will lead the Department to a single integrated system.

RECOMMENDATION NO. 1b

Establish a CFO led group to develop a plan to reduce and consolidate financial management systems in the Department.

RECOMMENDATION NO. 1c

Suspend all agency initiatives/renovations of financial management systems until OCFO determines the development meets the integrated financial management plan of the Department.

RECOMMENDATION NO. 1d

Develop a comprehensive plan to resolve all outstanding credit reform issues. This should include:

- Making subcabinet mission area officials responsible for the correction of credit reform problems in their agencies.
- Enabling all credit reform issues to be resolved by fiscal year 1999.
- Requiring a reporting process from subcabinet officials to enable the CFO to assess the progress in resolving credit reform problems.
- Developing departmentwide guidance to assure proper and consistent presentation of credit reform matters.

FINDING NO. 2

FMFIA Corrective Action Needs to be More Timely

The Department is mandated by U.S.C. 3512, Federal Managers' Financial Integrity Act (FMFIA), to evaluate its systems of management control and financial management for each fiscal year ending September 30. The FMFIA consists of two separate but related parts. The parts are commonly referred to as Section 2, which pertains to management controls, and Section 4, which pertains to financial systems.

In its fiscal year 1997 FMFIA report, the Secretary of Agriculture reported to the President of the United States that except for 37 material control weaknesses, USDA as a whole, could provide reasonable assurance that its systems of management control complied with the objectives of Section 2. The Department was unable to provide assurance that its financial management systems complied with Section 4 because of 11 material deficiencies which result in a system that does not conform to certain standards, principles, and other specifications to ensure that Federal managers have timely, relevant, and consistent financial information for decision-making purposes. We concurred with the Department's assessment.

Public Law 97-255 provides that the report shall include the identification of any material weaknesses in the agency's systems of internal accounting and administrative control and the plans and schedule for correcting any such weaknesses described.

OMB guidance on FMFIA reporting requirements further provided that each Section 2 material weakness and Section 4 system nonconformance should include the year the material weakness/system nonconformance was identified, the date in last year's report for completion of all corrective actions, and the date in this year's report for completion of all corrective actions.

We have ongoing concerns regarding the lack of timely corrective action on these highly significant weaknesses. Of the 31 material Section 2 weaknesses existing prior to fiscal year 1997, we noted 8 weaknesses where the estimated completion timeframes for corrective action had been extended for at least 6 and up to 9 times. Overall, 27 of the 31 weaknesses experienced extensions in the timeframes for completion (see exhibit B for details).

For example, one Section 2 material weakness regarding the Forest Service and the accuracy of financial information was first reported in 1987 with an original targeted correction date of September 1988. Since that time, there have been 9 changes in the target completion date with a current estimated completion date of fiscal year 1999.

We also analyzed each of the 11 Section 4 systems nonconformances reported in the fiscal year 1997 FMFIA Report to determine if there were any similar "slippages" in the target completion dates. Three of the Section 4 systems nonconformances were first identified prior to fiscal year 1986. Based on our analysis, we determined that all of the 11 Section 4 systems nonconformances had at least one extension or "slippage" five had six extensions and one had seven. For example, System Nonconformance, "RHS-83-01," was originally reported in the fiscal year 1993 FMFIA" report. The reported FMFIA nonconformance involves interest recapture processes for direct single family housing loan receivables which are inefficient. Targeted completed action dates have slipped 6 times with a current estimated completion date of fiscal year 1998. (See exhibit C for additional details regarding the frequent inability to meet planned timeframes for corrective actions.)

RECOMMENDATION NO. 2a

Require agency administrators to establish, with OCFO oversight, a task force consisting of each agency's top financial management to identify the obstacles that prevent corrective action for long standing Section 2 and/or Section 4 weaknesses. Develop a corrective action plan and establish realistic timeframes for achieving corrective action.

RECOMMENDATION NO. 2b

Require agency administrators to discuss this plan and its achievements, in detail, in their annual FMFIA report to the Secretary.

FINDING NO. 3

Improvements Are Needed in ADP Security and Controls

As reported in our prior financial statement reports, material internal control weaknesses exist in various computer operations of the Department. During fiscal year 1997, weaknesses continued to exist at the OCFO/NFC, and the National Information Technology Center (NITC), formerly known as the National Computer Center. In addition, our audit disclosed that improvements are needed in Rural Development's Information Technology (IT) security program. The following discusses the more serious conditions noted.

For the last 7 years, we have reported numerous material internal control weaknesses in the operation of the OCFO/NFC. The OCFO/NFC annually processes in excess of $5.6 billion in salary payments to about 100,000 USDA employees and over $7.3 billion in other payments. While the Center has taken actions that, in the future, should correct the accounting system problems and has plans in place to address most remaining problems, the internal control weaknesses are severe and have remained outstanding for substantial periods. For example:

- OCFO/NFC had not performed certification and recertification reviews required by OMB Circular A-130, "Management of Federal Information Resources," for a large number of systems. Certifications/recertifications provide assurances that systems have adequate security to prevent misuse or unauthorized access to or modification of information. OCFO/NFC developed a plan in 1995 to address these significant problems by ensuring that all applications were on the required 3-year cycle for certification and/or recertification by the end of fiscal year 1997. During fiscal year 1997, 35 certifications/recertifications were performed. As of September 30, 1997, 33 applications had never been certified or were overdue for recertification, about 25 percent of all applications, including the purchase order and payroll processing systems.

- The control structure policies and procedures state that access to online systems and data is controlled to minimize unauthorized access. However, we have again reported this key internal control as a material internal control weakness. Additionally, we have noted again that accesses had been granted to individuals who should not have that access authority. We also determined that the current security configuration does not allow for a cross check of client agency personnel with access to OCFO/NFC systems to active duty personnel on the payroll/personnel database; a material internal control weakness. As a result, we are unable to provide reasonable assurance to the users of OCFO/NFC systems that individuals are prohibited from gaining access to or modifying data for which they are not authorized to do so. We believe that the risk of willful or inadvertent manipulation of financial system data or programs is unacceptably high.

- We have noted instances where modifications were made to application programs without adequate authorization and testing. This resulted in data being processed inaccurately and, when identified, subsequent modifications to correct the erroneous information. Poor program documentation also impairs the efficient development and testing of program changes. Because of these serious problems, we can give no assurance that existing applications and modifications to applications, are appropriately documented, tested or secured, and meet user and regulatory requirements. This control procedure impacts the processing of all of the data at the Center.

We previously reported that the operating effectiveness of the NITC control structure needed strengthening.

- We reported in our examination of NITC's internal control structure Audit Report 58009-1-FM, dated February 26, 1996; and in our follow up audit, Audit Report 23009-2-FM dated August 7, 1997, that the NITC needed to implement additional controls to ensure access to operating systems and associated software was restricted to authorized personnel. Additional controls were needed over powerful batch identifiers (ID) and Customer Information Control System (CICS) regions and transactions to ensure that users are accessing and processing within approved boundaries. Because the batch ID's were not sufficiently restricted, we were able to submit batch jobs through another user's ID. Because CICS regions and transactions were not sufficiently restricted, CICS system transactions could be used for unauthorized access to agency databases. Our audit further disclosed that (1) access to agency datasets by NITC personnel was not sufficiently monitored when noncancel ID's are used, (2) additional actions are necessary to secure authorized program facility libraries, and (3) system control commands for the operating system and automated software were not sufficiently secured.

Our review of Rural Development's IT Security Program disclosed the following:

- Disaster recovery and contingency plans are not up-to-date and did not exist for all Rural Development facilities. Our audit found that (1) The St. Louis, Missouri, Finance Office disaster recovery plan had not been updated to cover the move to a new facility which was initiated in January, 1997; (2) A disaster recovery plan had not been completed for the National Office in Washington, D.C.; and

(3) Disaster recovery plans did not exist for 14 of 22 field office sites reviewed.

Rural Development's Information Security Handbook requires that contingency plans exist for all Rural Development facilities to ensure the reasonable continuity of operations. Rural Development officials agreed that the plans were not up-to-date due to "other priorities"; and indicated that they were working to obtain plans for all sites.

- We also noted that Rural Development has not implemented a "firewall system" to provide security over Internet telecommunications, leaving much of the Local Area Network/Wide Area Network (LAN/WAN) open to intrusion from unauthorized sources through the Internet. The USDA Firewall Policy, released on March 9, 1998, states that all USDA organizations shall make provisions to have Internet access points or gateways protected by firewalls and that firewalls shall not only be procured and installed but also monitored and managed on a continuous basis. In addition, we noted that Rural Development had developed an Internet policy which states that all Internet activity will pass through a firewall configured to deny all services not expressly permitted. The policy further stated that a firewall be implemented on a dedicated host which is not used for other services.

- Rural Development had not certified its financial management systems, including interface programs and feeder systems in compliance with OMB Circular A-130.

  Certifications/recertifications provide assurances that systems have adequate security to prevent misuse or unauthorized access to or modification of information. It also provides assurance that the systems operate effectively and provide appropriate confidentiality, integrity, and availability, through the use of cost-effective management, personnel, operational and technical controls.

Furthermore, OMB Circular A-130 requires that security plans be prepared for all sensitive automated applications. However, Rural Development had not completed security plans for 32 of 34 major applications, as well as other systems.

Since these matters were reported in other OIG reports, we are making no additional recommendations.

FINDING NO. 4

Control Objectives and Techniques Are Not Documented

As reported in our prior financial statement audit reports, most USDA agencies have not documented high and intermediate control objectives and techniques in an integrated framework to ensure that management's overall goals are achieved consistently and uniformly. Instead, many agencies rely upon control objectives and techniques outlined in internal instruction manuals specific to individual agency or program operations. Given the size and complexity of USDA's operations, documented controls at the high and intermediate levels would assist in providing additional assurance concerning the effectiveness and efficiency of operations, reliability of financial systems, and compliance with laws and regulations.

Internal control objectives provide a means by which an agency can evaluate the effectiveness of control techniques to prevent, detect, and correct errors within its environment, while considering the costs and benefits of controls when compared to the risk of errors. For internal controls to be successful, an organization must envision control objectives that involve senior management, middle management, and operational personnel. The internal control structure must be comprised of control objectives and techniques at 3 levels, in a risk-oriented, top-down approach: High or policy level; intermediate, tactical, guideline, or system level; and operational, procedure, or cycle level.

The GAO's "Standards For Internal Controls In The Federal Government" includes a general standard requiring internal control objectives to be identified or developed for each agency activity and to be logical, applicable, and reasonably complete. Also, a January 1988 report entitled, "Model Framework for Management Control Over Automated Information Systems," prepared jointly by the President's Council on Management Improvement In addition, it includes a standard requiring internal control techniques to be effective and efficient in accomplishing internal control objectives. and the President's Council on Integrity and Efficiency and a September 1992 report entitled, "Internal Control - Integrated Framework," prepared by the Committee of Sponsoring Organizations of the Treadway Commission discuss the importance of and the need for documented internal controls.

We have previously recommended to the Department that it issue procedures to provide guidance to the agencies on the need for and the procedures to follow in documenting the internal control structure. OCFO/NFC and NITC have developed a management controls manual to document control objectives and techniques. We are making no additional recommendations at this time.

We noted and reported on agency-specific internal control structure weaknesses during our audits of the six USDA agencies/mission areas' financial statements. These conditions are discussed in detail in the reports referenced in exhibit A.

A material weakness is a reportable condition in which the design or operation of the specific internal control structure element does not reduce to a relatively low level the risk that errors or irregularities, in amounts that would be material in relation to the financial statements being audited or material to a performance measure or aggregation of related performance measures, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are considered to be material weaknesses as defined above. We believe the reportable conditions described in Findings Nos. 1, 2, and 3 are material weaknesses.

ROGER C. VIADERO
Inspector General

June 5, 1998

UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington D.C. 20250

REPORT OF THE OFFICE OF INSPECTOR GENERAL ON COMPLIANCE WITH LAWS AND REGULATIONS

TO: Sally Thompson
Chief Financial Officer
Office of the Chief Financial Officer

We attempted to audit the consolidated financial statements of USDA for the fiscal year ended September 30, 1997, and have issued our report thereon dated June 5, 1998.

The management of USDA is responsible for compliance with laws and regulations applicable to the Department. As part of obtaining reasonable assurance about whether the consolidated financial statements are free of material misstatement, we performed tests of the Department's compliance with certain provisions of laws and regulations that may directly affect the financial statements and certain other laws and regulations designated significant by OMB or the Department. We tested compliance with:

- Antideficiency Acts of 1906 and 1950;
- Budget and Accounting Procedures Act of 1950;
- Chief Financial Officers (CFO) Act of 1990;
- Debt Collection Improvement Act of 1996;
- Fair Labor Standards Act of 1938;
- Federal Employees Compensation Act;
- Federal Credit Reform Act of 1990;
- Federal Financial Management Improvement Act (FFMIA) of 1996
- Federal Managers' Financial Integrity Act (FMFIA) of 1982;
- Government Performance and Results Act (GPRA) of 1993; and
- Prompt Payment Act of 1982.

As part of the audits of 6 USDA agency/mission area financial statements, we tested compliance with additional laws and regulations that may directly affect those statements and certain other laws and regulations designated as significant by OMB or the agency/mission area. (See exhibit A for a listing of the agencies' audits and related audit report numbers.)

Under FFMIA, we are required to report whether the department's financial management systems substantially comply with (1) the Federal Financial Management System Requirements (FFMSR), (2) applicable accounting standards, and (3) the U.S. Government Standard General Ledger (SGL) at the transaction level. To meet this requirement, we performed tests of compliance using the implementation guidance for FFMIA issued by OMB on September 9, 1997. The results of our tests disclosed instances, described in our "Findings and Recommendations" section, where the Department's financial management systems, as a whole, did not substantially comply with the three requirements.

In addition, we reviewed management's process for evaluating and reporting on internal control and accounting systems, as required by the FMFIA, and compared the agency's most recent FMFIA reports with the evaluation we conducted of the Department's internal control structure. We also reviewed and tested the Department's policies, procedures, and systems for documenting and supporting financial, statistical, and other information presented in the overview of the reporting entity and supplemental financial and management information. However, our objective was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

Material instances of noncompliance are failures to follow requirements, or violations of prohibitions, contained in law or regulations that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the financial statements, or the sensitivity of the matter would cause it to be perceived as significant by others. Material instances of noncompliance noted during our audit are presented in the "Findings and Recommendations" section of this report.

FINDINGS AND RECOMMENDATIONS

FINDING NO. 1

CFO Act Requirements

The primary purpose of the CFO Act of 1990 is to bring more effective general and financial management practices to the Federal Government. The Act also establishes the authority and functions of each agency CFO. These include, among others, that each CFO:

- oversee all financial management activities,
- develop and maintain an integrated accounting and financial management system including financial reporting and internal control standards,
- direct, manage and provide policy guidance and oversight of financial management personnel, activities and operations (including training of personnel), and
- review on a biennial basis, fees, etc., imposed by agencies.

The OCFO Act requires the CFO to direct, manage, and provide policy guidance and oversight of agency financial management personnel, activities, and operations including the recruitment, selection, and training of personnel to carry out the agency financial management functions.

To assist in meeting this requirement, the OCFO issued a Financial Management Professional Development Program Report in April 1997. Eight recommendations were made regarding: Establishing core competencies, establishing mandatory continuing professional education requirements, encouraging professional certifications, training, establishing a Financial Management Professional Development Program Manager within the OCFO, exploring the possibility of mass training initiatives, participating and presenting timely forums and symposiums, and using Individual Development Plans (IDP). While this was a good start, except for its annual Financial Management Conference and the Form and Content training, the recommendations have not been formally implemented.

Based upon the Act's requirements, we assessed the compliance of the Department's CFO to the Act in the areas listed below:

- The CFO Act requires the Department to develop and maintain an integrated agency accounting and financial management system, including internal controls, which complies with applicable accounting principles, standards, and requirements, and internal control standards. The system should provide for complete, reliable, consistent, and timely information which is prepared on a uniform basis and which is responsive to the financial information needs of management.

  The Department's financial information system is not fully integrated and relies on data from various program and administrative systems throughout the Department in order to prepare its consolidated financial statements. (See Finding No. 1 of our Report on Internal Control Structure for a detailed description of the Department's financial management deficiencies.)

- Through fiscal year 1997, the Department has not yet met the timeframes for release of the Department's financial statements, as required by the CFO Act. The following illustrates the significant delays the Department has experienced:

Fiscal Year	Date Final Statements Provided
1993	June 6, 1994
1994	June 30, 1995
1995	August 16, 1996
1996	August 1, 1997
1997	May 13, 1998

We believe the primary reason for the Department's inability to meet the legislatively mandated timeframe can be attributed to the lack of an effective, integrated financial management system. While the FASM has established a timeline that, if met, would enable the Department to release its financial statements in a timely manner, we also believe this significant problem needs additional oversight and monitoring by the CFO if the Department is to achieve this goal.

- The OCFO has not conducted required biennial reviews of the fees, rents, royalties, and other charges as imposed by USDA agencies for services and things of value they provide, and made recommendations on revising those charges to reflect costs incurred by the agencies in providing those services and things of value. The OCFO has drafted procedures and delegated these responsibilities to the agencies to complete starting in fiscal year 1999. This should ensure that those agencies required to perform the reviews will complete them within the next biennial period.

RECOMMENDATION NO. 3a

Develop policies and procedures for:

- Elevating the responsibility to provide timely agency financial statements to the Under Secretary level.

- Providing more frequent and timely feedback to the high level managers when due dates slip.

RECOMMENDATION NO. 3b

Implement the recommendations from the Financial Management Professional Development Program Report.

RECOMMENDATION NO. 3c

Conduct required reviews of fees, rents, royalties, and other charges. Assure those fees associated with lending programs are included in the biennial review.

FINDING NO. 2

Substantial Noncompliance With FFMIA

We noted that USDA's financial management systems do not comply substantially with the three requirements of FFMIA. FFMIA requires each agency to implement and maintain financial management systems that comply substantially with Federal Financial Management System Requirements (FFMSR), applicable Federal accounting standards, and the SGL at the transaction level.

The FFMIA established new requirements for auditors to report on agency compliance with certain financial management system requirements, and for agency heads and management to correct deficiencies within a specified time period.

As discussed in detail within our opinion and report on internal controls, USDA does not have a single integrated financial management system with:

- standard data classifications (definition and format) established and used for recording financial events;

- common processes used for processing similar kinds of transactions;

- internal controls over data entry, transaction processing, and reporting that is applied consistently; and

- single source data entry.

In addition, USDA is not yet able to report that it is in substantial conformance with Section 4 of the FMFIA.

The USDA financial management system does not meet OMB Circular 127 requirements which require systems to support management's fiduciary role, support the legal regulatory, and other special management requirements of the agency; support budget execution, support fiscal management of program delivery and decision making, comply with internal and external reporting requirements, including, as necessary, the requirement for financial statements prescribed by OMB and Treasury which are monitored for data integrity.

The system is comprised of 6 general ledgers which account for different program and administrative functions. The system is not yet able to record, process, summarize, and report departmentwide financial information timely and accurately.

At the agency component level, CCC's financial management system does not meet OMB Circular A-127 requirements that each agency establish and maintain a single, integrated financial management system. The system does not comply with FFMSR which prescribe the functions that must be performed by systems to capture information for financial statement preparation. CCC is in process of implementing a commercial-off-the-shelf financial information system which should assist in attaining substantial compliance.

Rural Development is in the process of implementing several modernized financial management systems, however, until implemented, weaknesses exist which preclude substantial compliance with existing standards. The Forest Service is also in substantial noncompliance, primarily for the same reasons discussed here and in the Department's opinion and internal control reports.

Overall, the OCFO/NFC CAS does not follow FFMSR which prescribe the functions that must be performed to capture information and security over financial information. Internal controls are not operating and properly designed as evidenced by our adverse opinion on the internal control structure at the OCFO/NFC and other departmental weaknesses discussed in our report on the internal control structure. In addition, as discussed in this report on compliance with laws and regulations, audit evidence in support of the opinion on the financial statements disclosed material noncompliance.

We reviewed the Department's actions to achieve Year 2000 (Y2K) compliance (see Audit Report No. 50601-1-FM,"Review of the Year 2000 Conversion Project"). USDA has also been cited by OMB as behind schedule in timely addressing the Y2K crisis. Our review, which was conducted during the period of April 1997 through December 1997, confirmed that, overall, the Department was behind schedule in ensuring that computing problems related to Y2K were fully addressed. We noted that it was critical that agencies and the Office of the Chief Information Officer (OCIO) continue to aggressively address this problem.

Recent GAO testimony, GAO/T-AIMD-98-167, "Year 2000 Computing Crisis, USDA Faces Tremendous Challenges in Ensuring That Vital Public Services Are Not Disrupted," dated May 14, 1998, notes that:

> USDA's component agencies have a great deal of work still to be accomplished in the next 19 months in making its mission-critical systems ready for the year 2000. * * * for the 10 component agencies in our review, 250 mission-critical systems were initially assessed as compliant. As of this month, 132 have been reported as repaired or replaced while work remains to be completed on 596 mission-critical systems. * * *
>
> In addition, about 42 percent of the reported 596 mission-critical systems awaiting action are to be replaced. This is cause for some concern, as replacement systems are often at a high risk because Federal agencies, and USDA in particular, have a long history of difficulty in delivering planned systems on time. Further, some USDA replacement systems are already scheduled to miss the March 1999 implementation deadline established by OMB and are at risk of not being compliant on January 1, 2000.

RECOMMENDATION NO. 4

Report noncompliance with FFMIA to OMB and provide a remediation plan that includes the resources, remedies, and intermediate target dates necessary to bring the Departments financial management systems into substantial compliance. The remediation plan should be accomplished within a 3 year period.

FINDING NO. 3

Negative Fund Balance With Treasury

The USDA-Foreign Agricultural Service (FAS) has violated the Anti-Deficiency Act by overobligating funds within an expired appropriation account. As of September 30, 1997, FAS account 12M3200 "Lapsed Appropriations fiscal year 1988 and Prior Years" contained a negative fund balance with Treasury amount of $3.4 million (as of May 1998 this balance had been reduced to about $2.7 million). This violation occurred as a result of the uncollectibility of numerous outstanding billings related to reimbursable agreements between FAS and the U.S. Agency for International Development. A review of these billings revealed numerous clerical errors, oversights and poor record keeping. Agency officials have pursued with the Office of General Counsel, permission to use unobligated balances from one fiscal year to satisfy the obligations of an account from another fiscal year. This request has been denied.

RECOMMENDATION NO. 5

Require the agency to report the overobligation of the expired appropriation account as a violation of the Anti-

Deficiency Act to the Congress, if the negative fund balance is not eliminated at the end of fiscal year 1998.

We noted and reported on agency specific instances of noncompliance during our audits of the six USDA agencies/mission areas' financial statements. Selected instances of noncompliance which may be considered material to the Department as a whole have been discussed in this report. See the reports referenced in exhibit A for details on all of the instances of noncompliance discussed in the individual agency reports.

We considered these material instances of noncompliance when attempting to opine on whether the USDA consolidated fiscal year 1997 financial statements are presented fairly, in all material respects, in conformity with the applicable accounting standards now in effect for the preparation of the Department's financial statements. Because we were unable to extend our auditing procedures to satisfy ourselves regarding the effect these material instances of noncompliance might have on the Department's financial statements, as well as other issues discussed in our report, we were unable to, and did not, express an opinion on the financial statements.

ROGER C. VIADERO
Inspector General

June 5, 1998

EXHIBIT A: RECENT USDA FINANCIAL STATEMENTS AND FINANCIAL RELATED AUDITS

AUDIT NO.	TITLE	RELEASE
50401-17-FM	Audit of USDA's Fiscal Year 1996 Consolidated Financial Statements	August 1997
06401-7-FM	Audit of Commodity Credit Corporation's Comparative Financial Statements for Fiscal Years 1997 and 1996	July 1998
50401-21-FM	Audit of Rural Development's Consolidated Financial Statements for Fiscal Year 1997	May 1998
08401-7-AT	Audit of Forest Service's Fiscal Year 1997 Financial Statements	July 1998
27401-11-HY	Audit of Food and Nutrition Service's Fiscal Year 1997 Financial Statements	May 1998
05401-3-FM	Audit of Federal Crop Insurance Corporation's Financial Statements for Fiscal Years 1997 and 1996	February 1998
11401-3-FM	Fiscal Year 1997 National Finance Center Review of Internal Control Structure	March 1998
50801-5-FM	Material Control Weaknesses Will Continue to Impact Departmental Financial Operations Because of Delayed FFIS Implementation	June 1998

EXHIBIT B: SECTION 2 - MATERIAL WEAKNESSES

Status of Date Slippages
Prior To FY 1997
Section 2 - Material Weaknesses

Fiscal Year 1997 FMFIA Report Identifier	Weakness	First Year Reported	Number of Times Corrective Action Timeframes Were Extended	FY 1997 Target Completion Date
FSA-89-01	Guaranteed Loans for Farmers	1989	6	1999
FSA-96-01	Technical direction for guaranteed loan writedowns	1996	1	1999
FAS-89-04	Negative FAS Treasury Cash Balance for Account 12M3200	1989	7	1998
RMA-96-01	Regulations for submission of alternative insurance policies	1996	1	1998
FCS-90-01	Cost Reimbursements in the Food Stamp Program	1990	7	1999
FCS-90-02	Cost Reimbursements in the Women, Infant, and Children (WIC) Program	1990	7	1999
FCS-90-04	Management of food delivery systems for the WIC Program	1990	7	1999
FCS-90-06	Illegal transactions involving the exchange of food stamps	1990	4	1999
FCS-91-01	Internal controls for mangement of recipient claims	1991	2	1998
FCS-91-02	Administration of the Food Stamp Program at State agencies	1991	6	1999
FCS-94-01	Management of Child and Adult Care Food Program	1994	2	2000
FCS-95-01	Accurate and timely information for managerial decision-making	1995	2	1999
NRCS-92-02	Accuracy of wetlands determinations	1992	4	1998
NRCS-92-03	Compliance with FSA conservation plans	1992	3	1998
NRCS-95-01	Effectiveness of the Wetlands Reserve Program	1995	1	1999
FS-87-05	Accuracy of financial information	1987	9	1998
FS-91-01	Administration of Timber Sales program (combines FS-88-04 and FS-89-01)	1988	8	1998
FS-88-04	Theft of National Forest Timber			
FS-89-01	Timber thefts despite controls			
FS-91-02	Adequacy of financial systems (combines FS-89-02 amd FS-90-01)	1989	4	1999
FS-89-02	Violations of Anti-Deficiency Act			
FS-90-01	Financial accounting subsystem lacks controls			
FS-92-01	Administration of Lands Special Use Permits	1992	4	2000
FS-92-02	Enrochments on National Forest Service lands	1992	3	2002
FS-92-05	Management of personal property	1992	2	1998
RD-94-01	Implementation of FMFIA review process	1994	2	1998
RD-96-01	Loan Subsidy Costs	1996	0	1998
RHS-92-01	Automated Data Processing modernization	1992	4	1998
RHS-96-02	Oversight of the Multi-Family Housing Program	1996	0	1998
OCFO-95-01	Application System Life Cycle requirements at the National Finance Center	1995	0	1998
OCFO-96-01	Adjustments and reconciliations of ledger accounts at the National Finance Center	1996	1	2000
OCIO-95-02	Local Area Network Security planning	1995	2	1998
OCIO-96-01	Inter operability and compatibility of network architecture	1996	1	2000
OCIO-96-02	Telecommunications and Network planning	1996	1	1999
NFAC-96-01	Service Center implementation	1996	0	1999

EXHIBIT C: SECTION 4 - SYSTEM NONCONFORMANCE

Status of Date Slippages
Prior to FY 1997
Section 4 - Systems Nonconformances

Fiscal Year 1997 FMFIA Report Identifier	Nonconformance	First Year Reported	Number of Times Corrective Action Timeframes Were Extended	FY 1997 Current Target Completion Date
FSA-93-02	Accountability and control over personal computer hardware, software, and peripherals.	1993	3	1998
FSA-94-01	Account infromation in subsidiary subsystems does not agree with applicable general ledger accounts.	1994	3	1999
FS-89-01	The subsystem that maintains and reports real property does not conform to standards.	1989	3	1999
FS-90-01	The accounts receivable collection process lacks specific manual direction.	1990	6	1999
FS-90-02	Incorrect classification of undelivered orders caused accounts payable to be overstated.	1990	6	1999
RD-94-01	Inadequate direct loan servicing and reporting subsystems exist.	1994	3	1999
RD-96-01	Controls for Type 60 Purchase Orders are not adequate.	1996	1	1998
RHS-83-01	Automated interest credit recapture processes for loan receivables are inefficient.	1983	6	1998
RHS-83-02	Inadequate guaranteed loan accounting subsystem exists.	1983	7	2001
RHS-85-01	RHS has not fully implemented the debt collection and deficit reduction provisions in OMB A-129.	1985	6	1999
OCFO-92-01	The Departmental Financial Information System is inadequate.	1992	1	1999

EXHIBIT D: ABBREVIATIONS

AARCC	-	Alternative Agricultural Research and Commercialization Corporation
AMS	-	Agriculture Marketing Service
CAS	-	Central Accounting System
CCC	-	Commodity Credit Corporation
CFO Act	-	Chief Financial Officers Act
CICS	-	Customer Information Control System
FAS	-	Foreign Agriculture Service
FASM	-	Financial and Accounting Standards Manual
FCP	-	Farm Credit Program
FFIS	-	Foundation Financial Information System
FFMIA	-	Federal Financial Management Improvement Act
FFMSR	-	Federal Financial Management System Requirements
FISVIS	-	Financial Information System Vision and Strategy
FMFIA	-	Federal Managers Financial Integrity Act
FNS	-	Food & Nutrition Service
FSA	-	Farm Service Agency
FSIS	-	Food Safety and Inspection Service
FSP	-	Food Stamp Program
GAO	-	General Accounting Office
GPRA	-	Government Performance Results Act
GSM	-	General Sales Manager
ID	-	Identifier
IDP	-	Individual Development Plans
IT	-	Information Technology
LAN/WAN	-	Local Area Network/Wide Area Network
NFC	-	National Finance Center
NITC	-	National Information Technology Center
NRCS	-	National Resources Conservation Service
OCFO	-	Office of the Chief Financial Officer
OCFO/NFC	-	Office of the Chief Financial Officers/ National Finance Center
OCIO	-	Office of the Chief Information Officer
OIG	-	Office of the Inspector General
OMB	-	Office of Management & Budget
OSI	-	Overview and Supplemental Information
PICA	-	Payday Interface Centralized Accounting System
SCARS	-	Standard Chart of Accounts Reconciliation System
SF	-	Standard Form
SGL	-	U.S. Government Standard General Ledger
USDA	-	U.S. Department of Agriculture

EXHIBIT D: ABBREVIATIONS

WCF	-	Working Capital Fund

U.S. DEPARTMENT OF AGRICULTURE

Fiscal Year 1997 Consolidated Financial Statements

May 1998

OVERVIEW OF

FISCAL YEAR 1997

OPERATIONS

AND

RESULTS

An Overview of Fiscal Year 1997 Operations and Results

INTRODUCTION TO THE U. S. DEPARTMENT OF AGRICULTURE

Scope of Financial Statements

The financial statements that follow this Overview represent all funds and programs of the U.S. Department of Agriculture (USDA) as they existed as of September 30, 1997. In consolidating the Department's accounts, appropriate entries have been made to eliminate the effects of significant intra-Departmental transactions. These financial statements have been prepared in accordance with the form and content of entity financial statements as specified by the Office of Management and Budget (OMB) and modified by USDA's accounting policies.

