



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

**U.S. Department of Agriculture
Consolidated Financial Statements
for Fiscal Year 1998**



**Audit Report No.
50401-30-FM
February 1999**



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



DATE: February 22, 1999

REPLY TO
ATTN OF: 50401-30-FM

SUBJECT: Audit of the U.S. Department of Agriculture
Consolidated Financial Statements for Fiscal Year 1998

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

ATTN: Gary Barber
Director
Executive Services Staff

This report presents the results of our audit of the U.S. Department of Agriculture's (USDA) consolidated financial statements as of and for the fiscal year ended September 30, 1998. The report contains our disclaimer of opinion on the fiscal year 1998 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.

This report is intended for the information of the USDA management, Office of Management and Budget, and Congress. However, this report is a matter of public record, and its distribution is not limited.

ROGER C. VIADERO
Inspector General

EXECUTIVE SUMMARY

U.S. DEPARTMENT OF AGRICULTURE CONSOLIDATED FINANCIAL STATEMENTS FOR FISCAL YEAR 1998 AUDIT REPORT NO. 50401-30-FM

PURPOSE

Our audit objectives were to determine whether (1) the financial statements present fairly, in all material respects, in accordance with Federal accounting standards, the assets, liabilities, and net position; net costs; changes in net position; budgetary resources; and reconciliation of net costs to budgetary obligations, (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 as of and for the year ended September 30, 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. For the last 7 years, the Department has reported to the President that it is unable to provide reasonable assurance that the Department's

financial systems conform with certain standards and principles. This difficulty will continue until at least 2002, and possibly longer. 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 Central Accounting System (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 accurate, reliable, and consistent financial information.

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," totaling over \$37 billion, because reconciliation procedures of the OCFO/NFC, while improving, were still not sufficient to enable the OCFO to adequately research and reconcile the differences.
- We were unable to obtain sufficient and competent evidential matter to support the Department's "Credit Program Receivables and Related Foreclosed Property, Net" and "Estimated Losses on Loan and Foreign Credit Guarantees" stated at over \$69.7 billion and \$3.4 billion, respectively. This long-standing problem needs timely resolution since it materially impacts both the Department's and the U.S. Government's financial statements.
- We were unable to obtain sufficient and competent evidential matter to support the Statement of Financing. The Statement of Financing is substantially impacted by the deficient departmental credit reform accounting systems. Two of the line items in the section entitled, "Resources Used to Fund Items Not Part of the Net Cost of Operations," were not supported, and the Forest Service made over \$2.1 billion in adjustments to this statement which were not supported.
- We were unable to substantiate "General Property, Plant and Equipment, Net," totaling over \$3.6 billion, primarily because validations and data input into the Forest Service's automated Infrastructure (INFRA) subsidiary accounting ledger were not completed in a timely manner to facilitate audit.

- The "draft" fiscal year 1998 Federal Managers Financial Integrity Act (FMFIA) report,¹ states that except for 28 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 always conform to certain standards, principles, and other specifications to ensure that Federal managers have timely, relevant, and consistent financial information for decision-making purposes. Because of the Department's inability to complete its FMFIA report in a timely manner, we were unable to comment on it.
- A material part of the Department's financial information system is comprised of the OCFO/NFC's CAS. For the last 8 years, we have reported numerous material internal control weaknesses in the operation of the OCFO/NFC. The Center has developed a corrective action plan, that if properly implemented, should correct the accounting system problems reported. During fiscal year 1998, the OCFO/NFC has resolved several of the problems and is making progress on correcting many of the remaining issues. However, some material problems that continue, include:
 - The general ledger at the OCFO does not conform with the U.S. Government Standard General Ledger (SGL); general ledger accounts were not always appropriately crosswalked to the financial statements; and there was an inadequate audit trail.
 - Material weaknesses continued to exist in accounting adjustments without significant improvements.