Purpose

USDA publishes annual financial statements to inform the general public, Congress, and other interested parties about the results of its financial operations and its assessment of results achieved against the goals it set for the year. As trustee for substantial public monies annually appropriated by Congress to further program objectives established by law and regulation, the Department has a fiduciary responsibility to inform taxpayers how well it met those objectives, how this year's performance compares to past years', and what plans the Department has to improve or maintain its operations. As a steward for significant public assets (such as the national forests), the Department must also disclose what steps it has taken or needs to take to safeguard those assets and to protect and further the public interest.

The purpose of this Overview is to help readers understand, analyze, and interpret the financial statements that follow. The Overview describes the Department's mission, its organizational structure, and its major performance goals and results for fiscal year (FY) 1997. Also included is a statement about the limitations of financial statements. Following the financial statements is the "Other Accompanying Information" section, which provides additional performance measure information about the Department's programs.

The Department

USDA was established in 1862 to conduct research and disseminate agricultural information to American farmers. It is a large civilian department of the U.S. Government overseeing a variety of agencies, government corporations, and other entities that employ over 98,000 people. Its mission is to enhance the quality of life for the American people by supporting production agriculture; ensuring a safe, affordable, nutritious, and accessible food supply; caring for agricultural, forest, and range lands; supporting sound development of rural communities; providing economic opportunities for farm and rural residents; expanding global markets for agricultural and forest products and services; and working to reduce hunger in America and throughout the world.

Alternative Agricultural Research and Commercialization Corporation

The Department commercializes industrial nonfood-nonfeed products derived from agricultural materials by making repayable equity investments in small and medium-size companies and cooperatives to bring new products into the marketplace. These investments stimulate the rural economy, create jobs, and add value to agricultural raw materials.

Farm and Foreign Agricultural Services

Farm programs stabilize, support, and protect farm income and commodity prices. The Department helps maintain adequate supplies of agricultural commodities and aids in their distribution to domestic and international users, including relief and rehabilitation agencies. The Department helps preserve the family farm by providing temporary financial and technical support to small farms and ranches until they can qualify for private-sector resources. Other Departmental programs provide crop insurance to American farmers and assistance to farmers during natural disasters.

The Department strives to expand foreign markets for U.S. agriculture, fish, and timber products through international trade negotiations and forums on food and agriculture. By making export credit guarantees, the Department helps to assure the availability of credit to finance commercial U.S. agricultural exports that improve American farmers' ability to compete in global markets and increase farm income. The Department also builds on its traditional role of communication by disseminating agricultural information from countries around the world to American farmers and ranchers.

The Department serves worldwide human needs by strengthening food and agricultural systems in developing countries; and, at the same time, strengthening the U.S. agricultural competitiveness and leadership to ultimately benefit the rural community.

Food, Nutrition, and Consumer Services

The Department's nutrition assistance programs provide free or low cost access to healthy food for low-income families; pregnant women; children; the elderly; and other groups identified to be at nutritional risk. In cooperation with State and local agencies, these programs use a variety of mechanisms, including food stamps, vouchers, cash grants, and donations of commodities to combat hunger in American homes, schools, soup kitchens, day-care centers, and disaster sites.

Food Safety

The Department's food safety programs ensure that the Nation's meat, poultry, and egg product supplies are safe, wholesome, unadulterated, and properly labeled and packaged. The Department evaluates methods for the rapid detection of pathogenic microorganisms, conducts microbiological baseline studies, evaluates new inspection and production practices that may reduce the likelihood of bacterial contamination, and educates consumers on safe food handling practices.

Marketing and Regulatory Programs

The Department operates marketing and regulatory programs to facilitate the domestic and international marketing of U.S. agricultural products. These programs ensure the health and care of animals and plants while improving market competitiveness and the economy for the overall benefit of both consumers and American agriculture. To assist agricultural marketing, commodities such as cotton, dairy products, fruits and vegetables, livestock and meat, grains and grain products, poultry and eggs, and tobacco are graded for quality on a voluntary, user-fee basis. The Department also administers inspection programs to protect and improve animal and plant health and to reduce crop and livestock depredations caused by birds, rodents, and predators.

Natural Resources and Environment

The Department administers a variety of programs that help manage the Nation's ecological, cultural, and historic heritage. These programs reflect sensitivity to the principle that each generation is a trustee of the environment for succeeding generations. In this spirit, Departmental scientists, foresters, and ecologists work together to preserve and improve the quality of the water, air, and natural beauty in the Nation's urban and rural communities and approximately 192 million acres of National Forest System lands for which the Department is responsible. The Department also works to conserve the Nation's fresh water supplies, reduce soil erosion, and maintain the productivity of the land.

Research, Education, and Economics

The Department actively supports research and education in plant and animal husbandry, natural resources, human nutrition, and agricultural economics. The Department serves as the Nation's primary agricultural information resource and maintains an extensive database of information related to agriculture, rural development, aquaculture, and human nutrition. Departmental scientists conduct studies and provide reports, analyses, statistics, and projections on all aspects of agriculture, rural development, and natural resources. The Department also supports the research and education efforts of other Federal agencies, States, territories, local governments, colleges and universities, and private organizations through partnerships and grant programs. The Department's education efforts address problems and issues affecting the rural and agricultural community, from global competitiveness and profitability to family well being and youth development.

Rural Development

The Department's mission is to improve the quality of life in rural America by (a) providing financing for single and multi-family housing, community facilities, and other infrastructure that support community and business growth, (b) assisting business development in the preservation and creation of new employment opportunities, and (c) developing and promoting strategies for rural economic development. By administering electrification, telecommunication, and economic development programs in a service-oriented, forward-looking, and financially responsible manner the Department can assist in making reliable community services available to rural communities.

Funding

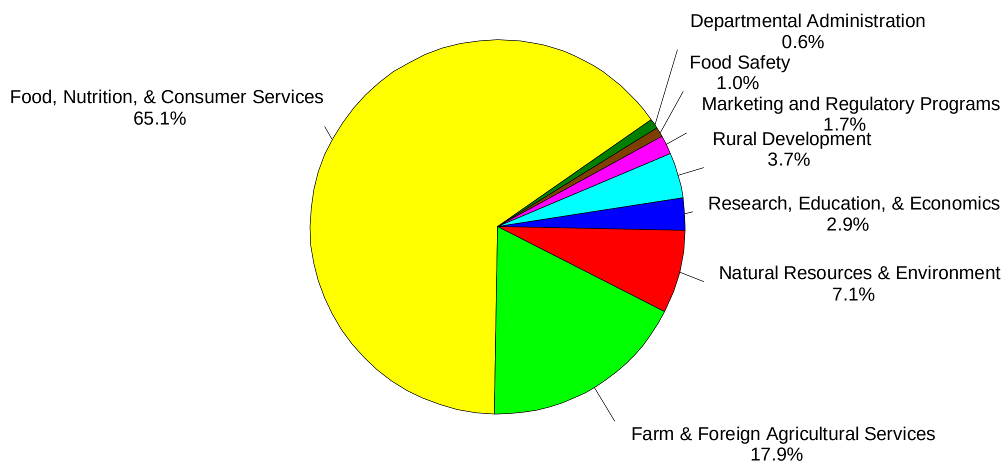
The Department's gross budget authority totaled $61.8 billion in FY 1997 and anticipated receipts amounted to $1.2 billion. Gross budget authority, which does not include anticipated receipts, is the maximum amount of spending authorized by Congress for the fiscal year. Anticipated receipts are collections from the public for such things as income taxes, user charges, and certain license fees. Anticipated receipts may be either spent by the Department or deposited with the U.S. Department of the Treasury. Gross budget authority excludes the authority to make or guarantee new loans or extend other types of credit for programs administered under the Credit Reform Act of 1990.

Locations

USDA is headquartered in Washington, D.C. The Department maintains a variety of regional offices, field offices, and satellite offices throughout the Nation. Most Departmental payroll and administrative accounting functions are performed at the National Finance Center in New Orleans, Louisiana. The National Finance Center also performs accounting, payroll, and other services for several other Federal departments and agencies, and it accounts for the Thrift Savings Plan, a tax-deferred retirement savings plan for Federal employees. The Department's National Computer Center in Kansas City, Missouri, provides services to most Departmental agencies.

FY 1997 BUDGET AUTHORITY

U.S. DEPARTMENT OF AGRICULTURE



SUMMARY OF FISCAL YEAR 1997 PROGRAM ACTIVITY

The following is a summary of the Department's performance goals and results for fiscal year (FY) 1997. Additional performance information may be found in the "Other Accompanying Information" section following the financial statements and related footnotes.

Alternative Agricultural Research and Commercialization Corporation

The Department assists the private sector in closing the gap between research and the commercialization of biobased, industrial, nonfood-nonfeed products from farm and forestry materials and animal by-products by investing in U.S. private-sector companies.

In the Alternative Agricultural Research and Commercialization (AARC) Corporation, the Department's goals are to acheive a high return on investment for the taxpayer, expand rural development and job creation opportunities through the financial support of new partnerships with private-sector companies, and increase the use of agricultural materials through the commercialization of new industrial products, thus providing income to farmers and ranchers while supporting diversity in America's agricultural base. Additionally, the Department's investments provide significant returns to the U.S. Treasury and to State and local governments in the form of tax revenues from the enterprises and individuals selling the new products.

For FYs 1993-97, the Department invested $33 million, and private partners invested $105 million, in 70 projects located in 33 States for the promotion of new, innovative, and environmentally friendly uses for farm and forestry materials and animal by-products. These projects use nearly two dozen different agricultural materials which provide an opportunity for biodiversity in agriculture. If all current projects are successful, the firms estimate that approximately 5,000 jobs will be created in the near-term. The Department's portfolio includes a mix of long and short-term projects that provide increased opportunities for future investments. To date, 10 companies are reimbursing the Department monies that are placed in a revolving fund for future investment in other alternative agricultural products.

The Department's goals are to create 10,000 jobs in rural communities by September 2002 and to accelerate the use of agricultural materials to produce industrial products. The accomplishment of these goals will require additional financial resources in excess of those already expended. Some of the funds will be generated from reimbursements, but annual appropriations will be necessary in the short term. In addition, the Department is aggressively marketing the AARC Corporation client base to attract additional private-sector capital through several Internet programs such as the Small Business Administration's ACE-Net program and the Industrial Agricultural Clearing House being constructed for the Department by the Technology Information Transfer Center.

Farm and Foreign Agricultural Services

Farm Programs

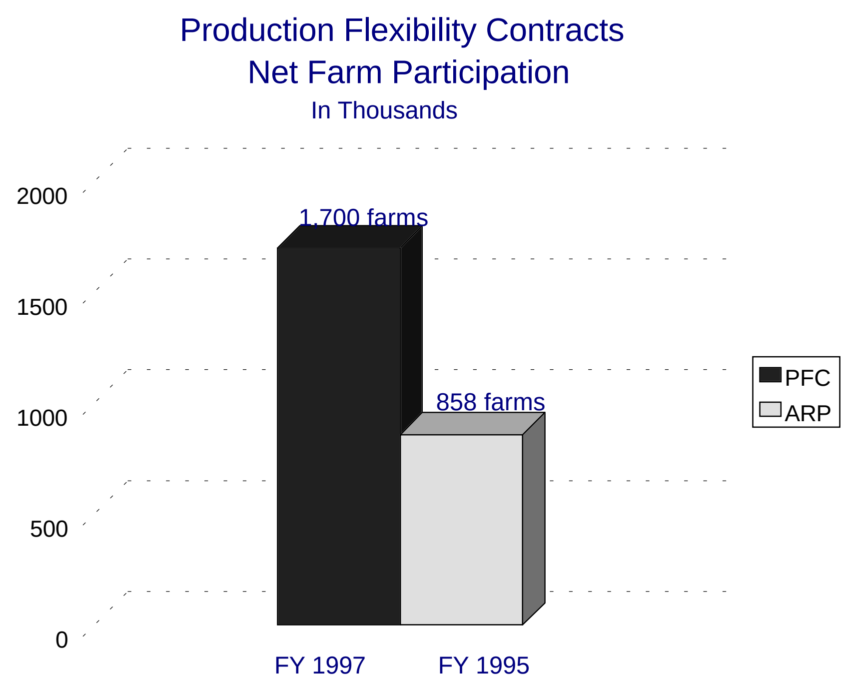
The primary objectives of farm programs are to stabilize, support, and protect farm income and prices; maintain balanced and adequate supplies of agricultural commodities including foods, feeds, and fibers; and assist in the orderly distribution of these commodities. Domestic farm programs include commodity price support loans, marketing assistance loans, production flexibility contracts, conservation, supply, and donation programs. Producers complying with the provisions of annual farm programs are eligible to receive price support and marketing assistance loans from the Commodity Credit Corporation (CCC).

Production Flexibility Contracts (PFC)

PFC's are authorized for certain producers of wheat, feed grains, upland cotton, and rice by the Federal Agriculture Improvement and Reform (FAIR) Act of 1996. This Act provides a single opportunity to initiate a PFC that allows producers to receive seven annual fixed, but declining, contract payments for FYs 1996 through 2002. To qualify for payments, participating producers must comply with highly erodible land and wetland conservation requirements as well as fruit and vegetable planting restrictions. The payments are independent of farm prices and crop production, enabling farm commodity prices to be determined by market factors rather than government subsidies and production controls. CCC incurred net expenses of $6.3 billion for production flexibility contracts in FY 1997, compared to $5.2 billion in the previous fiscal period.

One of CCC's major objectives is to maintain a high PFC participation rate for eligible producers. Based on the amount of average acreage enrolled in the program, CCC's goal is to achieve a 98 percent annual participation rate during the period of FY 1997 through FY 2002. As of September 30, 1997, the total production flexibility contract acres enrolled was 207.8 million out of a total 219.0 million potential acres. This resulted in a 95 percent annual participation rate for the program.

The number of farms enrolled under PFC was significantly higher in FY 1997 than the number of farms typically enrolled in the previous Acreage Reduction Programs (ARP). High PFC participation indicates that eligible producers view the program as a farm income support option, which provides an effective economic safety net that contributes to the economic stability and viability of the agricultural sector.



Tobacco and Peanut Price Support

FSA tobacco and peanut price support programs provide loans to eligible producers through loan associations under cooperative agreements with CCC. These programs operate at no cost to the Federal Government. Tobacco and peanut allotments and quotas, approved by producers in referenda, are established to help ensure a balance between supply and demand in the marketplace. Producers and purchasers of tobacco and peanuts incur a marketing assessment for tobacco and peanuts brought into the marketplace. The assessments are used to offset projected tobacco and peanut price support loan losses.

Maintaining a balance between supply and demand in the marketplace stabilizes the price of tobacco and peanuts by helping ensure that market prices exceed price support loan rates. When market prices exceed loan rates, producers' income increases and loan inventories decrease, thereby lowering expenses associated with the operation of the tobacco and peanut price support programs.

Analysis of Tobacco Price Support Program Activity

Description	Crop Year 1997
Average Price per Pound of Tobacco *	**$1.79**
Target Price per Pound of Tobacco	**$1.70**
Variance Percent	**5%**
Average Assessment per Pound of Tobacco	**$.003**
Target Assessment per Pound of Tobacco	**$.004**
Variance Percent	**(25%)**

* Estimated average market price for the 1997 crop year.

Analysis of Peanut Price Support Program Activity

Description	Crop Year 1996
Average Assessment per Pound of Peanuts (Quota)	**$.00351**
Target Assessment per Pound of Peanuts (Quota)	**$.00367**
Variance Percent	**(4%)**
Average Assessment per Pound of Peanuts (Non-quota)	**$.0007**
Target Assessment per Pound of Peanuts (Non-quota)	**$.0004**
Variance Percent	**75%**

Farm Loans

The Department makes or guarantees temporary loans to farmers who cannot borrow in the private sector but have a reasonable chance for commercial success. The Department also subsidizes the interest cost of these loans. Because of the increased risk of loan default and the subsidy on loan interest costs, the expenses of the farm loan programs typically exceed revenues.

As of September 30, 1997, the Department's direct farm loan portfolio amounted to $10.3 billion, which is a decline of 7 percent from the prior fiscal year. Loan write-offs, which totaled $464 million, declined by 27 percent in FY 1997 and approximately 4,700 borrowers with unpaid balances of $167 million paid their loans in full through financing obtained from other sources.

The emphasis on guaranteed loans began in 1984 to encourage private sector lending to farming operations. The Food Security Act of 1985 and subsequent appropriations supported a shift from direct loan making to guaranteed farm loans. The outstanding portfolio of guaranteed farm loans increased by 2 percent, to $6.3 billion, in FY 1997.

Crop Insurance

For over half a century, the Department has stabilized rural communities and improved the economic stability of the Nation's agriculture through a secure system of crop insurance. Crop insurance is available in all 50 States and Puerto Rico for 55 different commodities.

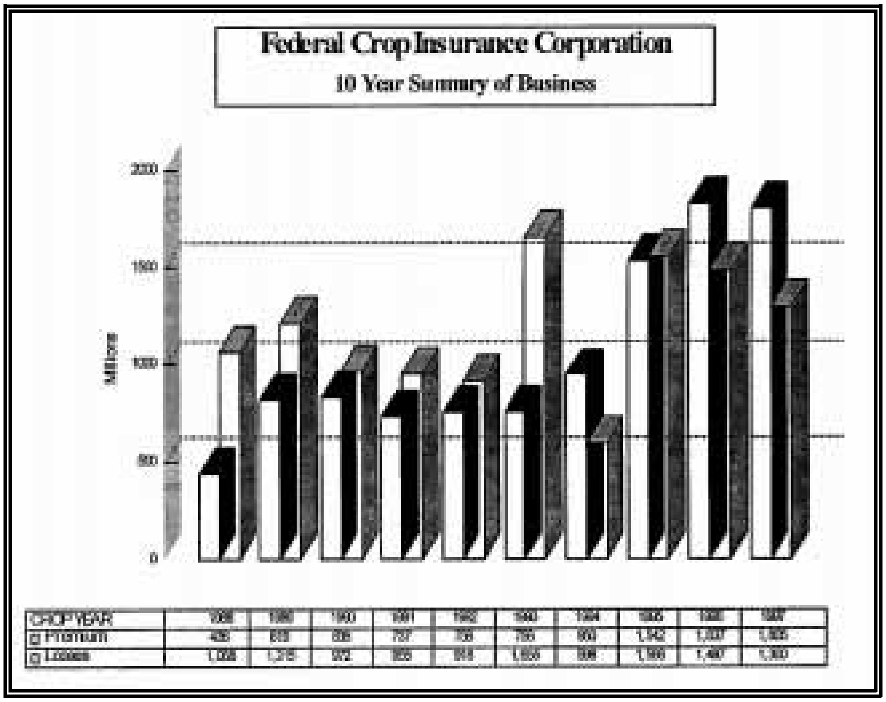
The Department currently uses two primary delivery systems to market crop insurance. The first, which represents approximately 95 percent of all premiums written, is the reinsurance program under which private insurance companies write multiple-peril crop insurance and reinsure the risks with the Department. These companies are compensated by the Department for expenses associated with marketing and servicing (including loss adjustment, claims processing, billings and premium collections) the crop insurance policies. The second form of delivery is through a network of Departmental county offices. These Departmental offices offer Federal Crop Insurance Corporation (FCIC) crop insurance policies and receive an administrative fee for selling and servicing these policies. Claims adjustments on policies serviced by Departmental county offices are handled by loss adjusters under contract with FCIC.

The Department's premium level for county offices and reinsured business was an estimated $1.8 billion for the 1997 crop year, of which $886 million was paid by insured producers and $919 million was paid in premium subsidies. The Department provided approximately $25.9 billion of insurance protection on about 1,345,000 policies for approximately 900,000 insured. These crop policies provide coverage for over 185 million acres, which represents approximately 63 percent of the insurable acres Nationwide. The Department paid approximately $1.5 billion on 298,000 indemnity claims against crop year 1996 policies. The Department estimates that $1.3 billion of indemnities will be paid on 202,000 indemnity claims against crop year 1997 policies. The loss ratio for 1997 is expected to decrease to .72, down from the actual loss ratio of .81 in 1996.

Crop Year 1997 and 1996 Baseline Program Performance Data (Thousands)

	1997 Estimated	1996 Actual	Change
Number of Policies	1,345,000	1,623,273	(278,273)
Number of Claims	202,000	298,478	(96,478)
Premiums	$1,805,000	$1,837,830	($32,830)
Administrative Costs	$523,922	$554,550	($37,132)
Ultimate Claims Expense	$1,300,000	$1,487,194	($187,194)
Loss Ratio	0.72	0.81	(0.09)

An overall review of the period 1988 through 1997 reveals a period of substantial change in delivery of the multi-peril crop insurance product and unusually turbulent weather patterns. Rapid expansion in the early 1980's into both program and nonprogram crops and the devastating financial impact of the 1988 crop disaster losses had a significant impact on the financial status of FCIC. The volume of business increased significantly toward the end of the 1980's as the need for crop insurance became more evident to U.S. agricultural interests. FCIC's authorizing legislation was amended in 1990 to improve its ability to administer an actuarially-sound program. In 1995, farmers were required to purchase crop insurance to participate in other USDA programs, which caused the substantial premium increase from 1994 to 1995.



Federal Crop Insurance Reform

The Federal Insurance Agricultural Improvement and Reform Act of 1996 phases out, beginning with the 1997 crop year, the delivery of catastrophic coverage through the FSA in areas where there are sufficient private providers. The Act also permits producers to waive their eligibility for emergency crop loss assistance and eliminates the requirement to purchase catastrophic coverage in order to obtain other USDA program assistance.

International Operations

One of the Department's missions is to help American farmers and traders take maximum advantage of increased opportunities to sell U.S. agricultural commodities abroad and to help increase U.S. farm income. Departmental international programs provide economic stimulus to both the U.S. and foreign markets, while also donating humanitarian assistance to the most needy people throughout the world. Through separate appropriation and borrowing authority, the Department finances foreign food assistance and the Export Credit Guarantee programs. Extension of foreign food assistance is made under the P.L. 480 direct credit program. The Department provides short- and intermediate-term credit guarantees to exporters of U.S. agricultural commodities, which creates jobs in the U.S. farm and food processing industries while improving the U.S. balance of payments and trade deficit.

Guarantees are made under four General Sales Manager (GSM) programs: the GSM-102, GSM-103, Supplier Credit, and Facilities programs. The GSM-102 program offers short term coverage of up to 3 years and the GSM-103 program offers intermediate term coverage of 3-10 years. The Supplier Credit program guarantees payment up to 180 days. The Facilities program promotes the export of U.S. agricultural commodities or products to emerging markets and guarantees coverage up to 10 years. As of September 30, 1997, no guarantees were recorded for this program. Through the GSM programs, CCC guarantees payment of credit extended by the private U.S. banking sector to foreign banks for food and agricultural products sold to foreign buyers.

Foreign Activity
Selected Financial Data

In Millions	**FY 1997**	FY 1996
P.L. 480 Direct Credits Outstanding Receivables as of September 30	**$11,387**	$11,604
Export Credit Guarantees Outstanding as of September 30	**7,190**	7,234
Port Value of GSM Registrations Issued through September 30	**2,947**	3,302
GSM Guarantees Issued for Registrations through September	**2,553**	3,181
Direct Sales Program (Office of General Sales Manager) Outstanding Receivables as of September 30	**42**	42
Donations and Grants through September 30 (1)	**913**	1,079
Guarantee Claims Paid through September 30	**31**	223
Export Enhancement Program Expense through September 30 (2)	**(4)**	36
Market Access Program Expense through September 30	**100**	121

(1) Includes Sections 416, Title II, Title III, Food for Progress, and Title I Food for Progress.

(2) The negative expense is due to a reduction in current fiscal year obligations caused by high prices and exports for U.S. commodities, which reduced the participation in the program.

Food and Nutrition Services

The mission of the Food and Nutrition Service (FNS) is to ensure access to nutritious, healthful diets for all Americans. Through food assistance and nutrition education for consumers, FNS works to empower consumers with knowledge about the link between diet and health, and encourages consumers to make healthful food choices.

FNS administers 15 food assistance programs for the Department. These programs, which serve 1 in 6 Americans, represent our Nation's commitment that no one in our country should fear hunger or experience want. They provide a safety net to people in need. The programs' goals are to provide needy persons with access to a more nutritious diet, to improve the eating habits of the Nation's children, and to help America's farmers by providing an outlet for the distribution of foods purchased under farm assistance authorities. Most FNS programs are operated under partnerships with the States, whereby State and local agencies administer the programs at the service delivery level.

<u>Food Stamp Program</u>

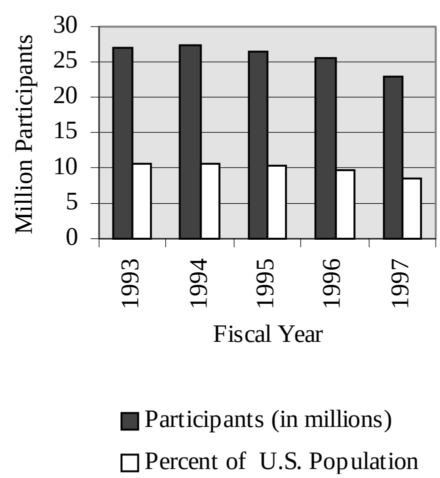
Program Mission

The Food Stamp Program is the Nation's principle food assistance program, a vital component of the Federal safety net that protects needy persons against hunger. Its initial authorization was granted by the Food Stamp Act of 1964. The program enables low-income households to improve their diets by issuing monthly allotments of coupons (or electronic benefits) redeemable for food at retail stores. Eligibility and allotment amounts are based on household size and income, asset limitations, housing costs, work requirements, and other factors. The Federal Government pays the full cost of benefits and funds over half of the expenses incurred by the States to administer the program.

Participation

Participation in 1997 fell to an annual average of 22.9 million persons, a decrease of 2.6 million persons (10.5 percent) from the annual average in 1996. The decrease is attributable to favorable economic conditions and a continuation of the downward participation trend that began in 1995. In addition, a portion of the decrease is attributable to welfare reform legislation that affected food stamp benefits such as limiting eligibility for legal resident aliens, changing household definitions, and limiting the amount of time able-bodied adults can receive food stamps. Less than 9 percent of the total U.S. population received food stamps in 1997, whereas almost 11 percent received food stamps in 1994.

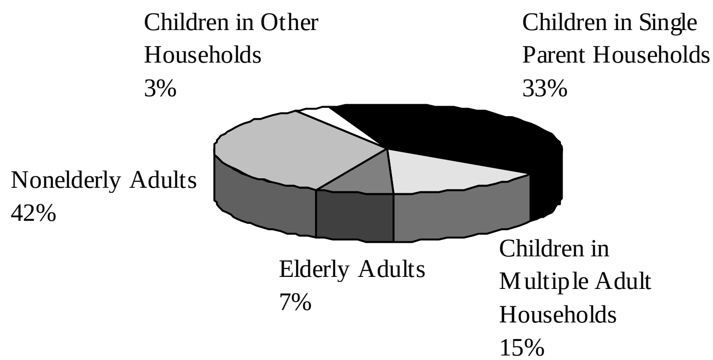
Program Performance: Food Stamps Participation and U.S. Population



The most recent survey of household characteristics, conducted during FY 1996, indicated that 51 percent of all participants were children under 18 years of age, most of whom resided in single parent households. Additionally, 7.3 percent of all participants were elderly adults age 60 or older.

The gross income of about 91 percent of food stamp households was below the Federal poverty level, of which 42 percent were at or below 50 percent of poverty and over 10 percent had no income.

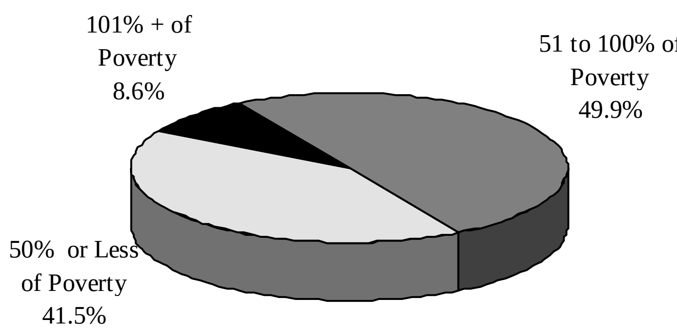
Distribution of Food Stamp Participants, 1996



Benefits

Benefit costs were $19.6 billion in FY 1997 compared to $22.4 billion in 1996. The average monthly benefit per person decreased from $73.22 to $71.34 during the same time period. In addition to benefit costs, the food stamp appropriation includes the Federal share of State administrative costs, grants to States for Employment and Training activities, and other Federal costs such as printing and distribution of stamps. Total expenses for the Food Stamp Program were $22.8 billion in FY 1997.

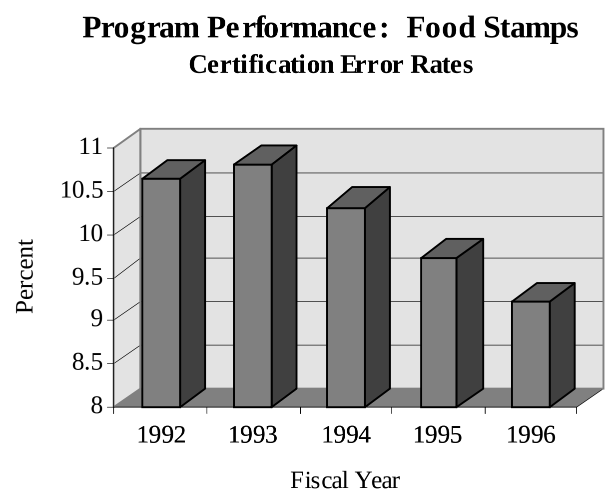
Poverty Status of Food Stamp Households Cash Only, 1996



Program Integrity

During FY 1996, FNS continued its aggressive payment accuracy program with regional offices. While payment accuracy involves a variety of techniques, the most effective tool is commitment at the top levels of State management. FNS continued to promote the need for this commitment as the key to implementation of successful payment accuracy efforts. These efforts continue to be productive as the FY 1996 combined payment error rate of 9.22 declined by half a percentage point from FY 1995 (9.72) and by 1.1 percentage points from FY 1994 (10.32).

FNS continues to provide enhanced funding to those States who maintain error rates below a certain level. In FY 1997, six State agencies received a total of $15,289,752 based on their FY 1996 payment accuracy performance: Alabama, Arkansas, Hawaii, Kentucky, Massachusetts and South Dakota.



Child Nutrition Programs

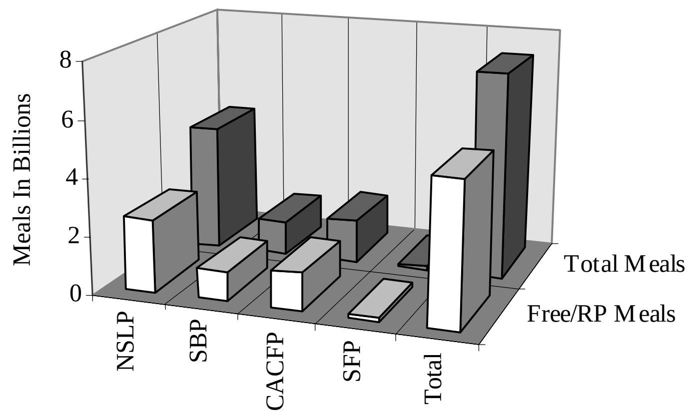
Program Mission

Objectives of the Child Nutrition Programs are to provide children with access to nutritious meals away from home and to improve their diets. School feeding programs, such as National School Lunch (NSLP) and School Breakfast (SBP), enhance learning by reducing malnutrition and hunger, and fostering a healthy learning environment. The Child and Adult Care Food Program (CACFP) provides for the nutritional well-being of preschool children and adults in day care homes and centers. The Summer Food Service Program (SFP) serves children in low-income areas during the summer months. In each program, assistance to improve diets is provided for all children, but programs are targeted to economic needy children. FNS provides the States with cash payments based on per-meal rates that vary according to family income. Children from families with incomes below 130 percent of the poverty level qualify for free meals, while reduced-price eligibility is set between 130 and 185 percent of the poverty level. Food donations are also provided. Minimum commodity support ("entitlement") is based on a per-meal rate, and surplus ("bonus") commodities are provided based on available supplies from USDA surplus commodity purchases. Free or reduced-price eligibility, cash payment rates, and the commodity entitlement rate are adjusted annually.

Program Performance

On any given school day in FY 1997, one of every two schoolchildren in America ate lunch through the National School Lunch Program. The program was available in over 94,740 schools and institutions with a total enrollment of 46.3 million children, and reached 87.8 percent of all school children. Average daily participation was 26.3 million, up 1.5 percent from FY 1996. Free and reduced-price meals served increased 2.4 and 5.5 percent respectively, while full-price meals decreased by 0.3 percent.

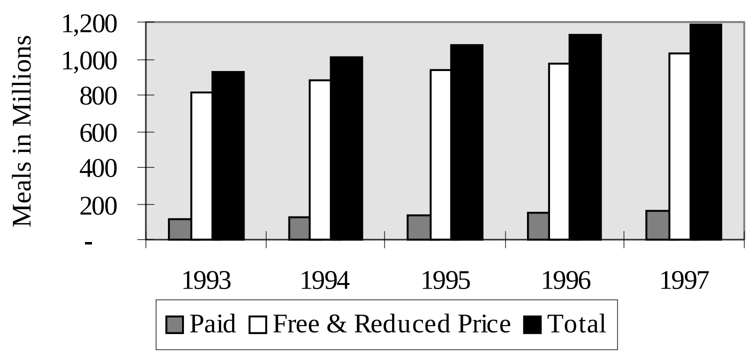
Program Performance: Child Nutrition
Free and Reduced Price Meal Service



In FY 1997, a total of 7.27 billion meals were served in Child Nutrition Programs, up from 7.09 billion in FY 1996. The share of total meals served free or reduced-price was 69, which is a slight increase over the 68.5 percent from the prior year. This reflects FNS' goal to target the programs that serve predominantly children from low income families.

Expansion of the School Breakfast Program, particularly in low-income areas, is mandated by Congress. Since FY 1993, program availability has risen from 55,126 institutions with an enrollment of 25.8 million to 68,716 institutions with an enrollment of 33.9 million in FY 1997. The program is now available to 64 percent (or two thirds) of the student population, as compared to only 53 percent in FY 1993. Average daily participation in FY 1997 was 6.9 million, up 5.2 percent from the prior year. The portion of meals served free or at reduced price remained almost unchanged from FY 1996 to FY 1997, at 86.5 percent.

Program Performance: School Breakfast
Meals Served



Total meal service in the Child and Adult Care Food Program grew by about one percent in FY 1997. In child care centers, approximately 70.4 percent of all meals were served free or at reduced price, slightly more than the 69.7 percent in FY 1996. In family day care homes, all meals are reimbursed at the free rate. Approximately 133.2 million free meals were served in the Summer Food Service Program, which is an increase of about 6.3 percent.

Program Benefits

The Child Nutrition expenses, including cash, entitlement commodities and the Special Milk Program, amounted to $8.3 billion in FY 1997. In addition to subsidizing meal service, the appropriation also helps States pay administrative expenses of operating the programs, funds Nutrition Education and Training activities, and covers the cost of mandated nutrition studies and surveys.

Supplemental Nutrition Program For Women, Infants, and Children (WIC)

Program Mission

The goal of the WIC Program is to promote the health of nutritionally at risk low-income pregnant or postpartum women, infants and children up to age 5. It has three components: a supplemental food package rich in nutrients often lacking in the diets of the target population; nutrition education and counseling; and referrals to health care services (e.g., prenatal and well-baby care, immunization, smoking cessation, and drug and alcohol abuse counseling). Eligibility is based on income limitations, health risk, and State residency requirements. The WIC Farmers' Market Nutrition Program, which is funded from the WIC appropriation, provides many participants with fresh fruits and vegetables while promoting awareness and use of farmers' markets.

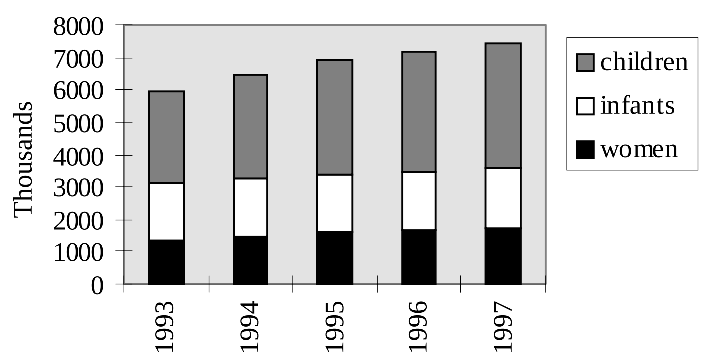
WIC's effectiveness was demonstrated in a five State study conducted in 1990. Women who participated during their pregnancies had lower Medicaid costs for themselves and their babies than non-participating women. WIC participation was linked to longer gestation periods, higher birth weights, and lower infant mortality.

Participation

Since FY 1993, participation has risen from 5.9 million to 7.4 million, an increase of 25.2 percent. However, the rate of growth has declined from 9.4 percent in FY 1993 to 3.1 percent in FY 1997. The slowdown is due to several factors, including success in reaching a high proportion of the eligible population in some States, infrastructure limitations in others, and temporary retrenchments during FY 1997 due to funding concerns (a supplemental was approved late in the year). Compared to FY 1996, participation by women increased by 3.8 percent, children by 3.3 percent, and infants by 2.0 percent. Program expense totaled $3.8 billion.

WIC Participation:

Monthly Average



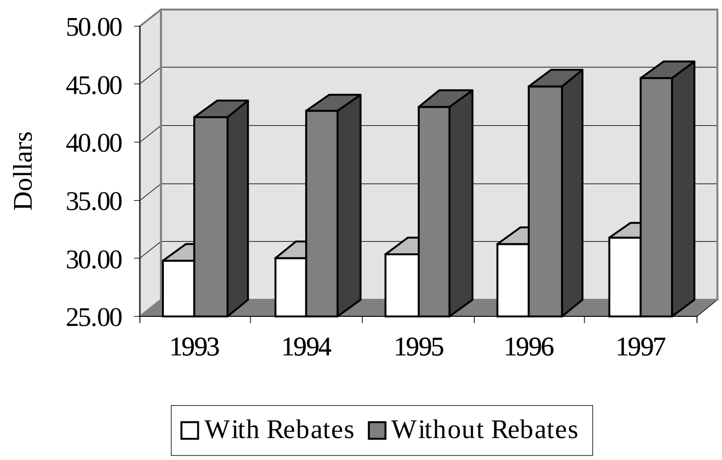
Targeting High Risk Groups and Promoting Health

WIC assistance is targeted to the highest risk groups. During the July 1996-June 1997 period, 75.2 percent of all participants were in the top three priority categories, which primarily include participants with certain medical conditions and infants of women who actually participated, or would have been eligible to participate, in the program. The percentage has gradually declined as WIC reaches a higher proportion of the eligible population. A major factor in WIC's effectiveness is promotion of nutrition education through individual and group counseling and through provision of educational materials. At least one-sixth of funds available for administration and program services must be expended on nutrition education activities. Emphasis is placed on teaching participants to deal with specific nutritional risks, on achieving positive change in dietary habits, and on the dangers of substance abuse during pregnancy. Breast-feeding is promoted through nutrition education during pregnancy, providing an enhanced food package to women who receive no infant formula, permitting breast-feeding women to participate longer than other postpartum women, and providing a support system to encourage success.

Cost Containment

A substantial portion of the participation growth reflects the impact of mandatory cost containment measures. Reducing the average food cost per person has enabled WIC to reach more participants with the same funds. The most successful strategy has been competitive rebate contracts between State agencies and manufacturers of infant formula, the most expensive item. All States and major Tribal Organizations receive infant formula rebates; ten States received rebates for other foods in FY 1997. The Infant Formula Procurement Act of 1992 enhanced competition by enabling FNS to solicit bids for multi-State contracts. In FY 1997, 10 State agencies, which included 3 multi-State contracts, were in effect for infant juice and cereal. Rebate savings in FY 1997 were estimated at $1.29 billion. Rebates reduced the monthly food cost per person by nearly 30.5 percent (from $45.56 to $31.68). The accompanying chart shows the monthly food cost both with and without rebates for the past five years.

WIC: Monthly Food Cost Per Person



Commodity Assistance Programs

Program Mission, Participation, and Expense

FNS provides assistance to a variety of groups through food distribution. In FY 1997, the Commodity Assistance Programs' appropriation included two programs; The Emergency Food Assistance Program (TEFAP) and the Commodity Supplemental Food Program (CSFP). TEFAP helps States relieve hunger and distress by making both purchased commodities and surplus USDA foods available to soup kitchens, food banks, and other emergency feeding organizations. FNS also subsidizes State administrative costs for warehousing and delivering commodities. CSFP is a food distribution predecessor of the WIC Program, established to serve a similar target group of women, infants and children, and to provide food packages to improve the health of low-income elderly persons. Total CSFP participation in FY 1997 was 370.1 thousand, virtually identical to FY 1993. However, the elderly share has risen from 38.2 percent to 65.7 percent, proving that the women-infant-children component has decreased. TEFAP expense totaled $151 million in FY 1997. Program expenses for CSFP were $90 million, of which $71.9 million were for entitlement commodities and $18 million were for administrative expense.

Other Commodity Programs

Other commodity assistance programs include the Food Distribution Program on Indian Reservations (FDPIR) and the Nutrition Program for the Elderly (NPE). FDPIR, an alternative to the Food Stamp Program for tribal organizations, served an average of 124 thousand needy persons per month. FNS commodity and administrative costs totaled $66.2 million. The Nutrition Program for the Elderly subsidized 247 million meals served in senior centers or delivered to the homebound. FNS costs were $144.8 million.

Food Safety

The Department ensures that the Nation's commercial supply of meat, poultry, and egg products is safe, wholesome, and correctly labeled and packaged, as required by the Federal Meat Inspection Act, the Poultry Products Inspection Act, and the Egg Products Inspection Act.

The Department tests product samples for microbial or chemical contaminants to monitor trends or for enforcement purposes, and administers and carries out programs requiring continuous mandatory inspection of egg processing plants producing liquid, frozen, or dried egg products. The Department approves facilities and equipment before inspection is granted, approves product labels before products can be sold, and oversees the importation of meat, poultry and egg products to ensure U. S. requirements are met.

From 1995 through 1996, the Department began to reshape itself in a fundamental way. The vehicle for change was the Pathogen Reduction; Hazard Analysis and Critical Control Point (HACCP) Systems Final Rule, published in July 1996. This regulation changes the way the Department conducts its regulatory responsibilities. Through the final rule, a HACCP system provides a more specific and critical approach to the control of microbiological hazards in foods than that provided by traditional inspection and quality control approaches. A HACCP system focuses attention on those points that directly affect safety and employs monitoring to determine whether or not these points are under control.

Currently, in preparation of full implementation of HACCP, the Department is performing the following activities: verifying that plants have an adequate Sanitation Standard Operating Procedure (SSOP), that plants are operating within the provisions of their SSOP plan, and that plants have written procedures for *E. coli* testing.

Inspection activities include primary and second shift slaughter, processing, egg, and import/export inspections as well as laboratory services, and pathogen reduction activities. Appropriated funds provide for these activities and grants to States, other support services, and administrative costs. The Department charges fees for inspection services provided on overtime and, in some cases, holiday basis, and for voluntary services requested by the industry to accommodate business needs, as well as accreditation of laboratories.

More than 8,100 employees carry out the inspection laws in about 6,500 meat, poultry, and other slaughtering or processing plants, and approximately 126 in-plant inspectors inspect egg products. Additionally, 80 employees inspect products at point of entry into the U. S.

Performance Goal

The goal of this program is to enhance the public health by minimizing foodborne illness from meat, poultry, and egg products. This goal focuses on continuous improvement in the reduction of foodborne illnesses associated with meat, poultry, and egg products.

Strategy

This goal will be achieved by accomplishing all the daily tasks necessary to satisfy objectives in pathogen reduction, the President's National Food Safety Initiative, the farm-to-table food strategy, Departmental cultural change, and international cooperation on food safety. The Department recently reorganized to improve its efficiency and effectiveness in implementing its new food safety regulation. This program is only one part of the farm-to-table continuum; therefore, quantitatively assessing its contributions to improving public health is very difficult. Many Federal agencies have a role and responsibility in meat, poultry, and egg product life span from production through consumption. The Department has focused its goal for improving food safety on its in-plant inspection authority over meat, poultry, and egg products.

To ensure food safety from farm-to-table, it is vital that all the Department's stakeholders - including other Federal, State, and local governments, producers, the industry, food handlers, and consumers - participate to avoid duplication and to close any gaps that could compromise food safety.

Performance Measures

By July 31, 2000, 100% of meat and poultry operating plants will be subject to federally verified HACCP plans. Large meat and poultry plants under Federal inspection will be the first phase of plants to implement HACCP, effective January 26, 1998, as required by the HACCP final rule. In FY 1997, FSIS prepared its workforce through HACCP training as follows:

- 4,331 employees were trained in pre-HACCP sanitation standard operating procedures (SSOPs), and
- 4,331 employees were trained in HACCP cultural change.

In FY 1997, 100% of operating plants inspected by FSIS were subject to the following pre-HACCP requirements:

- foreign operations exporting to the U.S. and domestic operations under SSOPs, and
- generic *E. coli* testing in U.S. slaughter plants to verify HACCP procedures.

Marketing and Regulatory Programs

Animal and Plant Health Inspection Service

The primary mission of this agency is to protect the Nation's animal and plant resources from diseases and pests to preserve the marketability of U.S. agricultural products within this country and for export.

Pest and Disease Exclusion

This program's objective is to prevent the introduction of foreign plant and animal pests and diseases that are harmful to U.S. agriculture and to encourage and increase U.S. agricultural exports. In FY 1997, the program performed inspections of: 77 million passengers at U.S. airports, an increase of 12 million from the prior year; baggage for more than 1.2 million passengers, and buses, departing from Tijuana, Mexico; and over 770,000 vehicles in the southern California and northern Mexico area. These inspections yielded the interception and seizure of over 23,000 contraband, 416 tons of fruit, and more than 17,000 fruit fly larvae in addition to 54,700 tons of commercial fruit that were fumigated.

The Sanitary/Phytosanitary Standards (SPS) program protects U.S. livestock, poultry, and wildlife populations from exposure to exotic diseases, and expands markets abroad by assuring that exported animals and animal products meet the health requirements of recipient countries. This program assisted with the resolution of unjustified trade barrier issues worth nearly $7 billion in agricultural exports to 16 countries. The program also issued point of origin certificates for the export of approximately 205 million head of livestock and other animals, 70 million live poultry, 57 million hatching eggs, and 4.4 million doses of semen.

In FY 1997, the Department continued to successfully prevent screwworm reintroduction in the United States and began eradication activities in Costa Rica by releasing approximately 60 million sterile flies per week from a dispersal center in Managua, Nicaragua. Aerial dispersal over the entire country began in October 1996, and full-scale field operations began in the second quarter of FY 1997.

Plant and Animal Health Monitoring

The plant and animal health monitoring programs are largely cooperative efforts involving the Federal and State governments, and industry that maintain the health of agricultural plants and animals by rapidly detecting and responding to exotic pests and disease introductions. The Department maintains a cadre of trained professionals prepared to respond immediately to potential animal and plant health emergencies. The program engages in early detection of exotic plant pests to reduce their spread, minimize losses, and help to maintain pest-free status for export certification of agricultural commodities. U.S. agriculture is currently free from hundreds of foreign pests and diseases.

In FY 1997, the Department worked with States to update and maintain plant pest survey results in two databases: the National Agricultural Pest Information System and the National Animal Health Monitoring System. These data are available to producers for improving health and production efficiency of livestock and poultry.

Regulatory enforcement activities prevent the spread of communicable animal pests and diseases in interstate trade. These activities include inspection, surveillance, animal identification, and prosecution. The Department continued to monitor and regulate interstate shipments of plants, livestock, and related materials to prevent the spread of disease and the distribution of impure, unsafe, and non-efficacious materials and products.

Pest and Disease Management

In cooperation with the States, this program improves the general health of our Nation's multi-billion dollar agriculture industry through management techniques designed to eradicate harmful pests and diseases, or, if eradication is not feasible, minimize their economic impact.

The Wildlife Services program continued to provide assistance, with full reimbursement, to John F. Kennedy (JFK) International Airport in New York City and Chicago's O'Hare International Airport. As a result of these efforts, bird-aircraft strikes caused by gulls at JFK were reduced by 70 percent in fiscal year 1997. At O'Hare, threats to air traffic safety caused by deer, waterfowl, and coyotes have been significantly reduced. The success of this project was recognized by the Secretary of Agriculture in June 1997, and project personnel received the USDA Group Honor Award for Excellence "for protecting public safety at O'Hare International Airport by implementing an effective wildlife management effort with impressive and measurable results." In addition, the Department and the Federal Aviation Administration (FAA) develop programs to assist airports in reducing wildlife hazards.

Scientific and Technical

This program develops methods to control animals and pests that are detrimental to agriculture, wildlife, and public safety. The Department conducts diagnostic laboratory activities that support the veterinary disease prevention, detection, control, and eradication programs. The Department provides and directs technology development to support plant protection programs. Under its broad authority to protect plant and animal health, a regulatory structure was established for bringing the benefits of genetic research from the laboratory to the marketplace, while protecting against the release of potentially harmful organisms into the environment.

National Wildlife Research Center researchers obtained approval from the FDA to field test new animal drug applications and vaccines aimed at controlling deer and other wildlife.

The volume of transgenic plants tested in the field and coming to the marketplace continues to increase. In FY 1997, the Department issued 611 notifications involving release and 109 release permits, resulting in 720 field releases. The number of sites where releases were made this year increased by approximately 20 percent.

The National Monitoring and Residue Analysis Laboratory in Gulfport, Mississippi, continued to support other programs for agricultural quarantine inspection and the analysis of pesticide residues and industrial chemicals. The laboratory conducted 6,695 chemical analyses in FY 1997 compared to 6,874 in the prior year.

The NVSL and the Foreign Animal Disease Diagnostic Laboratory (FADDL) supported animal disease prevention, detection, control, and eradication programs, and provided diagnostic assistance to the livestock and poultry industries. In FY 1997, NVSL received and tested 34,604 diagnostic submissions, and FADDL received and tested 328 diagnostic submissions of suspected animal diseases.

Animal Care

This program regulates the care and treatment of animals and horses as required by the Animal Welfare Act (AWA) of 1966 as amended, the Horse Protection Act (HPA) of 1970 as amended, and the Pet Protection Act enacted as part of the Farm, Agriculture, Conservation and Trade Act of 1990. By protecting the integrity of agricultural research and promoting humane treatment of animals, these programs provide benefits to a vast population of National and international consumers of U.S. agriculture.

The Department continues to increase the quality and efficiency of Animal Welfare Act (AWA) inspections. FY 1997 was a pivotal year for the Department's enforcement of the AWA. The Risk-Based Inspection System (RBIS) was field tested this year for implementation in FY 1998. The RBIS is used to determine which facilities are at the greatest risk of violating the Act and will allow the Department to emphasize inspections of non-compliant facilities.

ANIMAL WELFARE

Activity	FY 1997	FY 1998 Est
Complaints investigated	462	500
Violations processed	281	300
Dealer inspections	4,624	4,900
Research inspections	2,543	2,500
Exhibitor inspections	2,586	2,674
Carrier and handler inspections	1,154	1,175
Searches conducted	1,330	1,400
Prelicense inspections	2,147	1,900

Agricultural Marketing Service

The Department carries out a wide range of programs that facilitate the marketing and distribution of agricultural products, ensure fair trading practices, and assure consumers an abundant, high quality food supply. The Department administers programs to make the private sector marketing system for food and agricultural products more efficient, dependable, economical, and equitable while adapting to changing domestic and international marketing practices and technologies.

Market News

This program provides equal access to trading information on agricultural products to all buyers and sellers in the marketplace. Market News personnel collect, analyze and disseminate supply, price quantity, quality and other market information for agricultural commodities such as cotton, dairy products, fruits and vegetables, livestock, meat, grains, poultry, and tobacco. This timely, accurate, and unbiased information assists producers, growers, and marketers of farm products in making critical purchase decisions. Reporters interview buyers and sellers to gather and disseminate information on over 1,700 U.S. markets. Fees are charged for printed and mailed reports, and in fiscal year 1997, approximately 1.8 million printed reports were issued.

Shell Egg Surveillance

In cooperation with State Departments of Agriculture, the Department inspects shell egg grading and packing plants at least quarterly to control the disposition of substandard shell eggs (checks, dirty eggs, incubator rejects, inedible, leakers, and loss).

Pesticide Data Program

The purpose of the Pesticide Data Program is to help ensure the safety of the U.S. food supply through the collection of data about pesticide residues that remain on selected foods. With assistance from several States, the Department collects and maintains data on pesticide residues detected during sampling processes and provides information to the Environmental Protection Agency for use in risk assessment and the establishment of residue tolerances. Samples that violate tolerances are reported to the Food and Drug Administration. In 1997, about 40,000 analyses were completed on 7,100 samples.

Commodity Purchases

The Commodity Purchase Service Program's objective is to purchase commodities to stabilize market conditions. In fiscal year 1997, the Department purchased $512 million worth of commodities with Section 32 funds and distributed 743 million pounds of commodities through its nutrition programs. More than 588 million pounds of these commodities were used to fulfill the National School Lunch Program's commodity subsidy of 14.5 cents per meal and the remainder was used for emergency surplus removal and donation to schools and other institutions.

Marketing Agreements and Orders

This program maintains a stable flow of commodities to avoid unreasonable fluctuations in supplies and prices, and establishes minimum prices to dairy farmers under supply-and-demand pricing standards. For fruits and vegetables, it establishes and maintains appropriate research and development projects, container and pack requirements, and minimum standards of quality, maturity, grading and inspection requirements.

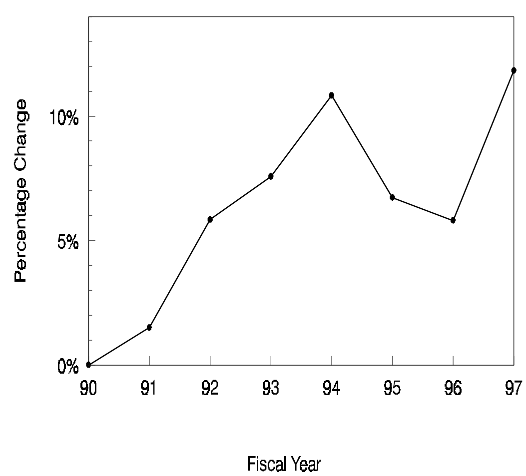
Grading Services and Standardization

This program provides grading and classing of agricultural commodities such as cotton, cottonseed products, dairy products, fresh fruits and vegetables, edible tree nuts, peanuts, processed fruits and vegetables, meat and meat products, poultry products, shell eggs, rabbits, and domestic and imported tobacco. The program facilitates the movement of these commodities through marketing channels by ensuring that quality is maintained according to official standards and by providing a basis for uniform pricing through grades. Grading services are offered on a voluntary, fee-for-service basis. During FY 1997, the Department provided grading services for almost 166 billion pounds of commodities valued at an estimated $77 billion dollars. This program also inspects facilities involved in the processing of agricultural commodities and an acceptance service. The acceptance service certifies that large volume purchases of meat and poultry meet contract specifications.