In our Report on the Internal Control Structure, we have reported:

- Since 1992, weaknesses in the processes and procedures used by the Department's lending agencies to estimate and reestimate loan subsidy costs. Despite several plans spanning 3 years, these material weaknesses continue to exist. Generally, agencies need to improve their processes for accumulating and documenting relevant, sufficient, and reliable data used to support their loan subsidy costs and improve management oversight of this critical area.

¹ While due to the Secretary by December 31, 1998, as of February 12, 1999, the fiscal year 1998 FMFIA report had not been finalized.

- During fiscal year 1998 Office of the Inspector General (OIG) reviewed the Department's Year 2000 (Y2K) conversion efforts. We reviewed the Department's progress in renovating and validating its systems, data exchanges; and business continuity and contingency planning. We noted significant problems and reported these matters to the agencies' and the Department's Chief Information Officer (CIO). We made recommendations to the CIOs to correct the problems identified in our reports. The CIOs agreed with our findings and recommendations and have implemented corrective actions to resolve the problems identified.

In our Report on Compliance with Laws and Regulations, we noted substantial noncompliance with the three requirements of the Federal Financial Management Improvement Act (FFMIA).

Because the Department's financial information system is unable to provide accurate and timely accounting and financial reporting, it is difficult 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 decisions is substantially hindered. Our disclaimer of opinion for the last 5 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 other meaningful measure of financial performance. In essence, poor accounting and financial reporting, obscures facts.

KEY RECOMMENDATIONS

We previously recommended that the Department take aggressive action to fix these problems. The OCFO indicated in its response to the Audit of the Fiscal Year 1997 Financial Statements that it concluded that a single integrated financial system throughout the Department was no longer a viable goal. OCFO must instead strive for a set of financial systems that are integrated. OCFO is committed to form a group to develop a plan to reduce and consolidate the Department's financial management systems and decide on a methodology to develop a departmentwide strategy for an integrated financial system architecture. OCFO has also developed a 5 year plan for implementing the FFIS.

Corrective action has been recommended in previous audit reports for many of the conditions noted in this report. Therefore, we did not repeat those recommendations. We will continue to monitor and report on the status of those corrective actions. We did, however, recommend the following for other conditions noted in this audit.

- A CFO-led working group should be formed to resolve all departmental credit reform problems.
- Improvements are needed in the OCFO/NFC general ledger system including, more timely fiscal yearend closing procedures.

AGENCY COMMENTS

Departmental officials generally agreed with the issues and recommendations contained in this report.

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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 Consolidated Balance Sheet of the U.S. Department of Agriculture (USDA) as of September 30, 1998, and the related Consolidating Statement of Net Cost, Consolidating Statement of Changes in Net Position, Consolidated Statement of Budgetary Resources, and Consolidated Statement of Financing 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," totaling over \$37 billion, because reconciliation procedures of the Office of the Chief Financial Officer's (OCFO)/National Finance Center (NFC) 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. The Chief Financial Officer (CFO) has initiated a corrective action plan to address this serious problem and is making progress in fixing this long-standing problem. The CFO has scheduled completion of all corrective actions by September 30, 1999.
- We were unable to obtain sufficient and competent evidential matter to support the Department's "Credit Program Receivables and Related Foreclosed Property, Net" and "Estimated Losses on Loan and Foreign Credit Guarantees" stated at over \$69.7 billion and \$3.4 billion, respectively,

as of September 30, 1998, and the related financial statement line items² shown below:

<u>Principal Statement</u>	<u>Line Item(s)</u>
Balance Sheet:	"Unexpended Appropriations" "Cumulative Results of Operations"
Statement of Net Cost:	"Grants and Transfers"
Statement of Changes in Net Position:	"Appropriations Used" "Transfers-Out" "Increase (Decrease) in Unexpended Appropriations"
Statement of Budgetary Resources:	"Unobligated Balances-Beginning of Period" "Unobligated Balances-Available" "Unobligated Balances-Not Available"

The Commodity Credit Corporation (CCC) was not able to provide sufficient, competent, evidential matter, within the timeframes provided by the Department, to substantiate the financial statement line items, "Fund Balance with U.S. Treasury," "Resources Payable to Treasury," "Unexpended Appropriations," and "Debt," on the Balance Sheet, most items on the remaining statements, and the Statement of Financing. The Secretary decided on January 14, 1999, that "* * * USDA would comply with the Government Management Reform Act of 1994 and submit its audited consolidated financial statements to the Office of Management and Budget (OMB) by March 1, 1999."