The Department reviews, develops, and maintains standards that aid in the marketing of agricultural commodities by providing a common language of trade to ensure uniformity in market news reporting, grading, and certification. Standards describe quality, condition, quantity, grade, size, and packaging. Program personnel develop and maintain approximately 584 standards for 230 commodities.

Grading programs are entirely self-supporting. Authorizing legislation requires that these programs recover the costs of providing services through the collection of user fees. In FY 1997, the grading programs' operating costs were recovered by $150 million in earnings collected from its users.

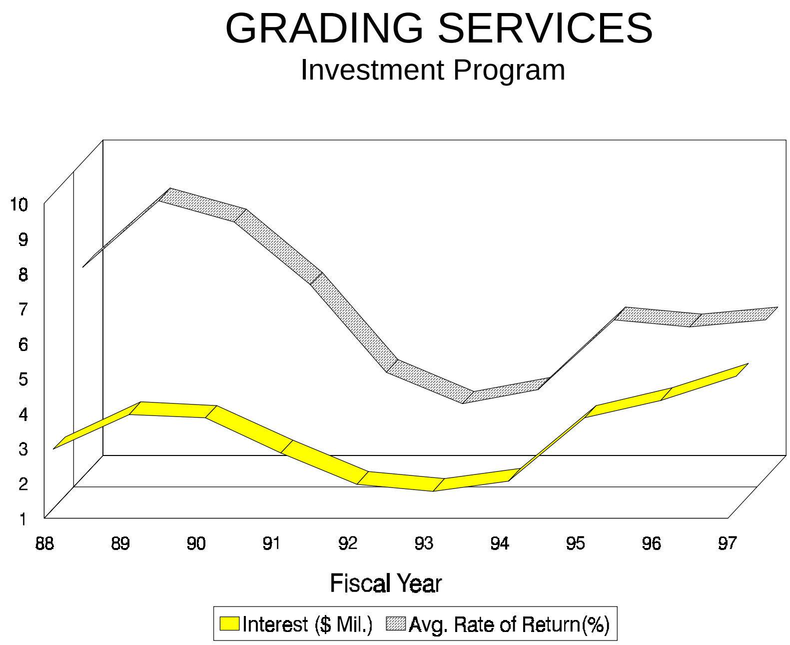
GRADING SERVICES
Constant Dollar Fees



User fees are determined by estimating the total demand for service and projecting the total cost of providing this service. Since FY 1990, the Department's grading programs have increased their fees by approximately 12 percent in constant dollars. The above graph depicts the trend in grading fees using FY 1990 as a base.

The Department calculates grading fees per product graded on a constant dollar basis to monitor the programs cost-effectiveness. The weighted average grading cost per hundredweight, using constant (FY 1990) dollars indexed on prices paid for farm services, was $.07 in fiscal year 1997.

Just as private businesses maintain cash reserves to cover contingencies, the grading programs hold money in reserve to pay accrued liabilities. The programs seek to maximize reserve balances by investing in interest-earning instruments fully collateralized by U.S. Treasury securities. The amount of interest, reported in millions, is charted against the average rate of return in the graph above. After a decline in interest rates, earnings have increased since FY 1995.



Perishable Agricultural Commodities Act

This program is authorized by the Perishable Agricultural Commodities Act of 1930 to promote fair trading practices in the fresh and frozen fruit and vegetable industry. It provides a forum for the filing and resolution of informal and formal reparation complaints dealing with contract disputes. In FY 1997, the program filed 1,181 statutory trust notices.

Grain Inspection, Packers and Stockyards Administration

The U.S. Grain Standards Act (USGSA) amendments of 1993 extended operations and authorized appropriations for grain inspection programs, provided increased flexibility and enabled the Department to perform fee-based testing of commercial inspection and weighing equipment. Inspection and weighing programs are also carried out under the authority of the Agricultural Marketing Act of 1946 (AMA) , as amended. Programs under the AMA include the inspection and grading of rice, dry beans, lentils, dry peas, processed grain products, hops, and related commodities.

The Department's mission under the grain inspection program is to facilitate the marketing of grain, oilseeds, pulses, rice and related commodities by establishing descriptive standards and terms, accurately and consistently certifying quality, providing for uniform official inspection and weighing, carrying out assigned regulatory and service responsibilities, and providing the framework for commodity quality improvement incentive to both domestic and foreign buyers. Through these permissive and mandatory programs, the Department assists in advancing efficient marketing and effective distribution to U.S. and foreign buyers. The Department provides impartial assurances that the standards are applied and the weights are recorded in a fair and accurate manner to facilitate domestic and foreign grain grading.

Compliance Activities

Compliance activities ensure that the Department operates in conformance with all requirements and procedures established by statute, regulation, instruction, or directive. The program ensures that the USGSA and applicable provisions of the AMS are implemented accurately and effectively in both the domestic and international markets.

Field activities are reviewed to ensure that all procedures are implemented in a manner consistent with agency policy. Compliance activities include administering the program for delegating and designating State and private agencies to perform official functions and monitoring their performance by evaluating alleged violations of the USGSA and AMA, initiating preliminary investigations and referring criminal violations to the Office of the Inspector General, initiating enforcement and administrative action for violations, licensing official agency personnel, registering firms engaged in foreign commerce grain business, and maintaining an international monitoring program that responds to complaints concerning quality and quantity of grain shipments.

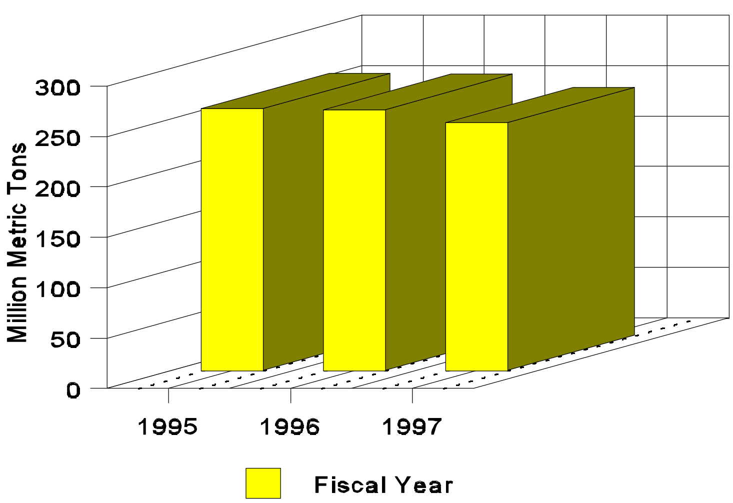
Compliance Level of Activity

	1995	1996	1997
Official Agency Actions:			
Agency delegations and designations in effect at end of the fiscal year	66	65	64
Designations renewed	23	24	23
Designations canceled	2	0	1
State delegations at export port locations in effect at end of the fiscal year	8	8	8
Registration of firms exporting grain:			
Registration certificates issued	96	100	102
On-site investigations	9	12	14

Inspection and Weighing Activities

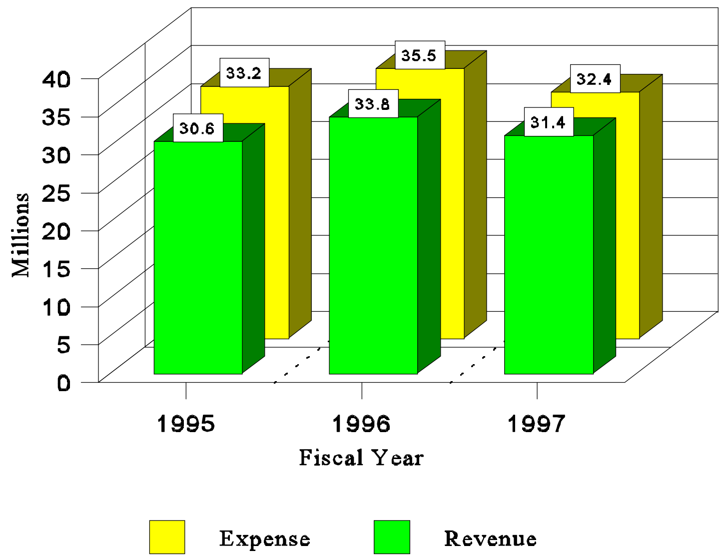
The USGSA requires mandatory inspection and weighing services at export ports by the Department or delegated State agency personnel as well as permissive inspection and weighing services at domestic locations by designate State and private agency personnel. As the accompanying graph indicates, the quantity of export grain inspected in FY 1997 decreased by 5 percent from levels inspected in FY 1995. This decrease was caused by lower harvest yields of grain that was exported.

Quantity of Export Grain Inspected



Fiscal Year	1995	1996	1997
Net Profit	(2.6)	(2.3)	(1.0)

The accompanying chart reflects the three-year trend in revenue and expense for the inspection programs. The inspection programs realized a 62 percent increase in the net results of operations from FY 1995 through FY 1997.



Packers and Stockyards Programs

These programs administer the Packers and Stockyards Act of 1921, as amended, and Section 1324 of the Food Security Act of 1985 for "central filing systems" established by States on pre-notification of security interests against farm products. This includes responsibilities with respect to persons and firms subject to the Packers and Stockyards Act for the Trust-in-Lending Act, the Fair Credit Reporting Act, and the Freedom of Information Act.

The principal purpose of the Packers and Stockyards Programs is to assure the integrity of the livestock, meat, and poultry markets and the market place. This includes fostering fair and open competition and guarding against deceptive and fraudulent practices that affect the movement and price of meat animals and products therefrom. The work of the Packers and Stockyards Programs is also aimed at protecting consumers and members of the livestock, meat, and poultry industries against unfair business practices which can unduly affect meat and poultry distribution and prices. The following chart provides workload information about this program.

Workload Indicators	1995	1996	1997
Investigations..........................	2,504	2,615	2,600
Market Agencies/Dealers Registered...............................	9,181	9,200	9,200
Stockyards Posted.....	1,386	1,385	1,385
Slaughtered and Processed Packers Subject to Act (estimated)..............................	6,500	6,400	6,400
Distributors, Brokers, and Dealers Subject to Act (estimated)..............................	6,900	6,900	6,900
Poultry Firms Subject to the Act..	240	240	240

Natural Resources And Environment

The Department plays a critical role in the sound stewardship of the Nation's land and natural resources. The USDA Forest Service (FS) and the Natural Resources Conservation Service (NRCS) share responsibility for fostering sound stewardship on 75 percent of the country's total land area. Both agencies apply sustainable ecosystem principles in the management of soil, water, forests, and wildlife. Each agency's respective strengths and expertise demonstrate that sound environmental policy and agricultural productivity are not mutually exclusive.

Forest Service

The Department has the Federal responsibility for National leadership in forestry. The FS' mission is to sustain the health, productivity, and diversity of the land to meet the needs of present and future generations. The Department provides leadership in the protection, management, and use of approximately 192 million acres of the Nation's forest, rangeland, and aquatic ecosystems through integration of ecological, economic, and social factors aimed at maintaining and enhancing the quality of the environment. Through implementation of land and resource management plans, the Department will ensure sustainable ecosystems and provide recreation, water, timber, minerals, fish, wildlife, wilderness and aesthetic values for current and future generations on National Forest System lands. The Department also provides technical and financial assistance to States and private landowners to practice good stewardship, promote rural economic development, and improve the natural environment of cities and communities.

Performance Goals

FS' goals and objectives describe tangible progress toward achieving its mission through the implementation of land and resource management plans that ensure sustainable ecosystems and provide multiple benefits. Those goals include:

- Ensure Sustainable Ecosystems
- Provide multiple benefits for people within the Capabilities of Ecosystems
- Ensure Organizational Effectiveness

Recreation, Wildlife, and Fisheries Resources

The Department annually seeks to meet demands for public outdoor recreation consistent with good land stewardship. A variety of recreation facilities were maintained and operated on Departmental lands in FY 1997 including campgrounds, trail heads, boat ramps, picnic areas, visitor information centers, and ski resorts.

Maintenance of high quality natural habitats is critical to the health and survival of native plant, wildlife, and fish species. In FY 1997, the Department restored or enhanced approximately 206,067 acres of wildlife habitat, 122,280 acres of threatened and endangered species habitat, 6,631 acres of inland fish lakes, 3,713 acres of anadromous fish lakes, and 118 acres of threatened and endangered species aquatic lakes.

Soil, Water, and Air

The Department completed soil and water resource improvements -- such as re-vegetation, soil stabilization, and stream channel rehabilitation -- on approximately 63,573 acres in FY 1997.

Pest Suppression Activities

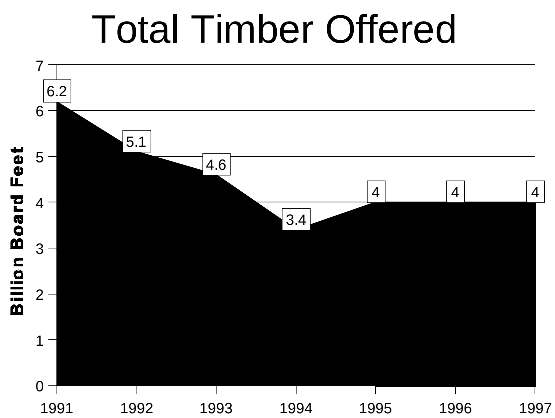
The Department conducts the forest pest suppression program in areas where it is biologically effective, economically efficient, and environmentally acceptable. Pest prevention and suppression activities protect Federal and cooperative forested lands from gypsy moths, southern pine beetles, and other insects and diseases.

Fuel Management

An estimated 1,018,400 acres of National Forest System land were treated to reduce the fire hazard. This included 131,255 acres accomplished with Brush Disposal funding from timber sale deposits.

Wood Fiber Production

The regular and salvage timber sale programs are usually designed to include maintenance and restoration activities such as insect and disease control, fuels treatment, and habitat restoration in addition to the production of wood. The number of acres treated annually through timber sales is an indicator of the extent of maintenance and restoration of forested ecosystems on National Forest System lands and the implementation of forest plan goals and objectives. In FY 1997, harvest treatments were employed on 458,000 acres, approximately 4.0 billion board feet of timber were offered for sale, and about 321,000 acres were reforested, and 258,000 acres of timber stand improvements were accomplished.



Forest Management and Utilization Program

The Department responds to State and private sector needs by stimulating tree planting, improving wood utilization, increasing the productive capacity of State tree nurseries, improving the quality of available planting stock, and enhancing urban and rural environments through wise vegetation management.

Research and Development

The Department provides scientific information and technology to protect, manage, and sustainably use the natural resources of public and private forests and rangelands. The following activities were accomplished during FY 1997.

- Collaborated with the National Science Foundation to develop the first long-term ecological research projects in urban America.
- Developed new technologies to spur energy efficiency and reduce greenhouse gases by sequestering carbon in wood products, which provides the potential to save 30% of the electrical energy used in paper production.
- Contributed to the Tongass National Forest risk assessments for wildlife viability, fish habitat, alternatives to clear-cut timber harvesting, and social and economic concerns.
- Expanded exotic pest research to address rangeland pests, and supported efforts to eradicate Asian Long-horned beetles and to control the Asian Gypsy Moth.
- Supported studies on improved water quantity and quality, and aquatic ecosystem health. Stream flow management plans are now available for areas where diminished flows of streams and rivers threaten the completion of life cycles for fish and aquatic organisms.
- Developed habitat management information and guides for more than 70 threatened, endangered, and sensitive species.
- Developed prescriptions to use fire to restore pine and oaks in the southern Appalachians, with minimal loss of soil nutrients.
- Collaborated research that showed the ozone reduced white pine growth in Arcadia National Park. Performed other atmospheric research that demonstrated the positive effects of trees in urban areas. Trees decreased the concentrations of ozone and other pollutants in Philadelphia, PA and Chicago, IL.

Natural Resources and Conservation Service

NRCS is the lead Federal conservation agency for private land, established to carry out a continuing program of soil and water conservation on the Nation's private and nonfederal land. Its mission is to provide National leadership in a partnership effort to help people conserve, improve, and sustain our natural resources and environment. The agency provides conservation technical assistance through local conservation districts to individuals, communities, watershed groups, tribal governments and Federal, State and local agencies, as well as others. This technical guidance is tailored to local conditions and is widely used by NRCS staff and governmental and nongovernmental organizations to ensure that conservation is based on sound science.

The benefits of these activities are multifaceted, including sustained and improved agricultural productivity; cleaner, safer, and more dependable water supplies; reduced damages caused by floods and other natural disasters; and an enhanced natural resource base to support continued economic development, recreation, and the environment.

Conservation Reserve Program (CRP)

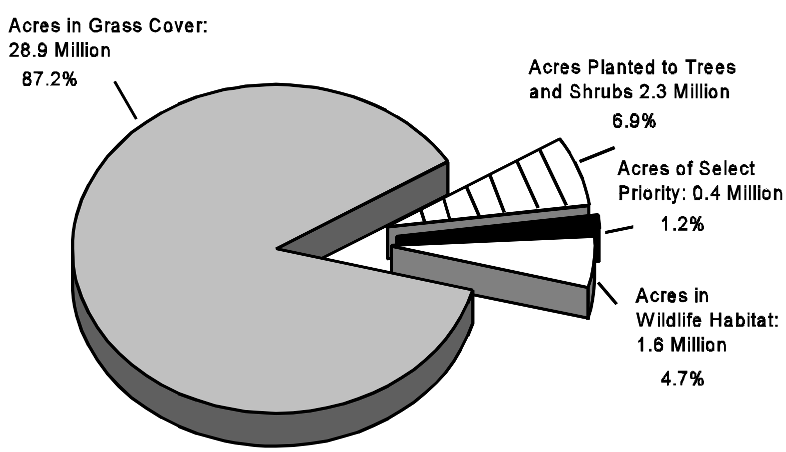
CRP is the Federal Government's single largest environmental program safeguarding millions of acres of American topsoil from erosion, increasing wildlife habitat, and protecting ground and surface water. CRP is administered by NRCS and funded by CCC. In FY 1997, $2.0 billion was apportioned for the program.

CRP participants sign a 10-15 year contract with the Commodity Credit Corporation (CCC) to retire highly erodible cropland from production and establish permanent vegetative cover. Participants receive annual rental payments, cost-sharing assistance on long-term resource conserving cover, and technical assistance. Legislation provides that CCC maintain an enrollment of up to 36.4 million acres in the CRP through September 30, 2002. Actual enrolled acreage will vary from year to year due to program provisions which allow for extension of existing contracts, regularly scheduled sign-up periods, early termination of contracts on less environmentally sensitive acreage, and a continuous sign-up for select environmental priority practice acreage.

For FY 1997, CCC incurred net outlays for CRP in the amount of $1.7 billion. Funding for the CRP was transferred from FSA to CCC as a result of the 1996 Act. The following graph provides the distribution of acres enrolled in CRP as of January 1, 1997.

Percentage of Total CRP Acreage by Major Practice

As of January 1, 1997



Total Enrolled: 33.2 Million Acres

Note: Totals may not agree to the actual sum of active contracts due to overlap in classification.

Maintaining high enrollment levels in CRP, implementing approved conservation practices on enrolled lands, restoring wetlands and improving wildlife habitat protects the Nation's natural resources and assists agricultural producers in attaining a high level of stewardship on America's farmland and ranches.

Analysis of Conservation Reserve Program Activities
As of January 1✳
(In Millions)

Description	1997	Target
Number of Acres Enrolled	**33.17**	**33.07**
Trees and Shrubs Planted on Enrolled Acreage (%)	**6.9**	**12.0**
Acres of Environmental Priority	**.4**	**1.09**
Restored Acres of Wetland	**N/A**	**1.30**
Established Acres of Enhanced Wildlife Habitat	**1.57**	**1.96**

✳ Information as of September 30 is currently not available.

Research, Education, and Economics

The Department actively supports research and education in plant and animal husbandry, natural resources, human nutrition, and agricultural economics. The Department serves as the Nation's primary agricultural information resource and maintains an extensive data base of information related to agriculture, rural development, aquaculture, and human nutrition. Departmental scientists conduct studies and provide reports, analyses, statistics, and projections on aspects of agriculture, rural development, and natural resources. The Department also supports the research and education efforts of other Federal agencies, States, territories, local governments, colleges and universities, and private organizations through partnerships and grant programs. The Department's education efforts address problems and issues affecting the rural and agricultural community, from global competitiveness and profitability to family well being and youth development.

In FY 1997, Departmental research produced thousands of publications on a variety of subject areas, including studies of insect pests and diseases, fire and atmospheric sciences, forest management, economics, recreation, new or improved agricultural products, and engineering. The Department also awarded grants to support research conducted by institutions outside of the agency, and actively disseminates information to the rural and agricultural community through a variety of educational programs.

<u>Agricultural Research</u>

The Department conducts significant original research to develop new knowledge and technology needed to solve technical agricultural problems of broad scope and high National priority. This research helps ensure adequate production of high quality food and agricultural products to meet the nutritional needs of the American consumer, sustain a viable food and agricultural economy, and maintain a quality environment and natural resource base. The Department also provides technical expertise to meet National food, food safety, and environmental emergencies, provides research support for international programs, and serves as an agricultural science resource to the executive and legislative branches.

The Research Roundtable, an ad hoc committee consisting of the major Federal research agencies, identified several reasons why it is extremely difficult to apply numerical measures to research. For this reason, ARS used a narrative approach to describing accomplishments in FY 1997.

- Scientists developed highly specific and sensitive antibodies for *E. Coli* 0157:H7. The new test is unique because it detects the *E. Coli* of greatest concern, the pathogenic 0157 serotype that can be fatal.

- Engineers developed a machine that kills Salmonella on raw poultry.

- Scientists developed a formic acid gel formulation to control parasitic mites of honey bees. The product should have a major impact on the production of honey and the supply of high quality honey bee colonies for the pollination of cultivated crops.

- Scientists discovered the mechanism for apomixis in corn (a rare process that mimics sexual reproduction) that eliminates the need for nonproductive acres planted with pollinate lines in hybrid seed production fields. This would make it possible to save seed for planting from one season to the next rather than purchasing new seed annually, which would be especially beneficial to farmers in underdeveloped countries.

- Scientists found a way to identify very small amounts of biological materials carried on airborne dust. Dust from rangelands, cropped fields, and roads can be differentiated. The ability to differentiate among sources of wind blown soils will be used in air quality studies.

- Scientists developed Amazing Oil, which is a byproduct from commercial conversion of corn wet milling and corn-to-ethanol processing. Amazing Oil has great domestic marketability because it contains cholesterol lowering agents and novel antioxidants, and could lead to increased profits for producers.

- A new method (ORAC assay) has been developed to determine the total antioxidant nutritional value of fruits and vegetables that offers new possibilities for evaluating horticultural and environmental influences on nutritional quality.

Economic Research

The Department performs agricultural economics and other social science research, outlook forecasting, policy analysis, and development of economics and statistical indicators related to U.S. and international agriculture, food, natural resources, and rural America. The Department collects agricultural data used in official National and State estimates of acreage, yield, production of crops, stocks, and value of farm commodities. The Department maintains data on approximately 120 crops and 45 livestock products which are covered in nearly 400 reports issued each year. Detailed data are also collected on agricultural chemical use, labor, and expenditures.

Beginning in FY 1997, the Department received program responsibility for the census of agriculture, formerly conducted by the Bureau of the Census, Commerce Department. Every 5 years the census of agriculture provides comprehensive National, State and county data as well as selected data for Puerto Rico, Guam, the Virgin Islands, and northern Mariana Islands.

Education Partnerships

The Department maintains both formal and informal ties with external organizations to advance science, technology, and education in support of agriculture, forestry, people, and communities. The Department participates with State and other funding sources for the conduct of agricultural research and education through the State Agricultural Experiment Stations of the 50 States and other institutions.

Grant programs include agricultural research supported by the Hatch Act, cooperative forestry research, animal health and disease research, the National Research initiative competitive Grants Program, and higher education. In FY 1997, the Department awarded approximately $431 million in grants through the cooperative State research program, a system that serves more than 12,000 scientists in the universities of the United States. An additional $63 million was awarded in FY 1997 for buildings and facilities at select universities. The total grants awarded in FY 1997 amounted to $494 million.

Rural Development

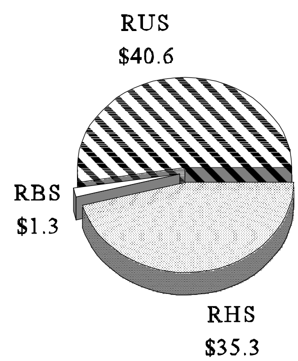
The Rural Development (RD) mission area, which was created by legislation in 1994, is comprised of three agencies: the Rural Housing Service (RHS), Rural Utilities Service (RUS), and Rural Business-Cooperative Service (RBS). RD's vision is to be a partner in helping the people of rural America develop sustainable communities. Its mission is to enhance the ability of rural communities to develop, to grow, and to improve their quality of life by targeting financial and technical resources in areas of greatest need through activities of greatest potential. The programs are designed to meet the diverse needs of rural communities and to help individuals and businesses compete in the global marketplace. These programs include a variety of loan, loan guarantee, and grant programs in the areas of business development, cooperative development, rural housing, community facilities, water and waste disposal, electric power, and telecommunications. The basic tenet of these programs is to supplement, rather than compete with, private credit.

Rural Development loan programs, with an outstanding portfolio of approximately $77.2 billion, are delivered through three National Offices and 47 State, 239 district, 732 county offices and a Centralized Servicing Center located in St. Louis, Missouri for the direct single family housing portfolio. The mission area serves approximately 637,128 single family housing borrowers, 16,075 multi-family housing borrowers, 11,091 community and business borrowers, and just under 1,700 telecommunications and electric borrowers.

The Department's loan programs are designed for (1) individuals and enterprises who lack the financial resources to obtain credit in the private sector and (2) loans bearing an interest rate equal to or less than the cost of funds. To protect the interests of the Government and the private lending institutions, loans are secured by real estate mortgages, assignments of income, personal and corporate guarantees, and liens on system revenues.

Total Loan Portfolio as of September 30, 1997

(in billions)



Loan Portfolio
Fiscal Years 1995 Through 1997
(Dollars in Billions)

	FY 95	FY 96	FY 97
Direct Loans			
RHS			
Single Family Housing	$18.7	$18.0	$17.5
Multiple Family Housing	11.7	11.8	11.9
Community Facilities/Other	(a)	1.1	1.2
RUS			
Water and Waste/Other	5.8	5.3	5.9
Electric	32.2	30.3	28.8
Telephone	3.7	3.7	3.7
Rural Telephone Bank	1.5	1.5	1.4
RBS			
Business and Industry	(a)	0.3	0.3
Total Direct	73.6	72.0	70.7
Guaranteed Loans			
RHS			
Single Family Housing	1.9	3.2	4.6
Multiple Family Housing	0.0	0.01	0.04
Community Facilities/Other	(a)	0.1	0.1
RUS			
Water and Waste/Other	0.7	0.3	0.2
Electric	0.7	0.7	0.6
RBS			
Business and Industry	(a)	0.6	1.0
Total Guaranteed	3.3	4.9	6.5
Total Loan Portfolio	$76.9	$76.9	$77.2

(a) The FY 1994 USDA reorganization resulted in RHS assuming management responsibility for Community Facility loans; RBS assuming management responsibility for Business & Industry loans; and RUS assuming management responsibility for Water & Waste loans. Although loans after September 30, 1991 are shown in the above totals with their respective servicing agency, loans made prior to October 1, 1991, are summarized in the RUS Water and Waste amounts.

As the above loan portfolio depicts, the dollar value of direct loans has decreased and the dollar value of guaranteed loans has increased in recent years, especially in the area of single family housing.

Rural Housing Service

The RHS mission is to improve the quality of life in rural America and to help build competitive and vibrant rural communities through its community facilities and housing programs.

Single Family Housing Programs

The Department provides financing, with no down payment and favorable rates and terms, through loans that are either direct (with RHS) or guaranteed (by RHS) with private financial institutions. The Direct Single Family Housing (SFH) program is the largest component of the rural housing portfolio. These loans are normally repayable over 33 years at an effective interest rate as low as 1 percent annually. The average interest rate for FY 1997 was 5.72 percent with 43 percent of all SFH borrowers receiving interest assistance. RHS provides grants to enable very low income rural homeowners to remove health and safety hazards in their homes and to make homes accessible for people with disabilities.