- We were unable to obtain sufficient and competent evidential matter to support the Statement of Financing, except for the amounts reported by the Food and Nutrition Service (FNS) and the Federal Crop Insurance Corporation. The Statement of Financing is substantially impacted by the deficient departmental accounting systems. Two of the line items in the section entitled, "Resources Used to Fund Items Not Part of the Net Cost of Operations," were not supported, and the Forest Service made over \$2.1 billion in adjustments to this statement which were not supported. We determined that it was not practicable to perform alternate procedures to satisfy ourselves as to: (1) The value of any of the financial statement line items on the Statement of Financing and (2) the value of the assets, liabilities, equity, costs, financing sources, and budgetary resources relating to credit reform.

² Our qualification on these line items relates to the value of the Allowances for Subsidy Cost.

- We were unable to substantiate "General Property, Plant and Equipment, Net," totaling over \$3.6 billion, primarily because validations and data input into the Forest Service's automated Infrastructure (INFRA) subsidiary accounting ledger were not completed in a timely manner to facilitate audit. In addition, the depreciation function of the system had not been integrated into the accounting subledger and manual computations were based on erroneous balances.
- Forest Service's financial problems also impacted the reliability of the "Accounts Receivable" and "Accounts Payable" line items. We noted material internal control deficiencies in (1) classification of accounts receivable between Federal and non-Federal, (2) amounts that were not true receivables such as potential fire claims or intraagency transactions, (3) amounts, listed as receivables, within the FFIS that had already been paid, and/or (4) insufficient documentation to support yearend adjustments.
- We were unable to determine whether the "Net Position," totaling over \$14 billion was accurate. Because (1) we issued a disclaimer of opinion on the Department's fiscal year 1997 Statement of Financial Position, and (2) the Forest Service reported an unexplained decrease of over \$1.8 billion between the ending balance in net position for fiscal year 1997 and the beginning balance for fiscal year 1998, we were unable to determine whether the "Net Position-Beginning of Period," totaling over \$37.9 billion, was presented fairly.
- A material part of the Department's financial information system is comprised of the OCFO/NFC's CAS. For the last 8 years, we have reported numerous material internal control weaknesses in the operation of the OCFO/NFC. While the Center has developed a corrective action plan, that if properly implemented, should correct the accounting system problems, many of the internal control weaknesses remain. For example, we continued to note that the general ledger at the OCFO does not conform with the U.S. Government Standard General Ledger (SGL); general ledger accounts were not always appropriately crosswalked to the financial statements as required by SGL, and the audit trail from the general ledger to supporting documentation, in some cases, was nonexistent. In addition, subsidiary ledger detail does not exist for certain general ledger balances.

Additional material weaknesses continued to exist in the areas of accounting adjustments and system modifications, poorly documented applications, and accounting reconciliations.³

³ The weaknesses with the CAS are discussed in detail in our accompanying report on the internal control structure.

Since we were not able to apply alternate auditing procedures to satisfy ourselves as to the value of USDA's assets, liabilities, and net position as of September 30, 1998; as well as its net costs, changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations for the fiscal year then ended, the scope of our work was insufficient to enable us to express, and we do not express, an opinion on these financial statements.

As discussed in the notes to the financial statements, the Department implemented Statements of Federal Financial Accounting Standards (SFFAS) Nos. 6, 7, and 8 which became effective for fiscal years beginning after September 30, 1997.

The Overview and Supplemental Information (OSI) provides explanatory analysis for the users of USDA's financial statements and it summarizes fiscal year 1998 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.

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

ROGER C. VIADERO
Inspector General

February 12, 1999



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 financial statements of the USDA as of and for the fiscal year ended September 30, 1998, and have issued our report thereon dated February 12, 1999. In planning and performing our audit of the financial statements we considered its internal controls over financial reporting by obtaining an understanding of the internal controls, determined whether the internal controls had been placed in operations, assessed control risk, and performed tests of controls in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Consequently, we do not provide an opinion on internal controls.

In addition, we considered USDA's internal controls over Required Supplementary Stewardship Information by obtaining an understanding of the internal controls, determined whether these internal controls had been placed in operation, assessed control risk, and performed tests of controls as required by Office of Management and Budget (OMB) Bulletin 98-08, "Audit Requirements for Federal Financial Statements" and not to provide assurance on these internal controls. Accordingly, we do not provide assurance on such controls.

Finally, with respect to internal controls related to performance measures reported in the Overview section, we obtained an understanding of the design of significant controls relating to the existence and completeness assertions, as required by OMB Bulletin 98-08. Our procedures were not designed to provide assurance on internal control over reported performance measures, and accordingly, we do not provide an opinion on such controls.

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 "draft" fiscal year 1998 Federal Managers' Financial Integrity Act (FMFIA) report, the Secretary of Agriculture reported to the President of the United States that except for 28 material control weaknesses, USDA as a whole, could provide reasonable assurance that its systems of management control complied with the objectives of Section 2, Management Accountability and Control, of the FMFIA. However, the Department was unable to provide assurance that its financial management systems complied with Section 4, Financial Management Systems, 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 relevant, 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 and grants, 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.

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. 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

More Must Be Done To Resolve Longstanding Problems With Credit Reform Accounting

We have reported weaknesses in the processes and procedures used by the Department's lending agencies to estimate and reestimate loan subsidy costs since 1992. Despite several plans spanning about 3 years, these material weaknesses continue to exist. As a result, we are unable to assess the reasonableness of the "Credit Program Receivables and Related Foreclosed Property, Net" and "Estimated Losses on Loan and Foreign Credit Guarantees" totaling about \$69.7

billion and \$3.4 billion, respectively.

Effective for fiscal year 1992, the Federal Credit Reform Act (Act) of 1990 required the President's Budget to reflect the "costs" of direct loan and guarantee programs. "Costs" are defined by this Act to mean the estimated long-term cost to the Government of direct loans or loan guarantees, calculated on a net present value basis, excluding administrative costs and incidental effects of receipts and outlays.

We have reported weaknesses in the estimation and reestimation of loan subsidy costs for credits and loans, since fiscal year 1992, for Rural Development, CCC, and the Farm Service Agency (FSA). Generally, these agencies needed to substantially improve their processes for accumulating and documenting relevant, sufficient, and reliable data used to support their subsidy costs. This condition was considered by us during the audit and provided the basis for our qualification on the associated financial statement line items.

The problems we identified in each agency/mission area follow.

Rural Development

Rural Development has been unable to reasonably estimate the "costs" of its loan programs because its accounting systems were not appropriately designed to capture data necessary to make reasonable estimates. Rural Development has acknowledged that improvements are needed in the processes and procedures used to establish and reestimate loan subsidy costs. It indicated in its fiscal year 1998 FMFIA report that lack of staff, and lack of staff trained on credit

reform, as well as unforeseen obstacles have caused the planned date to correct this weakness to change from fiscal year 1998 to the end of fiscal year 1999.

CCC

CCC has experienced significant problems for the last 4 years with the processes used to gather data and compute the subsidy estimate and reestimate costs. We attributed these problems to the need for additional oversight, better coordination within CCC and more effective control procedures over the subsidy estimate and reestimate processes. These problems were significantly compounded by the different credit reform reporting standards used for budget and for financial statement reporting purposes. For example, budget standards require CCC to retain the country's original risk rating throughout the life of the loan. Accounting standards require that the risk be assessed as of the date of the financial statements.