During FY 1997, the Department opened the Centralized Servicing Center to handle all phases of loan servicing in a single location and, for the first time, was able to offer escrow accounts for property taxes and insurance. RHS converted 677,276 direct SFH loans to a mortgage software system known as the Dedicated Loan Origination and Servicing System (DLOS).

The Guaranteed Rural Housing Program continued to demonstrate its commitment to achieving the objective of increased assistance to rural residence by maximizing the leverage of loan funds. As shown on the chart below, the program has grown significantly since 1991, with a 40 percent increase in the number of borrowers guaranteed between FY's 1996 and 1997.

Guaranteed Rural Housing Program	FY 1995	FY 1996	FY 1997
Total Number of Loans	35,269	56,579	79,118
Total Number of Borrowers	35,251	56,554	79,087
Total Portfolio	$1.9 billion	$3.2 billion	$4.6 billion

The Department typically guarantees 90 percent of the loan amount. The following table includes performance measures for Single Family Housing Programs.

Performance Goals	FY 1995	FY 1996	FY 1997(a)
Provide 75,000 rural households with improved or more suitable housing through home ownership	38,078	44,413	43,463
Graduate 9,860 SFH borrowers to outside financing	18,621	23,684	15,054(b)

a) Prior comparative years are being reported for comparability only. The performance measures are effective FY 1997 and beyond.
(b) This number includes only those borrowers who graduated before the loans were converted to DLOS.

Community Facility Programs

The Department makes both direct and guaranteed loans to municipalities, nonprofit corporations and similar entities to modernize and improve essential community facilities such as fire stations, health care clinics and child care facilities. The goal is to provide 500 communities with new or improved essential community facilities. In FYs 1996 and 1997, these facilities were provided to 380 and 567 communities, respectively. In these same fiscal periods, the Department achieved its goal of investing 3.5 percent of community facility direct funds and 1.5 percent of guaranteed funds in EZ/EC communities. The loan portfolio continues to be managed efficiently and effectively as demonstrated by the sustained currency rate of 98 percent during FYs 1995, 1996, and 1997.

Multi-Family Housing Programs

The Multi-Family Housing (MFH) Program finances farm labor housing, rural rental housing, and cooperative housing for low income and elderly people in rural communities of under 10,000 population. Farm labor housing loans and grants enable farmers, nonprofit organizations and State and local governments to develop or rehabilitate farm labor housing for seasonal and year round workers. Rural rental housing loans enable developers to provide housing for the elderly, disabled, and poor, and grants are available for the repair and rehabilitation of rental property. The following chart summarizes the achievements of this program.

Performance Goals	FY 1995	FY 1996	FY 1997(a)
Provide 100 communities with improved rental housing	380	316	244
97% currency rate for MFH borrowers	98%	98%	98%
(a) Prior comparative years are being reported for comparability only. The performance measures are effective FY 1997 and beyond.			

Rural Utilities Service

The RUS provides a variety of loan, loan guarantee, and grant programs for electric energy, telecommunications (including distance learning and telemedicine), and water and waste projects. These programs leverage scarce Federal funds with private capital for investing in rural infrastructure, technology, and the development of human resources. Financial assistance is provided to entities engaged in public welfare services and typically subject to State regulatory oversight.

Electric Program

As part of the restructuring of the electric utility industry, the Department ensures the continued availability of reliable, high-quality electric service at reasonable costs to rural consumers. As of September 30, 1997, electric borrowers had received over $57.6 billion in direct and guaranteed loans, of which over $824 million were approved in the current fiscal period. An additional $68.4 million in existing loans were repriced or refinanced during the year.

Performance Goals	FY 1995	FY 1996	FY 1997
Leverage $2.75 of private funds in rural electric infrastructure for every $1 of RUS electric loan advances.	2.9	2.2	3.44
Provide financial assistance for 45 electric systems in the 540 persistent poverty counties.	54 loans $510 million	53 loans $420 million	58 loans $304 million
Provide financial assistance for 80 electric systems in the 700 counties with persistently declining populations.	71 loans $535 million	87 loans $511 million	87 loans $329 million
Provide 1.6 million residents with improved electrical systems.	2.0 million	3.0 million	2.0 million

Telecommunications Program

The telecommunications program provides capital, establishes telecommunications standards, and provides guidance for rural telecommunications. As of September 30, 1997, telecommunications borrowers had received over $12.2 billion in direct loans and guaranteed loans, of which $380.8 million were approved in the current fiscal period.

Performance Goals	FY 1995	FY 1996	FY 1997
Leverage $6 in private funds in rural telecommunications infrastructure for every $1 of RUS telecommunications program loan advances	4.9	5.7	4.9
Provide 1.8 million residents and businesses with improved telecommunication service	1.0 million	1.4 million	0.8 million
Provide 46 schools with transmission facilities for distance learning applications	40	36	29

Water and Waste Program

Water and waste disposal loans are provided to rural communities for the development, replacement, or upgrade of water and waste disposal facilities. As of September 30, 1997, water and waste borrowers had received $9.1 billion in direct loans, loan guarantees, and grants, of which $1.3 billion were approved in the current fiscal period.

Performance Goals	FY 1995	FY 1996	FY 1997
Provide financial assistance for 216 water and waste systems in the 540 persistent-poverty counties.	210 $202 million	185 $135 million	221 $505 million
Provide financial assistance for 183 water and waste systems in the 700 counties with persistently declining populations.	186 $151 million	156 $131 million	184 $372 million
Provide 1.7 million people with safe, affordable drinking water.	1.7 million	1.3 million	1.1 million
Provide central water and waste disposal service to 277,000 rural residents who previously did not have service.	351,400	217,025	584,600

Rural Business-Cooperative Service

This program provides leadership in building competitive businesses and sustainable cooperatives that can prosper in the global marketplace. The Department accomplishes this mission by investing financial resources and technical assistance in businesses and cooperatives, and by building partnerships that leverage public, private, and cooperative resources to create jobs and stimulate rural economic activity.

The B&I Guaranteed and Direct Loan Programs provide financial assistance to virtually any legally organized entity without regard to prior credit experiences. The Intermediary Relending Program (IRP) and Rural Business Enterprise Grant (RBEG) Program provide financial assistance to eligible entities such as public and nonprofit corporations, Native American tribes, and cooperatives. The Rural Economic Development Loan (REDL) and Grant Programs provide financial resources to Rural Utilities Service borrowers to assist in developing rural areas and creating new job opportunities.

Delinquency rates for the B&I Guaranteed Loan Program declined to 6.6 percent at the end of the current fiscal period, and IRP and REDL programs have no delinquencies.

Performance Goals	FY 1995	FY 1996	FY 1997
Invest 20% of Rural Business Enterprise Grant funds in EZ/EC Communities	20% $9 million	19.3% $8.5 million	18.2% $8.3 million
Invest 21% of Intermediary Relending Program funds in EZ/EC Communities	12% $10 million	19.3% $7.3 million	19.4% $7.2 million
Invest 1.1% of B&I Guaranteed Loan Program Funds in EZ/EC Communities	.45% $1.9 million	.39% $2.5 million	1.3% $10.4 million
Maintain a 91% currency rate for guaranteed Business and Industry loans	89%	91%	94%
Maintain a 100% currency rate for Intermediary Relending Program loans	(a)	(a)	100%

(a) This information is maintained on a stand-alone database and the currency rate was not calculated for previous years.

Other Services

Departmental Administration

Departmental Administration (DA) provides overall direction and coordination for the Department in the areas of human resources, civil rights, space, procurement and property management. DA administers outreach programs to assure that USDA programs and administrative activities are conducted on an equitable basis, and also provides direct support to the Office of the Secretary.

The Office of Human Resources Management provides Departmentwide leadership and policy analysis and guidance in employment, work force diversity, labor relations, ethics, compensation, performance management, training, safety and health, and other personnel operations support. The Office of Civil Rights (OCR) has overall leadership responsibility for Department civil rights activities including employment and program compliance. OCR heads the monitoring and evaluation functions to assure performance and accountability in the USDA civil rights program.

The Office of Outreach works on a National basis to assure that USDA programs are available on a non-discriminatory basis and to eliminate barriers to program participation. The Office of Small and Disadvantaged Business Utilization promotes the growth and competitiveness of small, minority-owned and women-owned businesses through equitable participation in USDA procurement and program activities.

The Office of Operations manages the facilities and provides the services to operate the Department, such as printing and copying, messenger and mail services, transportation, and occupational health and safety. The Office of Procurement and Property Management provides Departmentwide leadership and oversight in procurement and acquisition, management of real estate and personal property, motor vehicle and air fleet management, and disaster management and emergency planning.

The Office of Administrative Support provides administrative support to the staff offices and Office of the Secretary including planning, finance, and information technology. The Judicial Officer, the Office of Administrative Law Judges, and the Board of Contract Appeals are also placed under DA for housekeeping and support.

Office of the Chief Financial Officer

The 1,750 employees of the Office of the Chief Financial Officer (OCFO) located at headquarters in Washington, D.C. and the National Finance Center (NFC) in New Orleans provide financial management leadership to the rest of the Department. They direct and oversee financial management activities and provide financial information, guidance, advice and counsel to USDA agencies and programs that are responsible for almost $140 billion of total assets, including approximately $75 billion in net accounts, loans and interest receivable from the public. In this environment, good financial management is particularly critical, requiring increased attention to our financial, general, and performance management activities to improve program delivery and assure maximum contribution to the goals of the Department. OCFO's mission is to provide, through partnerships, financial management leadership and service to support quality program delivery in USDA.

Performance Goals

Ensure the provision of timely and reliable financial management information, advice and counsel to support informed decisionmaking by USDA policy and program personnel.

Ensure accountability for assets and resources entrusted to the Department.

Provide coordination, compliance and monitoring services to USDA agencies for specified financial management and related legislation, regulations and administrative policies.

Develop and maintain administrative and financial management information processing systems that are responsive to user and customer needs.

National Finance Center

NFC's mission is to design, develop, implement, and operate cost effective financial, administrative, and management information systems and services supporting the missions of the Department and its customers. NFC manages a wide variety of administrative systems at its facility in New Orleans, Louisiana, and produces a multitude of reports for both internal and external management and financial reporting purposes. The current financial management systems development efforts, under the Financial Information Systems Vision and Strategy (FISVIS) project, will consolidate and improve the efficiencies of many existing systems. NFC serves as the recordkeeping agency and loan operations management office for the Federal Employee Retirement System (FERS) Thrift Savings Plan (TSP). Since 1985, NFC has pioneered the concept of cross-servicing, which has enabled external customers to take advantage of NFC's existing administrative systems while allowing the Department to benefit from the economies of scale that a larger customer base provides. NFC's performance measures are presented in the following table.

National Finance Center Performance Measures

Type of Measure	FY 1996	FY 1997	Change
Transactions per Staff Year	256.071	253,808	-0.89%
Annual Cost per Employee Paid	$108.86	$106.52	-2.20%
Percentage of Employees Paid Through the System	99.99	99.99	0.00%
Cost per Administrative Payment Transaction (w/PAYPERS)	$2.78	$2.74	-1.78%
Cost per Administrative Payment Transaction (w/o PAYPERS)	$4.22	$3.74	-13.03%

Transactions per staff year were reduced 0.9 percent from the preceding year. This followed a 21.4 percent reduction from 1995 to 1996. In addition, the annual cost per employee paid through the automated payroll system was reduced by 2.2 percent, and the cost per administrative payment transaction was reduced in this fiscal period. These unit costs include costs for FISVIS system support and modernization efforts (formerly Modernization of Administrative Process Project Office initiatives). The reductions in unit costs for administrative payment transactions resulted from lower overall costs to operate and maintain these systems. The percentage of employees paid through the automated payroll system continues a long-standing trend for reliable processing of transactions in this system.

Work volumes and costs to support the FERS TSP are not included in the summary performance measures. NFC supports approximately 2.2 million accounts under the TSP at a cost of $27.9 million in 1997. An additional $2.7 million was billed to USDA and non-USDA agencies for agency-specific services outside the "core operations" of NFC.

Office of the General Counsel

The Office of the General Counsel (OGC) is responsible for providing essential and necessary legal advice, counsel, and services to the Secretary of Agriculture and other officials of the Department for all programs, operations, and activities. The OGC's mission is to provide all legal services necessary to support the programs and activities of the Department throughout its Washington and field locations.

The General Counsel is the principal legal advisor to the Secretary of Agriculture and is responsible for providing legal advice and representation for the Department. The General Counsel is assisted by a Deputy General Counsel and five Associate General Counsels, each of whom is responsible for a portion of the legal work of the Department. The functions of the Department are performed in the Washington office, five regional offices, and 13 branch offices.

Office of Inspector General

Mission and Organizational Structure.

The Office of the Inspector General's (OIG) mission is to conduct and supervise audits and investigations to prevent or detect fraud and to improve the effectiveness of USDA programs and operations by recommending changes that will increase efficiency and reduce wasteful and fraudulent activities.

The OIG is operationally independent of other agencies of the Department and has the responsibility to supervise, coordinate, and provide policy direction for audit and investigative activities relating to programs and operations of the Department; recommend policies and conduct, supervise, or coordinate other activities of the Department for the purpose of promoting economy and efficiency and preventing and detecting fraud, waste, and mismanagement in its programs and operations; keep the Secretary and the Congress informed of fraud and other serious problems, waste, and deficiencies relating to the administration of programs and operations of the Department; and recommend corrective action and report on progress made in obtaining management's agreement to implement such action.

Performance Goals.

Promote economy, efficiency, and effectiveness in the administration of USDA programs and operations.

Promote USDA's conformity with the applicable principles, standards, and related requirements by fostering improvements in financial systems and financial reporting which will enhance the Department's fulfillment of its fiduciary responsibilities.

Promote program integrity by detecting fraud, waste, and abuse in the Department to provide assurance that legal and regulatory requirements are met.

Results.

In FY 1997, OIG issued 255 audit reports and 958 investigative reports. OIG reached management decisions on 207 audit reports which depicted findings with questioned and unsupported costs and loans that totaled $919 million and recommendations for recovery of funds totaling $19.2 million. In addition, OIG reported $267.4 million in funds that could be put to better use. Investigations' casework resulted in 664 indictments, 703 convictions, 52 lawsuits filed, and total monetary results of $82.7 million.

LIMITATIONS OF THE FINANCIAL STATEMENTS

The financial statements have been prepared to report the financial position and results of operations of the entity, pursuant to the requirements of 31 U.S.C. 3515 (b).

While the statements have been prepared from the books and records of the entity in accordance with 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.

The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity. One implication is that liabilities cannot be liquidated without legislation that provides the necessary resources.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

U.S. DEPARTMENT OF AGRICULTURE
STATEMENT OF FINANCIAL POSITION
AS OF SEPTEMBER 30, 1997
(In Thousand Dollars)

ASSETS	1997
Entity Assets	
Federal Assets	
Fund Balance with U.S. Treasury and Cash (Note 3)	$36,812,708
Investments, Net (Note 4)	15,810
Accounts Receivable, Net (Note 5)	1,321,517
Receivable from Appropriations (Note 6)	15,994,109
Deferred Reimbursable Losses (Note 6)	141,879
Interest Receivable	69,496
Advances and Prepayments	43,801
Non-Federal Assets	
Investments, Net (Note 4)	91,659
Accounts Receivable, Net (Note 5)	1,083,585
Credit Program Receivables (Note 8)	71,770,596
Domestic Commodity Loans, Net (Note 8)	1,350,910
Other Foreign Receivables, Net (Note 8)	389,567
Interest Receivable, Net	137,845
Advances and Prepayments	25,811
Other (Note 7)	67,373
Inventory, Net	0
Operating Materials and Supplies, Net (Note 9)	78,907
Goods Held under Price Support and Stabilization Programs, Net (Note 10)	355,340
Property, Plant and Equipment, Net (Note 11)	9,582,849
Total Entity Assets	139,333,762
Non-Entity Assets	
Federal Assets	
Fund Balance with U.S. Treasury and Cash (Note 3)	793,051
Accounts Receivable, Net (Note 5)	35,300
Interest Receivable	182
Non-Federal Assets	
Accounts Receivable, Net (Note 5)	90,798
Interest Receivable, Net	20,557
Other (Note 7)	3,611
Total Non-Entity Assets	943,499
TOTAL ASSETS	$140,277,261

The accompanying notes are an integral part of these statements.

U.S. DEPARTMENT OF AGRICULTURE
STATEMENT OF FINANCIAL POSITION
AS OF SEPTEMBER 30, 1997
(In Thousand Dollars)

LIABILITIES	**1997**
Liabilities Covered by Budgetary Resources	
Federal Liabilities	
Accounts Payable	$153,143
Interest Payable	1,089,048
Debt to U.S. Treasury/Federal Financing Bank (Note 12)	66,865,737
Unearned Revenue	155,380
Trust and Deposit Liabilities	95,529
Resources Payable to Treasury	17,070,334
Other (Note 14)	9,804
Non-Federal Liabilities	
Accounts Payable	2,768,082
Interest Payable	26,445
Debt (Note 12)	2,171,667
Estimated Losses on Loan and Foreign Credit Guarantees (Note 8)	2,692,831
Estimated Losses on Insurance Claims	884,644
Accrued Program Liabilities (Note 13)	2,432,826
Unearned Revenue	172,315
Trust and Deposit Liabilities	792,600
Other (Note 14)	1,422,518
Total Liabilities Covered by Budgetary Resources	98,802,903
Liabilities Not Covered by Budgetary Resources	
Federal Liabilities	
Accrued Program Liabilities (Note 13)	492,870
Non-Federal Liabilities	
Annual Leave and Federal Employees Compensation Act Liability	1,199,766
Other (Note 14)	1,120
Total Liabilities Not Covered by Budgetary Resources	1,693,756
TOTAL LIABILITIES	$100,496,659

Commitments and Contingencies (Notes 8, 23)

The accompanying notes are an integral part of these statements.

U.S. DEPARTMENT OF AGRICULTURE
STATEMENT OF FINANCIAL POSITION
AS OF SEPTEMBER 30, 1997
(In Thousand Dollars)

NET POSITION	1997
Investment of Others (Note 15)	$30,977
Equity of the U.S. Government (Note 15)	
Unexpended Appropriations	31,049,706
Capital Stock	600,000
Additional Paid-In Capital	37,978
Invested Capital	9,263,992
Donated Capital	92
Cumulative Results of Operations	491,613
Total Equity of the U.S. Government	41,443,381
Less: Future Financing Sources (Note 15)	1,693,756
TOTAL NET POSITION	39,780,602
TOTAL LIABILITIES AND NET POSITION	$140,277,261

The accompanying notes are an integral part of these statements.

CONSOLIDATED

STATEMENT OF OPERATIONS

AND

STATEMENT OF CHANGES

IN NET POSITION

U.S. DEPARTMENT OF AGRICULTURE
STATEMENT OF OPERATIONS AND
STATEMENT OF CHANGES IN NET POSITION
FOR THE PERIOD ENDING SEPTEMBER 30, 1997
(In Thousand Dollars)

REVENUES	1997
Revenues From Sales of Goods and Services	
Federal	$67,644
Non-Federal	1,108,116
Interest and Penalties	
Federal	1,965,971
Non-Federal	5,185,066
Insurance Premium Revenue	489,548
Other Revenue (Note 16)	131,330
Less: Taxes and Receipts Transferred to the U.S. Treasury or Other Agencies	178,634
TOTAL REVENUES	8,769,041
OTHER FINANCING SOURCES	
Appropriated Capital Used	48,054,008
Reimbursements	618,486
Other Financing Sources (Note 16)	1,405,794
TOTAL OTHER FINANCING SOURCES	50,078,288
TOTAL REVENUES AND OTHER FINANCING SOURCES	$58,847,329

EXPENSES	
Operating/Program Expenses (Note 17)	$58,399,027
Credit Reform Program Subsidy (Note 8)	1,095,492
Provision for Losses (Note 18)	1,437,296
Cost of Goods Sold	
Federal	2,624
Non-Federal	254,695
Interest Expense	
Federal Financing Bank/U.S. Treasury Borrowings	6,295,332
Other	298,548
Depreciation and Amortization	241,827
Other Expenses (Note 19)	90,449
TOTAL EXPENSES	$68,115,290
Excess (Shortage) of Revenues and Other Financing Sources Over Total Expenses	
Before Extraordinary Items and Changes in Accounting Principle	($9,267,961)
Extraordinary Item (Note 20)	(140,000)
Cumulative Effect of a Change in Accounting Principle	0
Excess (Shortage) of Revenues and Other Financing Sources Over Total Expenses	($9,407,961)

The accompanying notes are an integral part of these statements.

U.S. DEPARTMENT OF AGRICULTURE
STATEMENT OF OPERATIONS AND
STATEMENT OF CHANGES IN NET POSITION
FOR THE PERIOD ENDING SEPTEMBER 30, 1997
(In Thousand Dollars)

STATEMENT OF CHANGES IN NET POSITION	1997
Net Position, Beginning Balance, as Previously Reported	$33,432,445
Adjustments (Note 21)	142,629
Net Position, Beginning Balance, as Restated	33,575,074
Excess (Shortage) of Revenues and Other Financing Sources Over Total Expenses	(9,407,961)
Financing from Appropriations (Note 6)	8,572,849
Plus (Minus) Non-Operating Changes (Note 22)	7,040,640
NET POSITION, ENDING BALANCE	$39,780,602

The accompanying notes are an integral part of these statements.

CONSOLIDATED NOTES TO THE PRINCIPAL FINANCIAL STATEMENTS

U.S. DEPARTMENT OF AGRICULTURE
NOTES TO PRINCIPAL FINANCIAL STATEMENTS
AS OF SEPTEMBER 30, 1997
(In Thousand Dollars)

NOTE 1: REPORTING ENTITY:

USDA was created in 1862 to conduct research and disseminate agricultural information. Over time its missions have grown such that today USDA programs affect the lives of all Americans and millions of people around the world. USDA's programs provide billions of dollars annually to support farm income, boost farm production and exports, promote small community and rural development, ensure a safe food supply for the Nation, manage natural resources, and improve the nutrition of individuals and families with low incomes.

On October 13, 1994, the President signed the Federal Crop Insurance Reform and Department of Agriculture Reorganization Act of 1994, Public Law No. 103-354. The law permits the reorganization of the Department, including the establishment of subcabinet positions, the restructuring of headquarters agencies and offices, continued reductions in the numbers of USDA personnel, and consolidation and closure of field office locations. This streamlining of the Department will permit USDA to deliver programs and services to the public in an efficient and cost-effective manner.

The Department is comprised of various agencies, corporations, and offices through which it implements its programs. All USDA entities are referred to as agencies in the financial statements unless otherwise noted. As of the end of the fiscal year (FY), USDA employed over 98,000 full-time employees. In addition, it paid for the services of over 11,000 county office employees of the Farm Service Agency.

The Consolidated Financial Statements do not include the financial activities of the USDA Graduate School because its operations are independent of USDA. The school's financial statements are audited by an independent public accounting firm. They may be obtained from the USDA Graduate School, Public Affairs Office, 600 Maryland Avenue, SW, Washington, DC 20024-2520.

The USDA mission areas, agencies, and corporations are as follows:

- Alternative Agricultural Research and Commercialization (AARC) Corporation
- Departmental Administration (DA)
- Departmental Offices
  - National Appeals Division (NAD)
  - Office of Budget and Program Analysis (OBPA)
  - Office of Communications (OC)
  - Office of the Chief Economist (OCE)
  - Office of the Chief Financial Officer (OCFO)
  - Office of the Chief Information Officer (OCIO)
  - Office of the General Counsel (OGC)
  - Office of the Inspector General (OIG)
- Farm and Foreign Agricultural Services (FFAS) mission area
  - Farm Service Agency (FSA)
    - Commodity Credit Corporation (CCC)
    - Farm Service Agency Administration and Conservation (FSA A&C)
    - Farm Service Agency Farm Loan Programs (FSA FLP)
  - Foreign Agricultural Service (FAS)
  - Risk Management Agency (RMA)
    - Federal Crop Insurance Corporation (FCIC)

Food, Nutrition, and Consumer Services (FNCS) mission area
- Center for Nutrition Policy and Promotion (CNPP)
- Food and Nutrition Service (FNS)

Food Safety mission area
- Food Safety and Inspection Service (FSIS)

Marketing and Regulatory Programs (MRP) mission area
- Agricultural Marketing Service (AMS)
  - Milk Market Administrators (MMA)
- Animal and Plant Health Inspection Service (APHIS)
- Grain Inspection, Packers and Stockyards Administration (GIPSA)

Natural Resources and Environment (NRE) mission area
- Forest Service (FS)
- Natural Resources Conservation Service (NRCS)

Research, Education, and Economics (REE) mission area
- Agricultural Research Service (ARS)
- Cooperative State Research, Education, and Extension Service (CSREES)
- Economic Research Service (ERS)
- National Agricultural Statistics Service (NASS)

Rural Development (RD) mission area
- Rural Business - Cooperative Service (RBS)
- Rural Housing Service (RHS)
- Rural Utilities Service (RUS)

A description of the programs carried out by the agencies listed above can be found in the Overview of FY 1997 Operations and Results section of these financial statements. Additional information is included in the Other Accompanying Information section.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES:

A. Basis of Presentation

FY 1997 represents the tenth year that USDA has prepared Consolidated Financial Statements. They are presented in a consolidating manner, which provides information on four of USDA's major agencies, one mission area, all other agencies, and total USDA, after eliminating intra-USDA transactions. The statements have been prepared to report the financial position and results of operations of USDA, as required by the Chief Financial Officers (CFOs) Act of 1990. They have been prepared from the books and records of USDA agencies in accordance with the form and content of entity financial statements specified by the Office of Management and Budget (OMB) and modified by USDA's accounting policies, which are summarized in these notes. As a result of preparing the Consolidated Financial Statements in accordance with the prescribed form and content, the statements differ from the reports that are used to monitor and control USDA's use of budgetary resources.

B. Basis of Accounting

The financial statements have been prepared pursuant to the requirements of the CFO's Act of 1990, and in accordance with a comprehensive basis of accounting that USDA financial managers have concluded is most appropriate for presenting significant assets, liabilities, net position, and result of operations. As indicated in USDA's Financial and Accounting Standards Manual, USDA's hierarchy of accounting policies is as follows:

(1) Federal Accounting Standards recommended by the Federal Accounting Standards Advisory Board and

issued by OMB;

Standard #1 - Accounting for Selected Assets and Liabilities (March 30, 1993)
Standard #2 - Accounting for Direct Loans and Loan Guarantees (August 23, 1993)
Standard #3 - Accounting for Inventory and Related Property (October 27, 1993)
Standard #5 - Accounting for Liabilities of the Federal Government (December 20, 1995)

(2) OMB Bulletin 94-01 and portions of OMB Bulletin 97-01, "Form and Content of Agency Financial Statements";

(3) Past agency practices incorporated in USDA's Financial and Accounting Standards Manual; and

(4) Accounting principles published by authoritative standard setting bodies and other authoritative sources (a) in the absence of other guidance in the first three parts of this hierarchy, and (b) if the use of such accounting standards improve the meaningfulness of the financial statements.

Transactions are recorded on an accrual accounting basis and a budgetary basis. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and control over the use of federal funds.

C. Recognition of Revenues and Other Financing Sources

Appropriations

USDA receives the majority of the funding needed to support its programs through appropriations. Appropriations are provided on an annual and multi-year basis and are used to fund program and other operating expenses. Such expenses include personnel compensation and fringe benefits, rents, communications, utilities, and other administrative expenses. Appropriations are also used to fund capital investments.

For financial reporting under accrual accounting, appropriations are considered "used" as they finance current year expenses. Appropriations expended for capital items are not recognized as expenses until the asset is consumed in operations. Assets financed in this manner are presented as Equity of the U.S. Government. Unexpended appropriations are also presented as Equity of the U.S. Government.

Revenues

Revenues are provided by sales of goods and services and from other sources, such as user fees. Revenues are recognized on an accrual basis when the goods have been delivered or the services provided. USDA revolving funds and corporations use revenues to support operations. In most cases, USDA agencies are required to remit revenue receipts at fiscal year-end to the Treasury. Some agencies are authorized to use a portion of their revenues for specific purposes.

Deferred Revenue Related to Purchaser Road Credits

Under the terms of some timber sale contracts, timber purchasers are allowed to construct roads to gain access to timber. To the extent the FS has a use for the roads after the completion of the timber contract, the timber purchaser is given a credit (purchaser road credit) for the value of the road that exceeds the life of the contract. The amount of the purchaser road credit granted is based on an estimate that is made at the time of the timber sale. The timber purchaser can use the credit as an offset to payments on timber harvested.