FSA

We reviewed the progress made by FSA in improving its processes relating to obtaining and documenting data and supporting its estimates and reestimates of loan subsidy costs. Our review disclosed the following problems:

- FSA does not perform reestimates as of the fiscal year end for financial statement reporting purposes. Currently, FSA does not perform reestimates until the following spring. This results in material compliance problems and impacts the reliability of financial and budget information.
- The current FSA cash flow model for direct loans is in error. The model provides that defaults occur evenly over the life of the loans. However, the model incorrectly provides that all recoveries of defaults occur in the first year. As a result, the cash flow model reflects an estimated amount of recoveries (cash inflow) of more than what is possible for a particular year. For example, for the Direct Operating, Year 1996 cohort, \$41.8 million was reported as recovered while only \$40 million had been defaulted on to date. (The FSA loan portfolio subject to credit reform for direct loans totals over \$2.7 billion.)
- Although progress has been made to conduct and document historical analysis, many assumptions still lack sufficient supporting documentation.
- FSA lacks a comprehensive methodology to evaluate actual cash flows for direct and guaranteed loans in order to determine if

cash flow estimates remaining for the out-years should be revised.

- When performing reestimates, FSA Budget personnel entered incorrect or incomplete actual cash flow information. For example, subsidized operating and farm ownership guaranteed loan interest assistance paid by FSA to the third party lender was not entered to the actual cash flows. This results in subsidy rates substantially less than actual. Currently, FSA pays more out in interest assistance than in defaults. Also, actual scheduled principal and interest are being entered incorrectly which causes, in some cases, total scheduled principal to be either less than or more than the total principal disbursed. For example, we noted a cohort where actual plus total estimated principal repayments exceeded total principal disbursements by \$149 million.

We believe that to resolve these problems, within the timeframes established, additional contractor resources are needed in order to perform the required analysis, and identify and review sources of data, some of which may need to be developed. The Department's credit reform problems are impacted by agency accounting systems and by the many dissimilar loan programs which disburse over multiple years and/or provide for various payment assistance for borrowers, making the development of appropriate cash flow models extremely complex. Economic, statistical, and mathematical assumptions will all need to be considered in order to validate the cash flow models.

In a recent response to our prior audit report, the OCFO agreed that USDA has many credit reform problems. It indicated that OCFO, in concert with FSA and Rural Development, would develop a project plan to bring closure to the credit reform problems.

We question whether corrective action can be completed in time to provide an unqualified audit opinion on the fiscal year 1999 USDA financial statements. For example, Rural Development's "Cash Flows and Reestimate Workplan," dated July 22, 1998, provides its most current corrective actions and planned completion dates to resolve this material weakness. Key corrective actions include the development of three simplified cash flow models; however, as of December 1998, Rural Development continues to refine and develop the models.

In a recent report⁴ the General Accounting Office (GAO) recommended that the Secretary or his designee take the following action:

- Implement the action plan to address deficiencies in estimating the cost of loan programs in a timely manner, including:
 - Comparing estimated cash flows to actual cash flow experience to validate the quality of the estimates as part of the annual reestimation process,
 - reestimating loan program costs timely and including them in the current year's financial statements and budget submissions, and
 - developing and implementing written policies and procedures that include a formal supervisory review process and a coordinated approach between program, budget, and accounting staff for estimating the cost of credit programs.
- Ensure that the key cash flow assumptions in existing cash flow models are documented, including comparisons to program requirements.
- Ensure that once all mission critical systems are Year 2000 compliant, computer systems are updated to capture the data necessary to reasonably estimate loan program costs.
- Consider hiring outside contractors to assist in gathering sufficient, relevant, and reliable data as a basis for credit program estimates.

RECOMMENDATION NO. 1a

Organize a CFO-led working group that would be responsible for resolving all departmental credit reform problems.

⁴ Credit Reform, "Key Credit Agencies Had Difficulty Making Reasonable Loan Program Cost Estimates," GAO/AIMD-99-31, January 1999.

RECOMMENDATION NO. 1b

Ensure that sufficient resources are available to promptly resolve the credit reform problems within the Department and sustain compliance with all applicable authoritative requirements. Resources should include contractor assistance, if necessary.

RECOMMENDATION NO. 1c

Require an integrated credit reform accounting system to be installed within the Department that is in substantial compliance with the FFMIA.

RECOMMENDATION NO. 1d

Work with OMB to align budget credit reform accounting requirements with financial statement reporting requirements so that a uniform standard for determining loan subsidy cost can be implemented.

FINDING NO. 2

Improvements Are Needed In Financial Management Systems and Procedures

In our prior audit report, "Audit of the USDA's Fiscal Year 1997 Financial Statement," Audit No. 50401-24-FM, we reported that the Department's overall administrative and program accounting systems do not always process and report departmentwide financial information timely or accurately. We noted that the system was not fully integrated with its subsystems and did not fully adhere to Federal Financial Management System Requirements (FFMSR). In addition, the delay in implementing the FFIS further impacted 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. As a result, Department officials will continue to function without 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 a Department with \$121 billion in assets.

The serious and longstanding problems that have impacted the financial management of the Department include the following.

- Although improvements have been made by Forest Service, continuing internal control and financial management weaknesses have prevented Forest Service from preparing complete, reliable, and consistent financial statements. Additional actions are needed to (1) hire and fill key financial management positions, (2) develop timely and accurate compilation methodologies for financial statement line items, (3) ensure that general ledger trial balance amounts and performance information are evaluated throughout the year, and that the final closing ledger amounts are used to support the financial statements, and (4) ensure adjusting journal entries were justified and supported by adequate documentation. The lack of an integrated accounting system and the quality of field level data contribute greatly to the excessive amount of work required at year end. For example, our review of financial statement line items prepared by Forest Service disclosed the need for accounting adjustments totaling \$8.3 billion.

We also concluded that Forest Service's complex system of management codes increased the risk of misuse of budgetary resources and that, due to inadequate internal controls, errors in field level data input contributed to unreliable financial data. The risk of errors or irregularities and the potential unauthorized use of appropriations or trust funds are further increased by Forest Service's use of its vast and complex management code system.

- During fiscal year 1998, OCFO/NFC used general ledgers from both the CAS and FFIS accounting systems to prepare financial statements. The general ledgers were to have been closed and financial statements provided by November 27, 1998. However, we determined that the OCFO/NFC had continued to make adjustments through January 28, 1999. We also noted where OCFO/NFC made about 130 adjustments after fiscal yearend totaling at least \$32 billion to correct a "systemic error" in the general ledger posting logic.

Such delays in closing the general ledger significantly decreases opportunities for the Department and OIG to perform accurate and complete analyses of their financial statements and reports. For example, we provided an analysis of the change in account balances from fiscal year 1997 to fiscal year 1998 for five selected agencies on December 21, 1998, and requested explanations for any significant changes (\$10 million or more). As of the date of our report, the agencies had not completed their analyses. However, two of the

agencies indicated possible misstatements in the property, plant, and equipment accounts exceeding \$200 million. The agencies indicated that additional research was needed to completely resolve the possible misstatement(s).