Methodology for Accruing Interest Income

Interest income on loans is accrued at the contractual rate on the outstanding principal amount. Interest is not accrued on delinquent loans. Interest on delinquent loans is usually restored to loans receivable, with an offsetting credit to the allowance for loans losses, when borrowers enter troubled debt restructuring arrangements. Interest income recognition subsequent to the restructuring is generally limited to actual cash interest received from these borrowers. Various departmental lending programs provide for interest rates significantly less than the U.S. Treasury average interest rate.

Generally, interest is not accrued on commodity loans because the amount and timing of interest payments to be received are uncertain. In these cases, the Department realizes interest income at the time interest payments are received.

Borrowings

Other sources of financing include long-term and interim borrowings from the Treasury, the Federal Financing Bank (FFB), and private lending agencies. Refer to Note 12 - Debt for additional information.

USDA's borrowings payable to the Treasury result from the Secretary of Agriculture's authority to make and issue notes to the Secretary of Treasury for the purpose of discharging obligations for RD's insurance funds and CCC's unreimbursed realized losses and debt related to their foreign assistance programs.

USDA has a permanent indefinite borrowing authority of $30 billion, made up of both interest bearing and non-interest notes. These notes are drawn upon daily when disbursements exceed deposits. Notes payable under permanent indefinite borrowing authority have a term of one year. On January 1 of each year, USDA refinances its outstanding borrowings, including accrued interest, at the January borrowing rate. Monthly interest rates ranged from 5.5 percent to 6 percent during FY 1997.

A permanent indefinite borrowing authority exists for USDA's foreign assistance and export credit programs to finance disbursements on post-Credit Reform direct credit obligations and credit guarantees. In accordance with Credit Reform, USDA 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. Repayment under this agreement may be, in whole or in part, prior to maturity by paying the principal amount of the borrowings plus accrued interest to the date of repayment. For FY 1997, interest rates were 6.89 percent.

USDA's borrowings from the FFB and private investors are in the form of Certificates of Beneficial Ownership (CBOs) or loans executed directly between the borrower and FFB with USDA unconditionally guaranteeing repayment. CBOs outstanding with the FFB and private investors are generally secured by unpaid loan principal balances. CBOs outstanding are related to pre-Credit Reform loans and no longer used for program financing.

FFB CBOs are repaid as they mature and are not related to any particular group of loans. Borrowings made to finance loans directly between the borrower and FFB mature and are repaid as the related group of loans become due. Interest rates on the related group of loans are equal to interest rates on FFB borrowings, except in those situations where an FFB funded loan is restructured and the terms of the loan are modified. During FY 1997, approximately $7 million of FFB loans were repriced or refinanced.

Funds may also be borrowed from private lending agencies and others. USDA reserves a sufficient amount of its borrowing authority to purchase, at any time, all notes and other obligations evidencing loans made by agencies and others. All bonds, notes, debentures, and similar obligations issued by the Department are subject to approval by the Secretary of the Treasury. Reservation of borrowing authority for these purposes has not been required for many years.

Federal Credit Reform

USDA is required by the Federal Credit Reform Act of 1990 to budget and account for future costs that will be incurred as a result of credit programs. The expected costs (subsidy) are included as outlays of the program. The un-subsidized cash flows are recorded in separate financing accounts. Budgetary authority must be available to cover the subsidy cost of all direct loans and loan guarantees at the time such loans and guarantees are committed.

As required by the Federal Credit Reform Act, post-1991 direct loans and loan guarantees are financed by a combination of two sources: (1) long-term cost of credit and (2) remaining un-subsidized portion of the credit. Congress annually adopts a 1-year appropriation, available for obligation in the fiscal year (FY) for which it is provided, to cover the estimated long-term costs of the loans. The long-term costs or subsidies are defined as the net present value of the estimated cash outflows associated with the loans, less the estimated cash inflows. The portion of each loan disbursement that does not represent long-term costs is financed under a permanent and indefinite borrowing authority to borrow funds from the Treasury. Additionally, Congress annually adopts an appropriation bill that limits the dollar amount of obligations available for direct loans.

Subsidies are estimated and calculated on the differences between the present value of the expected cash outflows from the government and the present value of expected cash inflows, each year discounted by the Treasury rate of a similar termed instrument on the date the loan is committed. Subsidy costs (including interest rate differential, interest subsidies, delinquencies and defaults, fee offsets and other cash flows) associated with direct loans are recognized as costs in the year the loan commitment is made. The net present value of loans receivable at any point in time is the amount of the gross loans receivable, reduced by an allowance equal to the present value of the subsidy costs associated with the loans.

Credit modifications require that budget authority for the additional costs resulting from the modifications be appropriated or be available from either existing appropriations or other budgetary resources.

The Act also establishes a separate liquidating account for all cash flows resulting from direct credit and credit guarantee transactions entered into prior to FY 1992. This provision includes payments on borrowings from Treasury used to finance credit guarantee transactions before Credit Reform, payments of interest on borrowings, and disbursements on pre-1992 direct credit and credit guarantees.

USDA's non-recourse loans are exempt from the Credit Reform Act. These loans differ from commercial (foreign) credit and credit guarantees because of the repayment terms. Producers have the option of either repaying the principal plus interest or, at maturity, forfeiting the collateral (commodity) in full satisfaction of the loan.

Refer to Note 8 - Loan and Credit Program Receivables and Related Foreclosed Property for additional information.

D. Fund Balance with U.S. Treasury and Cash

USDA does not, for the most part, maintain cash in commercial bank accounts. Cash receipts and disbursements are processed by the Department of the Treasury. Fund balance with Treasury and cash are primarily appropriated, revolving, and trust funds that are available to pay current liabilities and finance authorized purchase commitments. Cash balances held outside the Treasury are not material.

E. Shared Funds

Appropriations and funds available to the Department may be allotted to a number of USDA agencies for the purpose of fulfilling legislative requirements. The appropriations are considered shared appropriation accounts. For the purpose of preparing the Consolidated Financial Statements, the agency that actually expends the appropriation reports the impact of shared funds.

F. Loans Receivable

Loans are accounted for as receivables after funds have been disbursed. For loans obligated prior to October 1, 1991, loan principal, interest, and penalties receivable are reduced by an allowance for estimated uncollectible amounts. The allowance is estimated based on past experience, present market conditions, and an analysis of outstanding balances. For loans obligated on or after October 1, 1991, the loans receivable is reduced by an allowance equal to the present value of the subsidy costs (due to the interest rate differential between the loans and Treasury borrowings, the estimated delinquencies and defaults net of recoveries, the offset from fees, and other estimated cash flows) associated with these loans.

Refer to Note 8 - Loan and Credit Program Receivables and Related Foreclosed Property for additional information.

G. Interest Receivable

Interest receivable is primarily attributable to accrued interest related to loans in CCC, RD, and FSA (farm loans) loan portfolios. RD accrues interest on the outstanding loan principal at the contractual rate as it is earned. CCC accrues interest on foreign credits and credit guarantee receivables as it is earned.

H. Allowance for Loan Losses

For loans obligated prior to October 1, 1991, the allowance for loan losses is based on historical data, an assessment of future risks, borrowers' credit histories, and an analysis of current market factors and conditions. The allowance for loan losses is maintained at a level to provide for estimated losses inherent in the loan portfolio.

In order to address Credit Reform requirements, for loans obligated on or after October 1, 1991, the amount of loans receivable is reduced by an allowance equal to the net present value of the subsidy costs (due to the interest rate differential between the loans and Treasury borrowing, the estimated delinquencies and defaults net of recoveries, the offset from fees, and other estimated cash flows) associated with these loans.

I. Property and Equipment

Property and equipment are recorded at the acquisition cost plus any expenditures, such as freight, installation or testing, related to placing the asset into service. Purchases of property valued at $5,000 or more, with a useful life greater than 2 years, are capitalized. All other purchases of property or equipment are fully expensed in the year of acquisition.

Refer to Note 11 - Property, Plant, and Equipment for more information.

J. Liabilities

Liabilities represent the amount of monies or other resources that are likely to be paid by USDA as the result of a transaction or event that has already occurred. However, no liability can be paid by USDA absent an appropriation. Liabilities for which an appropriation has not been enacted are therefore classified as unfunded liabilities and there is no certainty that the appropriations will be enacted. The exception to this is Public Law 87-155, as amended. Public Law 87-155 authorizes reimbursement to CCC for its net realized losses incurred each year.

K. Accounts Payable

Accounts Payable represent the amounts due under contracts and owed by USDA for goods and services received but unpaid at fiscal year-end.

In conjunction with certain RUS troubled debt restructurings, RD has assumed notes payable to nonfederal entities approximating $2.2 billion for debt previously guaranteed. A substantial portion of these balances are owed to the National Rural Utilities Cooperative Finance Corporation, a private lender to rural electric borrowers. The notes bear interest at rates ranging from 7.13 to 10.70 percent and mature through the year 2021.

L. Accrued Interest Payable

Accrued Interest Payable is primarily the interest due on borrowings from the Treasury and the FFB at fiscal year-end. USDA is required to make periodic interest payments to Treasury based on its debt to the Treasury. At the end of the fiscal year, the accrued interest payable on borrowings under the Department's permanent indefinite borrowing authority totaled $139 million.

M. Investment of Others

Investment of Others is the amount of Rural Telephone Bank stock held by non-Federal borrowers and the value of non-government equity in MMA.

N. Future Financing Sources

Future financing sources represent expenses incurred by the USDA for which future appropriations will provide funding. A future financing source is recognized for USDA's accrued liabilities for annual leave, FECA, and other post employment benefit (OPEB) expenses (Note 16).

O. Insurance Premium Revenue

Insurance Premium Revenue (including premium subsidies) relate to a crop's risk of loss incurred by FCIC. They are recognized as earned on a pro rata basis over each crop's growing season. The portion of premium (unearned premium) and premium subsidy not recognized during a fiscal year is classified as non-federal unearned revenue and federal unearned revenue, respectively.

Liabilities for claims payable and related claims adjustment expenses are established using estimates based on historical experience adjusted for changes in crop growing conditions. As a result, the ultimate liabilities may differ significantly from the recorded estimates.

P. Interest Expense

USDA's FY 1997 interest expense consists primarily of interest on borrowings from the Treasury and the FFB.

Q. Retirement Benefits

USDA employees participate in either the Civil Service Retirement System (CSRS), to which USDA makes matching contributions equal to 7 percent of pay or the Federal Employees Retirement System (FERS). On January 1, 1987, FERS went into effect pursuant to Public Law 99-335. Most employees hired after December 31, 1983, are automatically covered by FERS and Social Security. Employees hired prior to January 1, 1984, can elect to either join FERS and Social Security or remain in CSRS. A primary feature of FERS is that it offers a savings plan to USDA employees which automatically contributes one percent of pay and matches any employee contribution up to an additional four percent of pay.

For most employees hired since December 31, 1983, USDA also contributes the employer's matching share for Social Security.

USDA does not report CSRS or FERS assets, accumulated plan benefits, or unfunded liabilities, if any, applicable to its employees. Reporting such amounts is the responsibility of the Office of Personnel Management and FERS. Amounts contributed by USDA on behalf of its employees for FY 1997 totaled approximately $341 million.

Imputed Pension and Other Retirement Benefits

On December 20, 1995, FASAB issued Statement of Federal Financial Accounting Standards (SFFAS) Number 5, "Accounting for Liabilities of the Federal Government." Among other provisions, SFFAS Number 5 establishes accounting and reporting standards for liabilities relating to the Federal employee pension and other retirement benefits, including other post employment benefit programs. The adoption of SFFAS Number 5 is required for FY 1997 financial reporting, and stipulates that employing agencies recognize the cost of their pensions and other retirement benefits during their employees' active years of service.

Effective FY 1997, pursuant to the guidance contained in SFFAS Number 5, USDA recognizes a pension expense in the financial statements that equals the service cost for its employees, for the period, less the amount contributed by the employees. Service cost is the actuarial present value of benefits attributed to services rendered by employees during an accounting period. The pension costs have been recorded as Operating/Program Expense, with an offsetting charge to Appropriated Capital Used for the USDA portion of contribution to the pension plan, and an imputed financing source for the amount financed directly by the Office of Personnel Management. Other retirement benefits (ORB) include all retirement benefits other than pension plan benefits, such as retirement health care benefits. USDA recognizes these expenses for its employees in a manner similar to that used for pensions. USDA recognizes an expense and a liability for Other Post Employment Benefits when the future outflow of resources is probable and measurable on the basis of events occurring on or before the reporting date.

R. Claims and Judgments

Most legal actions that affect USDA and involve an amount in excess of $2,500 fall under the Federal Tort Claims Act and are paid from the Claims and Judgments Fund maintained by the Department of Treasury. USDA is not required to reimburse this Fund for payments made on its behalf. Effective FY 1997, pursuant to the guidance contained in SFFAS Number 5, USDA recognizes an expense and liability for all contingent liabilities determined to be probable and estimable. Those contingent liabilities that meet the requirements for disclosure, but not recognition are disclosed in note 22, Other Disclosures, Contingencies, and Commitments. Once the claim is settled or court judgement is assessed against USDA and the Judgement Fund is determined to be the appropriate source for payment of claims, USDA liquidates the recorded liability through an imputed other financing source. During FY 1997, approximately $172 million was paid from the Funds to settle actions against USDA.

S. Advances and Prepayments

Payments made in advance of goods and/or services received are recorded as an advance by the Department and are expensed at the time the related goods and/or services are received.

T. Liquidating Account

Under OMB Bulletin 94-01 the Department of Treasury case studies are other authoritative guidance relating to loan programs. These case studies require that USDA establish a receivable from appropriations or a payable to Treasury for liquidating account equity balances.

NOTE 3. FUND BALANCE WITH U.S. TREASURY AND CASH (in thousands):

The majority of USDA's agencies do not maintain cash in commercial bank accounts. Cash receipts and disbursements are processed by the U.S. Treasury. The balance in Funds with U.S. Treasury and Cash is primarily appropriated, revolving, and trust funds that are available to pay current liabilities and to finance authorized purchase commitments. Cash balances held outside the U.S. Treasury are not material.

"Other Fund Types" represent (1) balances in deposit, suspense, clearing, and nonspending accounts, (2) deposit funds, (3) deposit funds and suspense accounts, (4) special funds and special fund receipt accounts, and (5) special receipt accounts.

Commodity certificates are considered to be cash equivalents. Such amounts are included in the data below.

A. Fund Balances with Treasury:

	Entity	Non-Entity	Total
(1) Trust Funds			
All Other Agencies	$53,751	$0	$53,751
FS	399,898	0	399,898
Total Trust Funds	453,649	0	453,649
(2) Revolving Funds			
AARC	5,349	0	5,349
All Other Agencies	108,542	0	108,542
CCC	(541,104)	0	(541,104)
FCIC	2,719,191	0	2,719,191
FS	197,004	0	197,004
FSA FLP	499,919	0	499,919
RD	2,430,607	0	2,430,607
Total Revolving Funds	5,419,508	0	5,419,508
(3) Appropriated Funds			
All Other Agencies	2,492,485	0	2,492,485
CCC	2,037,114	0	2,037,114
FCIC	37,474	0	37,474
FNS	19,427,318	0	19,427,318
FS	1,261,936	225,449	1,487,385
FSA A&C	137,997	0	137,997
FSA FLP	178,057	0	178,057
RD	4,474,809	8	4,474,817
Total Appropriated Funds	30,047,190	225,457	30,272,647
(4) Other Fund Types			
All Other Agencies (1)	0	87,088	87,088
FSA A&C (2)	30	0	30
FNS (3)	0	100,644	100,644
FS (4)	461,993	377,111	839,104
RD (5)	354,562	0	354,562
Total Other Fund Types	816,585	564,843	1,381,428
Subtotal	$36,736,932	$790,300	$37,527,232

		Entity	Non-Entity	Total
B. Cash:				
	CCC	$55,434	$0	$55,434
	FS	2,409	0	2,409
	MMA	17,933	0	17,933
	RD	0	2,751	2,751
	Total Cash	75,776	2,751	78,527
Total		$36,812,708	$793,051	$37,605,759

C. Other Information:

CCC is authorized to use in the conduct of its business all funds appropriated, transferred, or allocated to it. The negative Revolving Funds amount is a result of using these funds, which are offset by other funds available to the Corporation, to repay its borrowings from Treasury.

Differences exist between CCC's records and what was reported by Treasury and in the President's Budget. These differences are primarily due to differences in the timing of document processing, resulting in a Treasury balance $249 million lower than that recorded in CCC's books at September 30, 1997.

NOTE 4. INVESTMENTS (in thousands):

		Cost	Amortization Method	Unamortized (Premium) Discount	Market Value	Investments, Net	Market Value Disclosure
A. Federal Securities:							
(1) Marketable							
All Other Agencies	U.S. Treasury Bills	$8,957		$0	Unknown	$8,957	$8,957
MMA	U.S. Treasury Bills	6,780	Straight-Line	73	Unknown	6,853	0
(2) Non-Marketable							
a. Par Value		0		0	0	0	
b. Market Based		0		0	0	0	
Subtotal Federal		15,737		73	0	15,810	8,957
B. Non-Federal Securities:							
AARC	Common & Preferred Stock	16,210		0	0	16,210	(16,210)
All Other Agencies	Certificates of Deposit	75,449		0	Unknown	75,449	75,449
Subtotal Non-Federal		91,659		0	0	91,659	59,239
	Total	$107,396		$73	$0	$107,469	$68,196

NOTE 5. ACCOUNTS RECEIVABLE (in thousands):

		Category	Gross Accounts Receivable	Allowance	Net Accounts Receivable
A.	Entity Accounts Receivable				
	Federal:				
	All Other Agencies	A/R Revenue, Reimbursement, Refund	$230,140	$0	$230,140
	CCC	Foreign Programs-Treasury and Other Federal Agencies	1,044,269	0	1,044,269
	FCIC	Admin. funds, deposited refund	1,436	0	1,436
	FNS	Food Stamp Overissuance Claims	849	12	837
	FS	Reimbursable agreements through the Forestry Incentive Program, the Agricultural Conservation Program, and the Senior Community Service Employment Program	47,845	0	47,845
	FSA A&C	Reimbursable Agreements	43,410	0	43,410
	FSA FLP	Collections in Transit from CCC	20,794	0	20,794
	RD	Salaries and Expenses	52,610	0	52,610
	Eliminations		(119,824)	0	(119,824)
	Subtotal Federal		1,321,529	12	1,321,517
	Non-Federal:				
	All Other Agencies	A/R Revenue, Reimbursement, Refund	64,675	2,909	61,766
	CCC	Receivable from Producers	254	0	254
		Estimated Producer Overpayments on CCC Programs and State Office Claims (1)	144,674	73,347	71,327
		Other Claims	9,866	8,287	1,579
		Other	14,401	597	13,804
		Less Offset in Deferred Receivables	(43,707)	0	(43,707)
	FCIC	Farmer premium, fees, & premium tax	776,369	34,892	741,477
	FNS	Food Stamp Overissuance Claims	973,338	777,543	195,795
	FS	Reimbursements for fire prevention services and refunds in suppression funds	45,130	9,026	36,104
	FSA A&C	Program Claims	833	556	277
		Other	247	0	247
	MMA	Milk Handlers and Others (2)	2,653	108	2,545
	RD	Guaranteed FFB Ins.	1,906	0	1,906
		Salaries and Expenses	143	0	143
		Other	68	0	68
	Subtotal Non-Federal		1,990,850	907,265	1,083,585
	Total Entity Accounts Receivable		$3,312,379	$907,277	$2,405,102

		Category	Gross Accounts Receivable	Allowance	Net Accounts Receivable
B.	Non-Entity Accounts Receivable				
	Federal:				
	All Other Agencies	A/R Revenue, Reimbursement, Refund	$35,253	$0	$35,253
	FS	Receivables from general and special fund receipt accounts and budget clearing and suspense accounts	45	0	45
	RD	Salaries and Expenses	2	0	2
	Subtotal Federal		35,300	0	35,300
	Non-Federal:				
	All Other Agencies	A/R Revenue, Reimbursement, Refund	23,155	214	22,941
	FNS	Food Stamp Overissuance Claims	31,564	1,128	30,436
	FS	Receivables from timber sales and the use of National Forest Land recorded in budget clearing and suspense accounts	101,801	66,350	35,451
	FSA A&C	Marketing Quota Penalties	38,330	36,413	1,917
	RD	Salaries and Expenses	53	0	53
	Subtotal Non-Federal		194,903	104,105	90,798
	Total Non-Entity Accounts Receivable		230,203	104,105	126,098
Total Accounts Receivable			$3,542,582	$1,011,382	$2,531,200

C. Other Information:

(1) Producer overpayments on CCC programs represent amounts repayable from producers on advance deficiency payments for program years 1990 through 1995.

(2) Provision for Losses is accrued on the basis of experience rates or other determinations of collectibility. Corresponding credits are made to allowance for losses.

NOTE 6. RECEIVABLE FROM REIMBURSABLE LOSSES AND APPROPRIATIONS (in thousands):

Public Law 87-155, as amended, authorizes reimbursement to the Commodity Credit Corporation (CCC) for its net realized losses incurred each year. A receivable exists which reflects the amount of appropriated funds due the Corporation. This receivable is computed in sections A through C below.

Additionally, the Credit Reform Act of 1990 requires agencies to only record private equity in Liquidating Accounts. The receivable established by closing negative equity is included in section C below.

A. Realized Loss:				
Through September 30, Previous Year			$264,614,275	
Current Fiscal Year:				
Shortage of Revenues and Other Financing Sources Over Total Expenses	$8,465,755			
Plus Amounts Funded by Other Sources	107,094			
Subtotal		$8,572,849		
Less Net Unrealized Losses for Fiscal Year		2,941		
Subtotal			8,569,908	
Total Realized Loss				$273,184,183
B. Restorations and Recoveries:				
Through September 30, Previous Year	261,624,079			
Add Offset of Interest Payable to U.S. Treasury	189,565			
Appropriations - Current Fiscal Year	1,500,000			
Total Restorations and Recoveries		263,313,644		
Add Elimination of Credit Reform Transfer		3,506		
Add Recoveries		598,155		
Net Restorations and Recoveries				263,915,305
Subtotal - Total Receivable for Reimbursable Losses (CCC)				9,268,878
C. Liquidating Account/Credit Program Receivables				6,725,231
Total Receivable from Appropriations				$15,994,109

Unrealized losses, representing changes in the allowances for loss, are not reimbursed to CCC until realized and represent deferred funding that will be required by the Corporation. The change in CCC's deferred funding for realized losses for the fiscal year is included in sections D-E below.

D. Deferred Reimbursable Losses, Beginning of Fiscal Year	$138,938
E. Net Unrealized Losses for Fiscal Year	2,941
Total Deferred Reimbursable Losses, End of Fiscal Year	$141,879

NOTE 7. OTHER ASSETS (in thousands):

			1997
A. Other Entity Assets			
Non-Federal:			
	AARC	Repayable Cooperative Agreements	$10,984
		Notes Receivable	1,695
		Monitoring Fees Receivable	25
	RD	Investment in Loan Asset Sale Trust	54,615
		Other	54
	Subtotal Non-Federal		67,373
Total Entity Assets			$67,373

			1997
B. Other Non-Entity Assets			
Non-Federal:			
	All Other Agencies	Equipment not reported as property, plant, and equipment.	$93
	FS	Securities held as performance guarantees on timber sale contracts	3,518
	Subtotal Non-Federal		3,611
Total Non-Entity Assets			3,611
Total Other Assets			$70,984

NOTE 8. LOAN AND CREDIT PROGRAM RECEIVABLES (CPR) AND RELATED FORECLOSED PROPERTY (in thousands):

Loans Subject to Credit Reform:

Summary Schedule:

	Loan/Credit Receivable, Gross	Interest Receivable, Gross	Foreclosed Property, Gross	Related Allowance	Program Receivable, Net
CCC					
P.L. 480 Title I Program	$10,816,218	$147,689	$0	($6,764,159)	$4,199,748
Export Credit Guarantee Program	6,801,123	50,292	0	(1,911,364)	4,940,051
Enterprise for the Americas Program	62,800	0	0	(21,574)	41,226
Russia Food for Progress Program	507,831	11,292	0	(371,169)	147,954
Total CCC	18,187,972	209,273	0	(9,068,266)	9,328,979
FSA FLP					
Agricultural Credit Insurance Fund (ACIF)	10,297,187	442,769	189,186	(2,178,712)	8,750,430
Bureau of Reclamation Loan Fund (BRLF)	347	0	0	0	347
Total FSA FLP	10,297,534	442,769	189,186	(2,178,712)	8,750,777
RD					
Rural Housing Service (RHS) Programs	29,906,694	73,071	53,764	(9,689,652)	20,343,877
Rural Utilities Service (RUS) Programs	40,479,257	103,765	0	(7,408,317)	33,174,705
Rural Business-Cooperative Service (RBS) Programs	308,107	4,468	0	(140,317)	172,258
Total RD	70,694,058	181,304	53,764	(17,238,286)	53,690,840
Total	$99,179,564	$833,346	$242,950	($28,485,264)	$71,770,596

Loan Programs Exempt from Credit Reform:

Sec. 502(1) of the Federal Credit Reform Act of 1990 (Public Law 101-508) states that direct loans as referred to in the legislation does not include the price support loans of the Commodity Credit Corporation.

		Gross Receivable	Allowance	Net Receivable
CCC	Domestic	$1,350,910	$0	$1,350,910
	Foreign	431,696	42,129	389,567
Total Loans Receivable Exempt from Credit Reform		$1,782,606	$42,129	$1,740,477

A. Loan Programs. The Department operates the following loan and/or loan guarantee programs:

The Agricultural Trade Development and Assistance Act of 1954 (Public Law 480) provides foreign credit to promote agricultural trade, provide humanitarian relief and aid in the economic advancement of developing countries. Direct credits are extended for P.L. 480 under Title I, the Enterprise for the Americas Initiative, and Russia Food from Progress program.

The Export Credit Guarantee Program guarantees payments due U.S. exporters of their assignees from certain foreign banks on loans made for the purchase of agricultural commodities.

The ACIF provides loans for farm ownership, operations, and emergencies.

The purpose of the ARCD Program is to assist states in financing a farmland protection effort to preserve our vital farmland resources for future generations. This purpose is achieved through the guaranteeing of prompt payments and interest assistance on loans used to purchase development rights' easements and other types of easements on farmland, the purchase of farmland in fee simple, and related activities.

The BRLF is authorized by Section I of the 1977 Drought Emergency Act, to make loans to irrigators for the purpose of undertaking construction, management, conservation activities, or the acquisition and transportation of water, which can be expected to have an effect in mitigating losses and damages resulting from the 1976-1977 drought period.

B. Direct Loans Obligated Prior to FY 1992:

	Loans Receivable, Gross	Interest Receivable, Gross	Foreclosed Property, Gross	Allowance for CPR (PV)	Credit Program Receivables, (NPV)
CCC					
P.L. 480 Title I	$9,445,510	$125,441	$0	($5,587,090)	$3,983,861
FSA FLP					
ACIF	7,886,906	415,752	186,557	(1,537,333)	6,951,882
BRLF	347	0	0	0	347
Total FSA FLP	7,887,253	415,752	186,557	(1,537,333)	6,952,229
RD					
RHS Programs	20,868,884	47,966	46,825	(7,367,762)	13,595,913
RUS Programs	33,745,535	73,847	0	(6,423,387)	27,395,995
RBS Programs	87,183	419	0	(39,349)	48,253
Total RD	54,701,602	122,232	46,825	(13,830,498)	41,040,161
Total	$72,034,365	$663,425	$233,382	($20,954,921)	$51,976,251

C. Direct Loans Obligated After FY 1991:

	Loans Receivable, Gross	Interest Receivable, Gross	Foreclosed Property, Gross	Allowance for Subsidy Cost (PV)	Program Receivables (NPV)
CCC					
P.L. 480 Title I	$1,370,708	$22,248	$0	($1,177,069)	$215,887
Enterprise for the Americas Program	62,800	0	0	(21,574)	41,226
Russia Food for Progress Program	507,831	11,292	0	(371,169)	147,954
Total CCC	1,941,339	33,540	0	(1,569,812)	405,067
FSA FLP					
ACIF	$2,410,281	$27,017	$2,629	($641,379)	$1,798,548
RD					
RHS Programs	$9,037,810	$25,105	$6,939	($2,321,890)	$6,747,964
RUS Programs	6,733,722	29,918	0	(984,930)	5,778,710
RBS Programs	220,924	4,049	0	(100,968)	124,005
Total RD	15,992,456	59,072	6,939	(3,407,788)	12,650,679
Total	$20,344,076	$119,629	$9,568	($5,618,979)	$14,854,294

D. Defaults on Pre-1992 Guaranteed Loans:

	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable, Gross	Foreclosed Property, Gross	Allowance for Subsidy Cost (PV)	Credit Program Receivables (NPV)
CCC					
Export Credit Guarantee Program	$5,502,024	$27,421	$0	($1,677,440)	$3,852,005
Total	$5,502,024	$27,421	$0	($1,677,440)	$3,852,005

E. Defaults on Post-1991 Guaranteed Loans:

	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable, Gross	Foreclosed Property, Gross	Allowance for Subsidy Cost (PV)	Credit Program Receivables (NPV)
CCC					
Export Credit Guarantee Program	$1,299,099	$22,871	$0	($233,924)	$1,088,046
Total	$1,299,099	$22,871	$0	($233,924)	$1,088,046

F. Guaranteed Loans Outstanding:

	Outstanding Principal, Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
CCC		
Export Credit Guarantee Program	$5,085,947	$4,668,808
FSA FLP		
ACIF	7,163,440	5,979,633
Agricultural Resource Conservation Demonstration Program (Farms for the Future) (ARCD)	23,549	23,549
Total FSA FLP	7,186,989	6,003,182
RD		
RHS Programs	5,210,845	4,658,698
RUS Programs	928,462	873,604
RBS Programs	1,275,210	993,879
Total RD	7,414,517	6,526,181
Total	$19,687,453	$17,198,171

G. Liability for Loan Guarantees:

	Liability For Losses on Pre-1992 Guarantees	Liabilities For Post-1991 Loan Guarantees (PV)	Total Liabilities For Loan Guarantees
CCC			
Export Credit Guarantee Program	$3,049	$2,179,567	$2,182,616
FSA FLP			
ACIF	172,350	6,546	178,896
ARCD	0	5,361	5,361
Total FSA FLP	172,350	11,907	184,257
RD			
RHS Programs	850	77,366	78,216
RUS Programs	210,311	(209)	210,102
RBS Programs	0	37,640	37,640
Total RD	211,161	114,797	325,958
Total	$386,560	$2,306,271	$2,692,831

H. Subsidy Expense for Post-1991 Loans and Credit Receivables

Note: The amount of subsidy reported on the Statement of Operations includes accruals, whereas the amount reported in the footnote is the subsidy expense associated with current year disbursements and re-estimates of loans.

1. Current Year's Direct Loans

	Interest Differential	Defaults	Fees	Other	Total
CCC					
P.L. 480 Title I	$60,294	$60,976	$0	$2,074	$123,344
FSA FLP					
ACIF	30,298	93,050	(155,458)	156,231	124,121
RD					
RHS Programs	260,155	10,614	(64,118)	34,018	240,669
RUS Programs	189,247	10,060	(42)	(7,354)	191,911
RBS Programs	27,801	44	(2,300)	2,462	28,007
Total RD	477,203	20,718	(66,460)	29,126	460,587
Total	$567,795	$174,744	($221,918)	$187,431	$708,052

2. Direct Loan Modifications and Re-estimates

	Modifications	Re-estimates	Total
CCC			
P.L. 480 Title I	$0	$47,408	47,408
Enterprise for the Americas Program	0	(612)	(612)
Russia Food for Progress	0	40,729	40,729
Total CCC	0	87,525	87,525
FSA FLP			
ACIF	0	(32,843)	(32,843)
RD			
RHS Programs	0	(52,957)	(52,957)
RUS Programs	0	143,803	143,803
RBS Programs	0	(3,916)	(3,916)
Total RD	0	86,930	86,930
Total	$0	$141,612	$141,612

3. Total Direct Loan Subsidy Expenses

	Total
CCC	
P.L. 480 Title I	$170,752
Enterprise for the Americas Program	(612)
Russia Food for Progress	40,729
Total CCC	210,869
FSA FLP	
ACIF	91,278
RD	
RHS Programs	187,712
RUS Programs	335,714
RBS Programs	24,091
Total RD	547,517
Total	$849,664

I. Subsidy Expense for Post-1991 Loan Guarantees:

1. Current Year's Loan Guarantees

	Interest Supplement	Defaults	Fees	Other	Total
CCC					
Export Credit Guarantee Programs	$0	$282,956	($14,926)	($41,624)	$226,406
FSA FLP					
ACIF	15,116	46,266	(11,678)	(2,187)	47,517
RD					
RHS Programs	3,946	22,238	(20,300)	191	6,075
RUS Programs	0	0	0	0	0
RBS Programs	0	19,355	(11,060)	(1,702)	6,593
Total RD	3,946	41,593	(31,360)	(1,511)	12,668
Total	$19,062	$370,815	($57,964)	($45,322)	$286,591

2. Direct Loan Modifications and Re-estimates

	Modifications	Re-estimates	Total
CCC			
Export Credit Guarantee Programs	$0	$13,936	$13,936
FSA FLP			
ACIF	0	(40,875)	(40,875)
RD			
RHS Programs	0	(9,879)	(9,879)
RUS Programs	0	(25)	(25)
RBS Programs	0	(3,920)	(3,920)
Total RD	0	(13,824)	(13,824)
Total	$0	($40,763)	($40,763)

3. Total Direct Loan Subsidy Expenses

	Total
CCC	
Export Credit Guarantee Programs	$240,342
FSA FLP	
ACIF	6,642
RD	
RHS Programs	(3,804)
RUS Programs	(25)
RBS Programs	2,673
Total RD	(1,156)
Total	$245,828

J. Administrative Expense:

	Direct Loans and Loan Guarantees
CCC	$5,600
FSA FLP	219,305
RD	1,384
Total	$226,289

K. Methodology for Accruing Interest Income

Interest income on loans is accrued at the contractual rate on the balance. Various departmental lending programs provide for interest rates significantly less than the U.S. Treasury average interest rate. RD estimated that the net cumulative effect of reporting the unamortized discount would cause an approximate $1,300 million reduction in net loans receivable.

L. Nonperforming Loans

The unpaid principal balance of FSA FLP loans, CCC Foreign Credit, and RD loans in a nonperforming status at fiscal year-end totaled $2,688 million, $3,658 million, and $1,700 million, respectively. If interest had been reported on these nonperforming loans, instead of reported only to the extent of the collections received, interest income would have increased by $185.9 million, $64 million, and $136 million, to a total of $854 million, $1,028 million, and $3,800 million, respectively during the fiscal year 1997 and increased by $1,240 million, $620 million, and $701 million, respectively during the entire delinquency.

M. Servicing Actions Available to Assist Financially Troubled Borrowers

As discussed in Note 2, "Significant Accounting Policies", all three lending agencies restructure loans in order to provide a reduction of deferral of interest and/or principal because of a deterioration in the financial position of the borrower. The principal amounts of these restructured loans as of September 30, 1997, for FSA FLP, CCC, and RD totaled $5,272 million, $7,389 million, and $7,200 million, respectively.

N. Foreign Credits by Geographical Areas

	Direct Credits	Credit Guarantees	Total
Europe	$1,075,645	$2,671,253	$3,746,898
Latin America	1,128,556	777,850	1,906,406
N. Africa and the Far East	7,929,191	3,337,077	11,266,268
Sub-Saharan Africa	1,412,438	65,235	1,477,673
Subtotal	11,545,830	6,851,415	18,397,245
Less Allowance	(7,156,902)	(1,911,364)	(9,068,266)
Total Credit Receivables, Net	$4,388,928	$4,940,051	$9,328,979

NOTE 9. OPERATING MATERIALS AND SUPPLIES (in thousands):

A. Category	Amount	Allowance For Losses	Net	Valuation Method
Items Held for Use				
All Other Agencies	$9,795	$0	$9,795	
FS (1)	68,338	0	68,338	Weighted Average
FSA A&C	774	0	774	FIFO
Total Items Held for Use	78,907	0	78,907	
Held for future use	0	0	0	
Excess, obsolete, and unserviceable items	0	0	0	
Total	$78,907	$0	$78,907	

B. Restrictions on Use, Sale, or Disposition: None

C. Other Information:

(1) The majority of Items Held for Use are Working Capital Fund (WCF) materials and Fire Caches. The WCF items consist of materials and supplies (raw materials, stock and tree seedlings) that are maintained to facilitate distribution to users. The Fire Cache items are being recognized by the FS for the first time in fiscal year 1997. In previous years, these emergency fire fighting supplies (gloves, ready-to-eat meals, pumps, generators, chain saws, and shovels) were expensed upon receipt rather than recorded as inventories. The fire cache supplies are maintained at nine strategic sites. Each fire cache has a pre-determined inventory stock that is brought to full pre-season level by March 1, before the year's fire season begins. Fire cache stock is issued to the field as emergency needs dictate, with the understanding that reusable items will be returned and consumed items will be replaced or paid for as determined by the current GSA price.

Inventories in the WCF and other materials for agency use are valued based on the weighted average method. Fire Cache inventory units are valued at GSA catalog prices as of January 1, 1997. This valuation method may approximate historical costs, depending on the extent that the fire cache inventory stock is depleted each year because of the severity of the fire season.

NOTE 10. GOODS HELD UNDER PRICE SUPPORT AND STABILIZATION PROGRAMS (in thousands):

Inventories are recorded at acquisition cost plus processing and packaging costs incurred after acquisition. Acquisition cost is the amount of the loan settlement, excluding interest, or the amount of the purchase settlement price. The loan and purchase rates under price support programs are fixed to accomplish price support objectives set by legislation. Therefore, acquisitions are usually at a cost higher than market value.

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

The Department's commodity inventory as of September 30, 1997, is as follows:

CCC	Gross Value	
Beginning Inventory, 10/1/96	$485,288	
Acquisitions	83,653	
Sales	(133,808)	
Donations	(60,670)	
Other Dispositions	(243)	
Other Additions and Deductions	2,556	
Ending Inventory, Gross, 9/30/97		$376,776
Related Allowance		(21,436)
Ending Inventory		$355,340

Restrictions on Commodity Inventory

In accordance with the Agricultural Act of 1970, as amended, CCC may establish, maintain and dispose of a separate reserve of inventories for the purpose of alleviating distress caused by natural disaster. The inventories may consist of feed grains, soybeans, and wheat. The reserve, which was initiated at 75 million bushels, has been depleted. The amount held in reserve cannot exceed 20 million bushels (P.L. 105-18).

CCC maintains a required commodity reserve for use when the domestic supplies are so limited that quantities cannot meet the availability criteria under P.L. 480. In addition, if commodities that meet unanticipated needs under Title II of P.L. 480 cannot be made available in a timely manner, the Secretary may release up to 500,000 metric tons of wheat or an equivalent value of eligible commodities, plus up to 500,000 metric tons of eligible commodities that could have been released, but were not released, under this authority in prior fiscal years. Commodities are to be used solely for emergency food assistance in developing countries. As a result of the 1996 Act, the reserve may include rice, corn, and sorghum, as well as wheat. The reserve is established at 4 million metric tons and is replenished through purchases or by designation of commodities owned by CCC. The authority to replenish the reserve expires at the end of fiscal year 2002. In fiscal year 1997, 410,000 metric tons of commodities were authorized for release to meet urgent humanitarian food relief around the world.

Commodity Loan Forfeitures

Because of high market prices, loan collateral was rarely forfeited. Commodity loan forfeitures during the fiscal year ending September 30, 1997 were $1 million.

NOTE 11. PROPERTY, PLANT AND EQUIPMENT (in thousands):

USDA controls approximately 192 million acres of land, which are recorded at cost. The majority of this land is managed by FS. No value is recorded for public domain land because there was no carrying value associated with the land when it was transferred to the Department. Land donated to the Department is capitalized at the original cost to the donor. Land is not depreciated.

The "Other" category below is comprised of non-expendable administrative property and fixed assets for future acquisition.

Buildings, Structures, and Equipment are valued at acquisition cost. Expenditures for major additions, replacements, or alterations are capitalized. Maintenance is recognized as an expense when it is incurred.

Road components are separated into four categories: road prisms, surfaces, culverts, and bridges. Road prisms (the road bed) are capitalized as permanent land improvements and not depreciated. Surfaces are depreciated over 10 years, culverts over 30 years, and bridges over 50 years. Federal Excess Personal Property is valued at zero when received and not reported in these statements.

Buildings are depreciated over their economic useful lives, approximately 30 years, using the straight-line method. Equipment and Automated Data Processing (ADP) software are depreciated on a straight-line basis over their useful lives, which for most items, are 6-10 years. Depreciation expense is specifically identified as such on the Statement of Operations. At September 30, 1997, the balances for Property, Plant, and Equipment were as follows:

Classes of Fixed Assets	Depreciation Method	Service Life	Acquisition Value	Accumulated Depreciation	Net Book Value
A. Land			$4,546,527	$0	$4,546,527
B. Structures, Facilities & Leasehold Improvements	SL	various	2,322,068	1,434,306	887,762
C. Military Equipment			0	0	0
D. ADP Software	SL	various	224,948	92,892	132,056
E. Equipment	SL	various	2,148,175	1,381,726	766,449
F. Assets Under Capital Lease	SL	various	0	0	0
G. Natural Resources			0	0	0
H. Construction in Progress			0	0	0
I. Road Components	SL	various	5,805,824	2,598,492	3,207,332
J. Other	SL	various	56,096	13,373	42,723
Total			$15,103,638	$5,520,789	$9,582,849

NOTE 12. DEBT (in thousands):

The Secretary of Agriculture is authorized under Title 7, U.S.C., to make and issue notes to the Secretary of the Treasury for the purpose of obtaining funds necessary for discharging obligations and for making loans, advances, and other authorized expenditures.

CCC's debt shown below relates to interest bearing and non-interest bearing notes due to Treasury. Monthly interest rates ranged from 5.5 percent to 6 percent on borrowings under CCC's permanent indefinite borrowing authority from Treasury, and 6.89 percent on borrowings under the permanent indefinite borrowing authority for the foreign assistance programs.

RD's intra-governmental debt consists of amounts due to the Federal Financing Bank (FFB) and Treasury. RD's FFB borrowing are in the form of Certificates of Beneficial Ownership (CBO) or loans executed directly between the borrower and FFB and are secured by unpaid loan principal balances. CBOs outstanding are related to pre-Credit Reform loans and are no longer used for program financing.

	Beginning Balance	New Borrowings	Repayments	Refinancing	Ending Balance
A. Agency Debt:					
Held by the Public:					
FSA FLP	$1,500	$0	$0	$0	$1,500
RD	2,742,682	0	(572,515)	0	2,170,167
Subtotal	2,744,182	0	(572,515)	0	2,171,667
B. Other Debt:					
Debt to the Treasury:					
CCC	1,993,700	12,206,653	(5,795,572)	14,137	8,418,918
FSA FLP	1,921,600	821,980	(678,600)	0	2,064,980
RD	18,584,153	2,139,261	(964,303)	0	19,759,111
Subtotal	22,499,453	15,167,894	(7,438,475)	14,137	30,243,009
Debt to the Federal Financing Bank					
RD	43,724,151	142,702	(7,244,125)	0	36,622,728
C. Total Debt	$68,967,786	$15,310,596	($15,255,115)	$14,137	$69,037,404

D. Classification of Debt

Federal Debt	$66,865,737
Non-Federal Debt	2,171,667
Total Debt	$69,037,404

NOTE 13. ACCRUED PROGRAM LIABILITIES (in thousands):

A. Liabilities Covered by Budgetary Resources:		1997
Non-Federal:		
AARC	Accrued Payroll and Benefits	$18
All Other Agencies	Accrued Program Liabilities	114,480
CCC	Production Flexibility Contract Payments	13,727
	Dairy Export Incentive Program	86,974
	Conservation Reserve Program	1,600,000
	Noninsured Assistance Program Payments	90,000
	Wetlands Reserve Program	25,952
	Environmental Quality Incentives Program	11,807
	Other Accrued Liabilities	11,521
FCIC	Accrued Payroll and Benefits	1,462
FNS	Deposit and Suspense Accounts	106,333
FS	Payments to States and Counties	239,174
	Accrued Payroll and Benefits	84,214
FSA A&C	Accrued Payroll and Benefits	23,050
	Accrued Disaster Program Payments	6,654
MMA	Accrued Employee Salaries Payable	228
	Accrued Employer Payroll Contributions	46
RD	Accrued Payroll and Benefits	17,186
Subtotal Non-Federal Liabilities Covered by Budgetary Resources		$2,432,826

B. Liabilities Not Covered by Budgetary Resources:		1997
Federal:		
FS	Fire Fighting Advances	$492,870
Subtotal Federal Liabilities Not Covered by Budgetary Resources		492,870
	Total Accrued Program Liabilities	$2,925,696

NOTE 14. OTHER LIABILITIES (in thousands):

A. Other Liabilities Covered by Budgetary Resources:

		Current	Non-Current	Total
Federal:				
All Other Agencies	Liabilities, deposit funds, and suspense accounts	($21,046)	$0	($21,046)
CCC	Reimbursable Services	8,904	0	8,904
	CCC Adjustments for Consolidation	4,892	0	4,892
FCIC	Unobligated Administrative & Operating Expense (A & O) Appropriation	24,009	0	24,009
FSA A&C	Due to Treasury - Marketing Quota Penalties	1,917	0	1,917
Eliminations		(8,872)	0	(8,872)
Subtotal Federal		9,804	0	9,804
Non-Federal:				
All Other Agencies	WCF liabilities for accrued leave benefits	(787)	0	(787)
CCC	Deferred Credits	54,029	6,793	60,822
	Unapplied Receipts	13,489	0	13,489
FCIC	Underwriting Gain Payable to Reinsured Companies & Contingent Liabilities	455,321	0	455,321
FS	Other Advances	59	0	59
FSA FLP	Amounts Due Investors	10,612	0	10,612
	Undistributed Collections (Receivable from CCC)	20,794	0	20,794
RD	Dividends Payable	12,638	0	12,638
	B Stock Payable	8,682	645,431	654,113
	C Stock Payable	1,027	181,003	182,030
	Other	0	13,427	13,427
Subtotal Non-Federal		575,864	846,654	1,422,518
Subtotal Other Liabilities Covered by Budgetary Resources		$585,668	$846,654	$1,432,322

B. Other Liabilities Not Covered by Budgetary Resources:

		Current	Non-Current	Total
Non-Federal:				
FNS	Canceled Year Accounts Payables	$0	$1,120	$1,120
Subtotal Other Liabilities Not Covered by Budgetary Resources		0	1,120	1,120
Total Other Liabilities		$585,668	$847,774	$1,433,442

NOTE 15. NET POSITION (in thousands):

		Revolving Funds	Trust Funds	Appropriated Funds	Adjustments		Total
A.	Investment of Others	$0	$30,977	$0	$0		$30,977
B.	Unexpended Appropriations:						
	(1) Unobligated						
	a. Available	903,986	266,469	4,203,720	(64)	I	5,374,111
	b. Unavailable	169,335	(54,435)	17,583,127	0		17,698,027
	(2) Undelivered Orders	84,497	39,212	7,789,950	0		7,913,659
	(3) Special Fund Receipt	0	0	63,909	0		63,909
C.	Capital Stock	600,000	0	0	0		600,000
D.	Additional Paid-In Capital	37,978	0	0	0		37,978
E.	Invested Capital	41,052	79,866	9,143,074	0		9,263,992
F.	Donated Capital	3,958,092	0	0	(3,958,000)	R	92
G.	Cumulative Results of Operations	(3,460,927)	0	80	3,952,460	R	491,613
H.	Less: Future Financing Sources	9,158	8,597	1,675,464	537	R	1,693,756
	Total	$2,324,855	$353,492	$37,108,396	($6,141)		$39,780,602

I = Invalid Treasury Symbol
R = Reclassification

NOTE 16. OTHER REVENUES AND FINANCING SOURCES (in thousands):

		Category	1997
A. Other Revenues:			
	AARC	Risk Investment Charges and Investment Monitoring Fees	$275
	All Other Agencies	Other Sources	52,514
	CCC	Milk Marketing Fees Collected	785
		Assessments	63,979
		Other	20,981
	FCIC	Admin., Limited, & Buy-up Fees	10,948
	FNS	General Funds Receipts	3,455
	FS	Fines, Penalties, and Other Receipts	25,056
	FSA A&C	Interest and Penalties	228
	FSA FLP	Miscellaneous Income	67
	RD	Investment Income	4,374
		Salaries and Expenses	67
		Other	1,073
	Eliminations		(52,472)
		Subtotal Other Revenue	131,330
B. Other Financing Sources:			
	All Other Agencies	Pension Benefits	227,432
	CCC	Salaries & Expenses Financed by FSA	769,027
	FCIC	Pensions & Other Retirement Benefits	3,885
	FS	Imputed financing charges on employee benefits	291,039
	FSA A&C	Health, Life, & Retirement Benefits paid by OPM	66,740
	FSA F LP	Imputed Financing - Health, Life & Retirement Benefits	13,393
	RD	Transferred Capital Used	13,072
		Thrift Savings Plan	36,903
	Adjustments		(2,304)
	Eliminations		(13,393)
		Subtotal Other Financing Sources	1,405,794
		Total Other Revenues and Financing Sources	$1,537,124

NOTE 17. OPERATING/PROGRAM EXPENSES (in thousands):

A significant portion of Operating/Program Expenses are included below. Other components of Operating/Program Expenses are separately identified on Lines 15 through 20 on the Statement of Operations.

A. Operating Expenses by Object Classification:	1997
Personnel Services and Benefits	$6,017,200
Travel and Transportation	266,134
Rental, Communication and Utilities	599,992
Printing and Reproduction	53,251
Contractual Services	1,546,183
Supplies and Materials	1,309,130
Equipment not Capitalized	302,697
Grants, Subsidies and Contributions	38,261,610
Insurance Claims and Indemnities	1,085,435
Subtotal	$49,441,632

Other:		1997	
AARC	Budget and Administrative Expense	$902	
All Other Agencies	All Other Agencies Adjustments for Consolidation	848	
FCIC	Reinsurance Administrative Expense	450,253	
	Loss Adjustor Costs	1,327	
	Other Services	26,514	
FNS	State Option Food Stamp Program	4,681	
	Other Services	33,744	
	FNS Adjustments for Consolidation	(175)	
FS	Structures	37,251	
	Miscellaneous	2,909	
FSA FLP	Interest and Dividends	7	
RD	Other Administrative Expenses	127,483	
	RD Adjustments for Consolidation	(28)	
	Subtotal - Other	685,716	
Total Expenses by Object Class			$50,127,348

B. Unallocated Operating or Program Expenses (1)

CCC:	Foreign	1,014,000		
	Domestic	9,017,317		
	CCC Adjustments for Consolidation	4,892		
Total Expenses by Program			10,036,209	
Eliminations			(1,725,382)	
Adjustments			(39,212)	
Invalid Treasury Symbol			64	
	Total Operating/Program Expenses			$58,399,027

C. Other Information:

(1) Due to lack of object classes in the CCC accounting system, the Corporation is unable to provide a breakdown of operating/program expenses.

NOTE 18. PROVISION FOR LOSSES (in thousands):

Category	1997	
A. Provision for Losses on Pre-1992 Direct Loans/Credits and Loan/Credit Guarantees (For additional information, see Note 8):		
CCC	$482,771	
FSA FLP	(1,154,271)	
RD	1,945,686	
Total Provision for Losses on Pre-1992 Direct Loans/Credits and Loan/Credit Guarantees		$1,274,186
B. Provision for Losses on Commodity Loans		
CCC	(28)	
Total Provision for Losses on Commodity Loans		(28)
C. Provision for Losses on Commodity Inventory		
CCC	21,436	
FNS	129,402	
Total Provision for Losses on Commodity Inventory		150,838
D. Provision for Losses on Foreign Receivables		
CCC	9,069	
Total Provision for Losses on Foreign Receivables		9,069
E. Provision for Losses on Other Receivables		
AARC	1,741	
All Other Agencies	662	
CCC	9,549	
FCIC	235	
FS	(8,788)	
FSA A&C	(172)	
MMA	4	
Total Provision for Losses on Other Receivables		3,231
Total Provision for Losses		$1,437,296

NOTE 19. OTHER EXPENSES (in thousands):

A. Other Expenses:

		1997
All Other Agencies	Loss on Disposition of Assets	$1,841
CCC	Hazardous Waste	783
	Warehouses	5,489
	Reimbursable Agreements	14,096
	Loss on Sale of ADP Equipment	1,243
	Other	2
FCIC	FECA Expense	1,040
FNS	Other	178
FS	FECA Expense	33,909
	Losses on Disposal of Assets	721
RD	Discounted Principal (1)	40,588
	Salaries and Expenses	25
	Other	2,222
	RD Adjustments for Consolidation	(15,656)
Adjustments		36,908
Eliminations		(32,940)
	Total Other Expenses	$90,449

B. Other information:

(1) RD discounted principal represents the amount of discount allowed electric borrowers on prepayments (with private financing) of outstanding Notes at the discounted present value of the Notes subject to certain eligibility requirements

NOTE 20. EXTRAORDINARY ITEMS (in thousands):

A. Extraordinary Items:

		1997	
FS	Payment from the Judgement Fund for a settlement agreement that was reached during fiscal year 1997 for a timber sale contract dispute.	$140,000	
	Total Extraordinary Items		$140,000

NOTE 21. ADJUSTMENTS (in thousands):

A. Adjustments:		1997
AARC	Erroneously recorded investments (1)	$23,515
FS	Fire Cache Inventory (2)	40,218
	Purchaser Road Credit Revenue (3)	41,542
	Bad Debt Expense (4)	(84,287)
	Timber Sale Receipts (5)	127,426
RD	AARC Beginning Equity Balance (6)	(5,785)
	Total Adjustments	$142,629

B. Other Information:

(1) AARC made a prior period adjustment to correct investments which were erroneously recorded as operating expenses in prior years.

(2) For completeness of reporting, the FS adjusted the financial statements by recognizing the fire cache inventory that was previously expensed, $41,898, and reducing current expenses for fire cache re-stocking related to fiscal year 1996, $(1,680).

(3) For completeness of reporting, the FS adjusted earned revenue for purchaser road credits not recorded in fiscal years 1995 and 1996.

(4) For completeness of reporting, the FS adjusted bad debt expense for the provision of losses on receivables in fiscal year 1996 that were not recorded.

(5) For completeness of reporting, the FS adjusted Non-Entity Fund Balance with Treasury for the FY 1996 timber sale receipts.

(6) AARC became a government corporation during FY 97 and thus is subject to its own independent audit by OIG. The beginning equity balance is being adjusted for the purpose of excluding AARC from the RD consolidated financial statements.

NOTE 22. NON-OPERATING CHANGES (in thousands):

		1997
A.	Transfers-In	$13,879,086
	Donations Received	44,107
	Other Increases	17,180,697
	Total Increases	31,103,890
B.	Transfers-Out	1,399,134
	Donations Made	0
	Other Decreases	22,664,116
	Total Decreases	24,063,250
C.	Net, Non-Operating Changes	$7,040,640

NOTE 23. OTHER DISCLOSURES, CONTINGENCIES AND COMMITMENTS:

A. Contracts Under Conservation Reserve Program (CRP)

The Department's Conservation Reserve Program (CRP) had been funded through appropriation to FSA. The Federal Agriculture Improvement and Reform Act of 1996 expanded CCC's farm programs to provide for the use of CCC funds for CRP beginning in April, 1996. Program participants sign 10-year contracts to remove land from production in exchange for an annual rental payment. The participants also receive a one-time payment of 50 percent of the eligible costs of establishing vegetative cover on the reserve acreage. CCC estimates that commitments under CRP for annual rental payments (including amounts accrued but not yet paid for in 1997) through year 2007 total $9 billion. This estimate is based on current program levels with no provision for cancellations or amendments to existing contracts. The FY 1997 accrued rental payments totaled $2 billion.

B. Hazardous Waste Cleanup

The Department has a contingent liability, under the provisions of the Comprehensive Environment Response, Compensation, and Liability Act, and the Resource Conservation and Recovery Act, to clean up hazardous materials on the Department's lands. Although the total potential liability is not estimated, FS, which represents a significant majority of the total liability, estimates their potential contingent liability to be $2.9 million.

Primary activities of the Hazardous Materials program involve the cleanup of mining waste sites, sanitary landfills, and contaminated soils, and removal of underground storage tanks. The Department expended approximately $19 million for hazardous waste cleanup in FY 1997. The expenses were incurred by APHIS, ARS, CCC, FSA, DA, FS, FSIS, NRCS, OGC, and RD. Also included, but of less significance, is the proper handling of toxic chemicals at research facilities, inadequate storage, of pesticides and other hazardous substances, and point and non-point source water pollution. These hazardous materials are located primarily within the National Forest System.

C. Program Continuance

Since the enactment of the Federal Crop Insurance Act of 1980, FCIC has incurred significant losses from operation, which have accumulated to approximately 3.9 billion at September 30, 1997. FCIC has relied on additional funding from CCC and borrowings from the U.S. Treasury to meet its obligations. However, the 1994 FCIC Act as amended allows FCIC to request funding directly from Treasury with OMB and Department approval. CCC funds are still available if needed, but without significant changes in crop insurance program operations, FCIC will likely to continue to suffer losses and require Congressional funding.

D. Farm Service Agency Administration and Conservation

FSA Administration and Conservation is a party to various operating leases which contain termination clauses not to exceed 120 days for certain of its office facilities. Gross rent expense for FY 1997 was $114,792.

E. Other Commitments and Contingencies

FS is involved in litigation and claims concerning the denial of a mining lease, timber sale stumpage rates, cancellation of timber contracts, termination of special use permits and other matters. Some of the litigation associated with these matters is anticipated to be protracted. If the claimants are successful in all of these actions, USDA would be responsible for paying damages of at least $297,686. These potential damages only represent claims of $10 million or more.

FNS is contingently liable for the value of all food coupons which have been produced but not yet issued. The value of food coupons in inventory at year end was $12,374,094. This represents a substantial decrease. The reduced inventory balance is due to FNS' administrative decision not to print additional food coupons in FY 1996. Such food coupons are under the control of the companies which produce, distribute, and transport the coupons, as well as the states who control the inventories of food coupons available for issuance. Although FNS is indemnified for unaccounted food coupons by these companies, FNS must honor all redeemed food coupons.

The Federal Agriculture Improvement and Reform Act of 1996 (1996 Act) replaced acreage reduction programs with production flexibility contract payments. These payments are made on a fixed payment schedule over seven years. $25 billion of production flexibility contracts are remaining to be paid over the next five years.

In fiscal year 1997, CCC assumed the responsibility for financing payments made for the Wetlands Reserve Program (WRP), as a result of the 1996 Act. Under the WRP, CCC purchases easements, based on agricultural value, for wetlands that have previously been drained and converted to agricultural uses. At September 30, 1997, CCC's estimated future liability is $36 million.

The noninsured Assistance Program was authorized as a CCC program under the 1996 Act and is a standing disaster aid program for crops that are not covered by crop insurance. In FY 1997, CCC estimated that its annual liability for this program could range from $90 million to $140 million.

Under the Export Credit Guarantee Program, CCC can guarantee up to 100 percent of the amount owed to exporters who sell U.S. agricultural commodities to foreign importers on the basis of documentary letters of credit, which foreign issuing banks pay on deferred terms; however, CCC usually guarantees 98 percent of these amounts. For FY 1997, the total amount owed to exporters was $5 billion, of which CCC guaranteed $4,669 million of principal and $178 million of interest.

CCC enters into letters of commitment under the P.L. 480 program, whereby it agrees to repay U.S. commercial banks for payments to U.S. exporters and payments to vendors for ocean freight costs. In the former case, CCC establishes receivables due from those countries receiving aid. The letters of commitment outstanding as of September 30, 1997 were $301 million.

CCC's commitments to acquire commodities represent the contract value of commodities not yet delivered under CCC purchase contracts. For FY 1997, commodity contracts amounted to $397 million.

The Dairy Export Incentive Program is authorized under the Food Security Act of 1985, to facilitate 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. At September 30, 1997, CCC estimated its future liabilities to be $87 million.

The Environmental Protection Agency has designated CCC the potentially responsible party for ground water contamination near four former CCC grain storage locations. CCC is undertaking site investigations at these and other former locations. USDA estimates the total cost of this effort to be $40 million for the fiscal years 1998 through 2002. CCC intends to monitor the cost estimate and make revisions as necessary.

The Market Access Program was authorized by the Agriculture Trade Act of 1978, as amended, to encourage the development, maintenance, and expansion of commercial export markets for agricultural commodities through cost-share assistance to eligible trade organizations that implement a foreign market development program. CCC makes funds available to reimburse program participants for authorized promotional expenses. At September 30, 1997, CCC estimated its future liabilities could range up to $249 million.

The Export Enhancement Program encourages the commercial sale of U.S. agricultural commodities in world markets at competitive prices. Under the program, CCC and the exporter enter into an agreement in which CCC agrees to pay a bonus to the exporter in return for the exporter's submission of proof that the eligible commodity has been exported to the eligible country. At September 30, 1997, CCC estimated its future liabilities could range up to $6 million.

In IGF Insurance Company v. Federal Crop Insurance Corporation, the plaintiff filed suit against FCIC seeking to recover the $4.3 million that IGF paid to FCIC, to settle the debts of another company, Thurston Fire and Casualty Company. IGF had assumed it was, but now claims it was not, obligated to pay. The case was settled on

November, 12, 1997, with both parties agreeing that IGF would no longer be responsible for Thurston's past debts and each side would pay its own costs.

In Rose Acre Farms, Inc. v. United States, the plaintiff filed a complaint alleging that enforcement of USDA regulations resulted in a Fifth Amendment taking of its property valued in excess of $17.5 million. The Government filed a motion to dismiss on January 3, 1995, which was denied on August 7, 1995; the litigation is currently in discovery. The likelihood of a favorable outcome is good in terms of not having to pay a substantial sum of money to the plaintiff. However, should the Government lose this case, the potential loss would be between $17 and $18 million.

Timothy Pigford, et al. v. Dan Glickman, is a class action brought by black farmers who filed administrative discrimination complaints with USDA between 1983 and February 21, 1997, alleging race discrimination in Farmers Home Administration/FSA farm programs and seeking $512 million in damages and other relief. It is likely that the Government will win on the limitations and class certification issues. Should the Government lose, the loses could be up to $512 million.

Chuquatonchee Drainage District (District) is threatening litigation of a potential claim in excess of $19 million against NRCS for alleged breach of watershed work plan. RD is pursuing administratively the collection of $75,000 in damages for nonpayment by the District. Most likely the District will counterclaim if RD files a collection action based upon the claim the District contends that it has against NRCS. RD has agreed to a six-month forbearance and correspondence and meetings have been ongoing between the District and RD.

F. Subsequent Events

During the September 1996 Paris Club, Yemen outstanding debt was reviewed with the creditor countries. Creditor countries determined the type and periods of debt included in the rescheduling. Yemen's outstanding debt to CCC is approximately $89 million for the P.L. 480 direct credit program and $5 million for the Export Credit Guarantee programs. The agreement was signed in September 1996, and the bilateral agreement was signed by both governments in April 1997. In November, Yemen again went to the Paris Club to reschedule additional debt. Details regarding the additional rescheduling are not known at this time.

In September 1995, an agreement between the U.S. and Jordan went into force reducing Jordan's debt to the U.S. Government. During FY 1996, $1 million of principal and $1 million of interest were forgiven. OMB informed CCC in January 1997, that CCC should write off approximately $16 million of principal and $12 million of interest after funding is received. CCC expects to receive $14 million in subsidy for the face value of Jordan's debt. CCC will write off the remaining eligible debt during FY 1998, as the new bilateral agreement was signed on September 25, 1997. CCC was notified by the State Department in November 1997.

Representatives of CCC, the State Department, and Treasury traveled to Vietnam in March 1997 to discuss possible methods of rescheduling Vietnam debt. This direct credit receivable was established during the era of the Vietnam war, when Vietnam was under a different government. An agreement was signed on April 7, 1997, rescheduling $47 million of direct credit debt. Of the $47 million rescheduled, $28 million was principal outstanding and $19 million was in arrears. On May 1, 1997, CCC received the first payment from Vietnam in more than 20 years. Vietnam has remained current with its outstanding debt through FY 1997.

NOTE 24. DONATED COMMODITIES:

During the fiscal year, FNS distributed over $916 million in commodities to State agencies in support of programs administered by FNS, including Child Nutrition (CN) Programs, the Food Distribution Program on Indian Reservations, and the Nutritional Program for the Elderly. FNS purchases commodities from CCC and AMS using its own appropriations and intra-departmental transfers at no charge to FNS. These commodities are an integral part of FNS's mission and programs. Generally accepted accounting principles and Office of Management and Budget Bulletin No. 94-01, "Form and Content of Agency Financial Statements," require that the entire cost of these commodities and their related financing sources be recognized. Therefore, the current year statements recognize the transfer of food commodities and the related expense of $456 million. FNS also received $5.4 billion from AMS as appropriation authority to fund the CN Programs. At year end, commodities in inventory totaled $14.8 million.

The following schedule provides details on the estimated commodities distributed by the Department of Agriculture by source agency for the current fiscal year:

U.S. DEPARTMENT OF AGRICULTURE COMMODITIES DONATED TO STATES BY SOURCE AGENCY (amounts in thousands)			
AMS	CCC	FNS	TOTAL
$454,954	$1,072	$460,443	$916,469

Overall authority to distribute these commodities to eligible recipients rests with FNS. However, FNS delegates this responsibility to the State and local governments which are required to maintain complete and accurate records on the receipt, disposal, and inventory of the commodities and to provide FNS with monthly inventory reports. Legal title to commodities initially purchased by CCC and AMS using their own funding passes directly to States when the commodities are distributed.

REQUIRED SUPPLEMENTAL INFORMATION

Required Supplementary Information

Segment Information

USDA's Working Capital Fund (WCF), an intragovernmental support revolving fund, is not separately reported in the consolidated financial statements. The following condensed information summarizes the results of WCF activity during the FY 1997 reporting period.

Condensed Information About Assets, Liabilities and Net Position (Dollars in Thousands)

Fund Balance:		$ 36,909
Accounts Receivable:	13,613	
PP&E:		44,077
Other Assets:		
Inventory	1,169	
Liabilities Due for Goods and Services Received:	38,077	
Deferred Revenues:	0	
Other Liabilities:		(787)
Cumulative Results of Operations		27,476

Services Provided by the Fund

Twenty-two activity centers performed operations under WCF authority and provided the following services in FY 1997.

Office of the Executive Secretariat

Executive Secretariat (ES) is responsible for providing referral and correspondence control services for mail addressed to the Secretary and the Department.

Office of Communications

Office of Communications is responsible for managing the production of video exhibits and the Teleconferencing facility and producing visual materials, exhibits, art and graphic materials.

Departmental Administration

Departmental Administration is responsible for: the acquisition, receipt, storage, issuance, packaging and shipment of office supplies; forms warehousing, worldwide distribution and transportation services; receipt, rehabilitation and distribution of personal property; mail processing and delivery; automated maintenance, update and generation services for mailing lists; short-order and walk-up reprographic production services; custom duplicating services, binding, addressing and mailing services; management of the Central Imprest Fund; preparation of procurement documents; processing incoming and outgoing shipments of parcels; mainframe computer processing support by the National Information Technology Center (NITC); telecommunications services; applications design and programming services; maintenance and operation of telephone equipment; office automation and data processing support; and administering programs aimed at modernizing, simplifying and standardizing Departmental and Agency administrative management processes and systems.

Office of the Chief Financial Officer

Financial Information Systems Vision and Strategy Project (FISVIS) was commissioned in 1993 to develop and implement the integration of USDA financial management systems and financial portions of mixed systems. The National Finance Center (NFC) designs, develops, implements and operates administrative systems for agencies both internal and external customers.

The WCF activity centers are located in Washington, D.C., Kansas City, MO., Fort Collins, CO., and New Orleans, LA.

Major Customers

In FY 1997, the WCF had only one major customer that accounted for more than 15 percent of the fund's revenue. This customer was USDA's Forest Service, which provided revenue in the amount of $38,220.

Summary of Costs and Revenue by WCF Activity Center (Dollars in Thousands)

Activity Center	Cost of Goods and Services Provided	Related Exchange Revenue	Excess of Cost over Revenue
Executive Secretariat	$ 2,067	$ 2,067	$ 0
Video & Teleconferencing	2,340	2,213	127
Design Center	2,078	1,745	333
Central Supply Stores	2,873	2,595	278
Consolidated Forms & Pubs	3,251	3,461	(210)
Central Excess Property	2,090	2,138	(48)
Central Mail Unit	4,436	4,650	(214)
Duplication Service	6,235	5,473	762
Central Imprest Fund	222	325	(103)
Contract Automation System	364	364	0
Central Shipping & Receiving	453	453	0
NITC/ Mainframe	29,174	29,694	(520)
NITC/Network Mgmt Service	4,337	4,337	0
NITC/Applications Design	4,956	4,803	(153)
Telephone Service Operations	1,744	1,744	0
Computer Services Unit	1,372	1,298	(74)
Local Area Network	3,525	3,525	0
Modernization of Administrative Process	4,588	4,588	0
FISVIS	5,492	5,492	0
National Finance Center	127,885	127,896	(11)

The U.S. Forest Service's (FS) Working Capital Fund (WCF) is not separately reported in the consolidated financial statements. The following condensed information summarizes the results of FS's Working Capital Fund activity during the FY 1997 reporting period.

Condensed Information About Assets, Liabilities and Net Position (Dollars in Thousands)

Fund Balance:	$ 197,004
Accounts Receivable:	1,390
PP&E:	367,098
Other Assets:	26,439
Liabilities Due and Payable:	12,939
Cumulative Results of Operations	587,992

Services Provided by the Fund

The Forest Service Working Capital Fund was established by the Department of Agriculture Organic Act of August 3, 1956, as amended by the Act of October 23, 1962 (15 U.S.C. 579b). It is a self-sustaining revolving fund that provides services to National Forests, Experiment Stations, Federal agencies, and as provided by law, to State and private cooperators. Specific services provided by the WCF include equipment leasing services for the rental of vehicles and aircraft; supply services for photo reproduction, traffic and information signs, tree seeds, and nursery seedlings; and computer hardware and software support.

Summary of Costs and Revenue (Dollars in Thousands)

The following includes the cost of goods sold, related revenues, and the excess of costs over revenue as of September 30, 1997. Time and resource constraints prohibited compilation of information by product line or line of business.

Cost of Goods and Services Provided	$139,816
Related Exchange Revenues	134,330
Excess of Costs over Revenues	$ 5,486

Other Accompanying Information

PERFORMANCE MEASURES

Farm and Foreign Agricultural Services

Farm Programs

It is management policy to dispose of acquired property as quickly as possible to improve the overall management of the loan programs. When title to a property is obtained because of foreclosure, abandonment, or other reason, any necessary repairs are made and the property is offered for sale. The farm program properties average months in inventory increased to 58.2 months. Property acquisitions were down 25 percent from the prior year. Sales of inventory increased from the prior year by 54 percent. As a result of these actions, the inventory balance continued to decline, but the properties that had been in inventory longer had a greater impact on the average months in inventory balances.

Average Number of Months Properties Were in Inventory

	FY 95	FY 96	FY 97
Farm Programs	57.3	57.6	58.2

A concerted effort continues to be made to dispose of acquired properties. The ending balances of acquired properties for FY 1997 reflect decreases of 29.7 percent for farm program properties from FY 1996. The administration stressed the importance of protecting the borrower's rights; therefore, the number of property acquisitions declined as additional reviews of problem accounts were initiated.

Inventory of Acquired Properties Held by Farm Loan Programs

	FY 95	FY 96	FY 97
Beginning Balance	2,000	1,658	1,444
Ending Balance	1,658	1,444	1,015
Percent Change - Increase (Decrease)	(17.1)	(12.9)	(29.7)

Comparison of Loan Obligations (Major Program Areas) (Thousands)

	FY 95		FY 96		FY 97	
	Total Loans	Total $	Total Loans	Total $	Total Loans	Total $
Direct Loans						
Operating	10,712	437,854	12,992	566,583	11,944	515,720
Ownership	897	56,923	1,120	89,260	1,122	98,079
Emergency	1,526	68,823	3,015	176,500	2,490	144,880
Total Loans	13,135	563,600	17,127	832,343	15,556	758,679
Guaranteed Loans						
Operating	12,788	1,378,323	11,445	1,315,848	8,908	1,044,840
Ownership	3,447	559,948	3,130	553,057	3,040	529,705
Total Loans	16,235	1,938,271	14,575	1,868,905	11,948	1,574,545

International Operations

The goal of this program is to expand export opportunities for U.S. agricultural, fish, and forest products. One measure of this goal is the issuance and resolution of bilateral and multilateral major trade issues.

Selected Baseline Indicators	**FY 1997 Baseline**	**FY 1998 Forecast**
Number of major trade issues addressed through bilateral approach (involves monitoring, accessions, committees, addressing issues, and new liberalization negotiations)	100	110
Number of major trade issues addressed through multilateral approach (involves monitoring, accessions, committees, addressing SPS issues, and new liberalization negotiations)	384	455
Number of issues resolved through bilateral and/or multilateral approaches	60	60
Impact of implementing trade agreements on -- U.S. agricultural exports supported Multiplier effect on U.S. National economy Multiplier effect on U.S. rural economy Multiplier effect on U.S. National employment	$2.0 billion $4.8 billion $1.6 billion 34,600 jobs	$2.1 billion $5.0 billion $1.7 billion 36,330 jobs

Verification Methods: Calculating the performance measures for this objective will rely on procedures established and approved by the Trade Promotion Coordinating Committee (TPCC) and used in preparation of the annual National Export Strategy submitted to the Congress. This includes calculating the impact of Foreign Agricultural Service market access activities on exports. Estimating National and rural economic impacts involves combining export impacts with the trade multipliers associated with direct and indirect effects of agricultural exports (multiplier effect per billion worth of agricultural export sales are as follows: National economy = \$2.4 billion; rural economy = \$800 million; National employment in jobs created = 17,300). These are published by USDA's Economic Research Service using results from a 417 sector input-output model of the United States economy.

Food and Nutrition Services (FNS)

Food Stamp Program Regional Activity

The following tables provide regional level Food Stamp Program performance data during the periods FY 1993 through FY 1997.

FOOD STAMP PROGRAM

Average Annual Program Participation by Region (Thousands)					
	FY 93	FY 94	FY 95	FY 96	FY 97
TOTAL	26,982	27,468	26,619	25,541	22,859

Total Program Issuance by Region (Millions)					
	FY 93	FY 94	FY 95	FY 96	FY 97
TOTAL	$ 22,006	$ 22,749	$ 22,766	$ 22,441	$ 19,570

Average Monthly Per Person Benefit by Region ($/Person)					
	FY 93	FY 94	FY 95	FY 96	FY 97
TOTAL	$ 67.96	$ 69.01	$ 71.27	$ 73.22	$ 71.34

Food Stamp Program Compliance Branch Activity

During FY 1997, the Compliance Branch investigated 4,627 stores nationwide and found 2,084 (nearly 45%) instances of food stamp program violations, of which 1,584 cases resulted in temporary disqualification from the program or the payment of civil money penalties. Investigators uncovered the diversion of program benefits that amounted to \$154.5 million, and trafficking in 712 stores that had annual redemptions of \$79.5 million.

Compliance Branch Activity		
Activity	FY 1996	FY 1997
Stores Investigated	4,862	4,627
Stores Where Trafficking Occurred	743	712
Violations Detected	2,283	2,084
Violations Warranting Disqualification or Civil Monetary Penalties	1,418	1,584

Child Nutrition Programs Activity

The following tables provide regional level performance data for the National School Lunch Program, the School Breakfast Program, and the Child and Adult Care Food Program during the periods FY 1993 through FY 1997.

National School Lunch Program
Monthly Average Daily Program Participation by Region
(Thousands)

	FY 93	FY 94	FY 95	FY 96	FY 97
TOTAL	24,855	25,281	25,685	25,944	26,323

School Breakfast Program
Annual Average Daily Program Participation by Region
(Thousands)

	FY 93	FY 94	FY 95	FY 96	FY 97
TOTAL	5,359	5,834	6,318	6,584	6,924

Child and Adult Care Food Program
Average Daily Attendance by Region
(Thousands)

	FY 93	FY 94	FY 95	FY 96	FY 97
TOTAL	1,977	2,185	2,356	2,415	2,415

Availability of National School Lunch Program

The following table displays the trend in National School Lunch Program participation in relation to the enrollment levels in participating schools.

National School Lunch Program
Percent of Students Enrolled in Schools Participating in NSLP
--Based on Average Participation--
(Thousands)

Item	FY 93	FY 94	FY 95	FY 96	FY 97
Enrollment in NSLP Schools	43,468	44,465	45,136	45,309	46,269
Average Participation	24,855	25,281	25,685	25,944	26,324
Percent Participation of Enrollment	57.18	56.86	56.90	57.26	56.89

Special Supplemental Food Program for Women, Infants, and Children (WIC)

The following tables provide performance data for the WIC Program during the periods FY 1993 through FY 1997.

Average Monthly Participation Level by Region (Thousands)

	FY 93	FY 94	FY 95	FY 96	FY 97
TOTAL	5,922	6,476	6,894	7,188	7,409

Average Monthly Food Cost Per Participant by Region ($/Person)

	FY 93	FY 94	FY 95	FY 96	FY 97
TOTAL	29.76	29.91	30.40	31.19	31.68

Breastfeeding Promotion Efforts

The WIC program promotes breastfeeding as the best form of infant feeding through the provision of support and encouragement to new mothers and through nutrition education during pregnancy. In addition, breastfeeding WIC mothers receive a larger food package and, if otherwise eligible, are able to stay on WIC for a longer period of time than non-breastfeeding postpartum women. By law, States are required to expend at least $21 per pregnant and breastfeeding participant for breastfeeding promotion and support. Many States spend more than this minimum requirement on breastfeeding promotion.

Between 1993 and 1996 the number of breastfeeding women served by the WIC Program has increased by over 50 percent, from 209,000 to 321,000. Over that same period, breastfeeding women accounted for 35-40 percent of the total WIC postpartum caseload in any individual year. Looking solely at the ratio of breastfeeding women to total postpartum women suggests that the rate of breastfeeding in the WIC Program did not improve over the time period and actually decreased from 1993 to 1996. However, this comparison obscures increases in high priority breastfeeding women because significant funding increases have allowed the program to expand participation among lower priority postpartum women at an even greater rate than higher priority breastfeeding women. Research has documented the positive impact of nutrition education on breastfeeding rates among WIC participants. Recently enacted legislation will provide FNS with accurate measures of the initiation and duration of breastfeeding among WIC participants.

Special Supplemental Food Program for Women, Infants, and Children (WIC)
Percent of WIC Postpartum Women Who Breastfeed (Thousands)

Fiscal Year	Breastfeeding Women	Total Postpartum Women	Percent Breastfeeding of Total
1993	209	544	38.4
1994	236	656	36.0
1995	268	743	36.1
1996	283	791	35.8
1997	321	839	38.3

Commodity Assistance Programs

The Commodity Assistance Programs appropriation includes two programs, the Commodity Supplemental Food Program (CSFP) and The Emergency Food Assistance Program (TEFAP). The following tables provide participation data by region and by program component for CSFP over the period FY 1993 through FY 1997.

Commodity Supplemental Food Program
Based on Average Monthly Participation (Thousands)

	FY 93	FY 94	FY 95	FY 96	FY 97
TOTAL	370	365	364	358	370

Commodity Supplemental Food Program
WIC and Elderly Components (Thousands)

Fiscal Year	Women, Infants, and Children	Elderly Persons	Total	Percent WIC of Total
1993	229	142	371	61.7
1994	200	163	363	55.1
1995	164	200	364	45.1
1996	137	219	356	38.5
1997	127	243	370	34.3

Natural Resources and Environment

Forest Service

The following table presents selected measures of agency performance for FY 1997 funded by Appropriated, Knutson-Vandenberg (KV) Act, and Brush Disposal Deposits.

MEASURES OF PERFORMANCE [1,2]

	1997
Acres of Wildlife Habitat Restored or Enhanced	363,064.7
Miles of Inland Fish Streams Restored or Enhanced	1,197.8
Acres of Inland Fish Lakes Restored or Enhanced	7,025.4
Miles of Anadromous Fish Streams Restored / Enhanced	990.1
Acres of Anadromous Fish Lakes Restored or Enhanced	3,718.0
Acres of TE&S Terrestrial Habitat Restored or Enhanced	160,728.7
Miles of TE&S Aquatic Stream Habitat Restored or Enhanced	166.3
Acres of TE&S Aquatic Lake Habitat Restored or Enhanced	118.3
Acres of Soil & Water Resource Improvements	63,562.6
Acres of Reforestation	321,498.0
Acres of Timber Stand Improvement	257,881.0
Acres of Noxious Weed Treatments	102,549.4
Acres of Range Non-Structural Improvements	49,390.0
Number of Grazing Allotments Administered to Standards	4,735.0
Number of Grazing Allotments Analyzed/Decisions Implemented	621.0
Energy Operation Processed	455.0
Bonded Non-energy plans Operations Processed	961.0
Timber volume offered (billion board feet)	4.0
Acres of NFS Land Treated for Fuels Management	1,018,399
Miles of land line location	877.7
Acres of Land Exchange Fee and Partial Interest	244,177.9
Acres of Land Ownership Adjustment excluding exchanges	102,994.3

[1] Appropriated funding includes current year Congressional appropriations and funding carried over from the previous fiscal years.
[2] All performance measures are estimated or qualified.

Rural Development

Rural Electric

Until 1973, almost all Federal financing to electric borrowers was supplied by direct loans at an interest rate of two percent. In addition to increasing the interest rate on direct loans from two to five percent, legislation passed in 1973: 1) reduced the amount loaned to distribution borrowers from 100 percent to 70 percent of their construction needs, requiring them to borrow the remainder from private lenders without a government guarantee, and 2) provided FFB funding for most generation and transmission loans. These loans are made at market interest rates.

Rural Development analyzes the financial and economic situation of borrowers to detect potential financially troubled systems. The policy is to take appropriate preventive measures to ensure the Government's security on its outstanding loans while encouraging borrowers to solve their own financial problems.

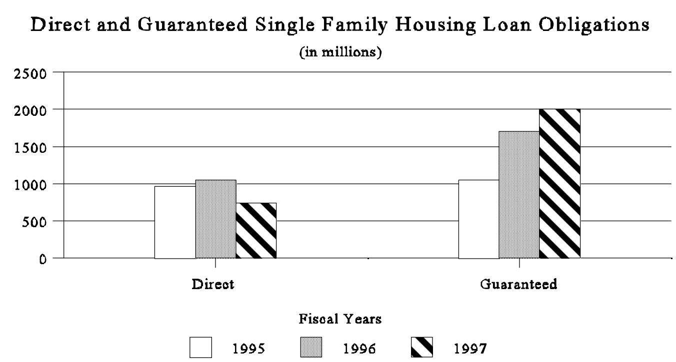
Rural Telecommunications Program

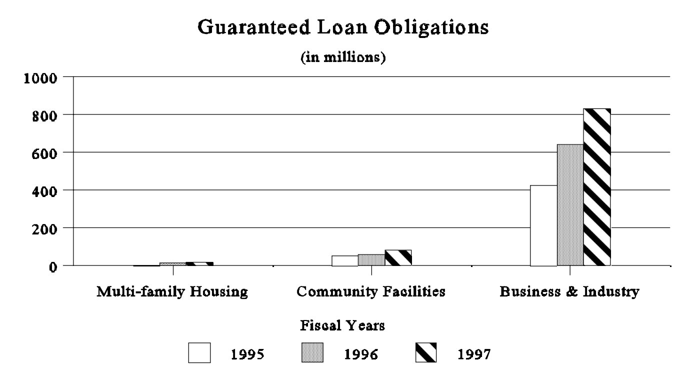
Telecommunications borrowers are diversifying into other related areas. Many of them are participating, either individually or through partnership arrangements, in providing mobile wireless telecommunications services in rural areas. Other areas of diversification include cable television and satellite receive-only earth stations. The USDA and the Federal Communications Commission are jointly monitoring the effects of federal decisions on rural telecommunications companies and subscribers. More than 6 million subscribers were receiving telecommunications services from RUS-funded systems as of December 31, 1996.

Recent Trends in Loan Obligations

Direct SFH obligations of $737 million represented a decrease of about 30 percent from 1996 levels; on the other hand, the SFH guaranteed loan program obligations grew by 18 percent to $2 billion. Decreases in the direct SFH program in FY 1997 were due to changing interest rates which adversely impacted the program subsidy rate, therefore reducing the available program level funding.

RHS implemented the demonstration project for Multi-family Housing guaranteed loans in 1996. The obligations have increased by 115 percent from 1996 to 1997's total of $28 million. The guaranteed program for Community Facilities showed significant growth this year, increasing 46 percent to a total of $82 million. Obligation levels for guaranteed Business and Industry have increased again this year, showing a 30 percent increase to a total of $828 million.





Performance Measure:
Comparison of Loan Obligations
(Major Program Areas)
(Dollars in Millions)

	FY 95		**FY 96**		**FY 97**	
	Total Amount	Total Loans	Total Amount	Total Loans	Total Amount	Total Loans
Direct Loans						
RHS						
Single Family	$961	27,517	$1,052	26,121	$737	19,708
Multi-Family	198	407	167	350	72	267
Community Facilities	176	272	208	315	137	343
RUS						
Water/Waste	828	1052	605	898	833	1,003
Electric	911	135	823	131	824	136
Telecommunications	585	116	493	106	381	79
RBS						
Rural Economic Development Loans	0	0	0	0	12	39
Intermediary Relending Program	85	89	38	47	37	53
Guaranteed Loans						
RHS						
Single Family	1,049	16,677	1,700	25,153	2,000	29,354
Multi-Family	0	0	13	10	28	18
Community Facilities	51	40	56	65	82	80
RUS						
Water/Waste	0	0	59	13	2.8	9
RBS						
Business and Industry	423	328	638	562	828	692