- 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. A few of the problems noted include the following.
 - We determined that a reconciliation of the general ledger to the property master file is not being performed by the OCFO/NFC. OCFO/NFC identified the differences between the general ledger and the property master file but has not performed the necessary research to resolve the differences. As of December 1998, there was a net difference of about \$130 million between the general ledger and the property master file. OCFO/NFC does not expect corrective actions to begin in this area until March 1999.
 - OCFO/NFC prepares a report which provides details of NFC suspense Treasury symbols. However, all suspense account balances are not regularly reconciled to the supporting documentation. We noted that as of May 1998, OCFO/NFC identified 19 suspense general ledger accounts, totaling over \$100 million that were not reconciled to supporting documentation.
 - 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 1998 review, we noted that the OCFO/NFC continues to adjust the Standard Form (SF)-224, "Statement of Transactions," to agree with Treasury records without adequately researching the differences. While OCFO/NFC has taken steps to improve its SF-224 reporting process, material out-of-balance conditions continue to exist. As of September 30, 1998, we noted the following net differences between OCFO/NFC's CAS SF-224 and Treasury records:

TYPE	ITEM	1997	1998
Disbursements	Overall difference	\$1 Billion	\$522 Million
	Difference attributed to errors in NFC records (researched)	NFC Did Not Research	\$582 Million
	Remaining unexplained difference	\$1 Billion	(\$60) Million
Deposits	Overall difference	\$174 Million	\$13 Million
	Difference attributed to errors in NFC records (researched)	NFC Did Not Research	NFC Did Not Research
	Remaining unexplained difference	\$174 Million	\$13 Million

In addition, we noted the following differences (absolute value) between OCFO/NFC's detail disbursement and deposit records and Treasury detail records as of September 30:

TYPE	1997	1998
Disbursements	\$7.1 Billion	\$4.4 Billion
Deposits	\$685 Million	\$383 Million

OCFO/NFC has acknowledged the weaknesses in the present accounting system which contribute towards the differences between the CAS SF-224, detail disbursement and deposit records, and U.S. Treasury records and has implemented a corrective action plan to address such weaknesses. OCFO/NFC has made progress towards completion of the action plan; however, additional corrective action is needed. OCFO/NFC has acknowledged that its current process of identifying and researching differences between detail disbursement and deposit records and U.S. Treasury records requires further analysis and additional corrective action.

We also reviewed the Treasury Financial Statement-6653, "Undisbursed Appropriation Account Ledger," reconciliations prepared by the OCFO/NFC as of June 30, 1998, and determined that improvements had been made in

the reconciliations. We believe, however, that additional improvements are needed. For example, we noted instances where the U.S. Treasury records were incorrect and the OCFO/NFC maintained its policy of adjusting its records to agree with Treasury at fiscal yearend. Also, prior year differences, including differences that were labeled "unidentified," were being carried forward as reconciling items.

- OCFO reclassified an "abnormal" balance from the "Trust and Deposit Liabilities" line item to the "Other Assets" line item. This occurred because there was a liability account belonging to OCFO/NFC with an "abnormal" (debit) balance totaling over \$112 million and because OCFO/NFC did not research and/or the CAS could not allocate this suspense activity to appropriate agencies in a timely manner.
- 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 and reconciliations of the manually entered data were not always completed. As a result, errors in timber sales revenue, accounts receivable, and property were not identified.
- 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.
- During our audits of CAS, we noted that there are numerous methods of making accounting adjustments to the general ledger and related subsidiary records. In prior audits, we have reported on inadequate controls to assure that the adjustments affected the proper accounts, were authorized, adequately documented, processed accurately, and approved by user agencies. Our current review disclosed that the weaknesses continue to exist. These weaknesses substantially lessen the reliance which can be placed on the OCFO/NFC general ledger.
- 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 Food and Nutrition Service (FNS) has not corrected its internal control weakness related to food stamp recipient claims. The weakness states that the agency's procedures for establishing, recording, adjusting, collecting, and reporting on claims need strengthening. This weakness has been reported in FNS' financial statements audit reports since fiscal year 1991. In fiscal year 1997, FNS made significant commitments to address this long-standing issue. During fiscal year 1998, OIG and FNS resolved the opinion qualification for gross accounts receivable, non-Federal. However, a material internal control weakness continues to exist because adequate claims systems and processes are not in place to ensure that Federal funds spent in violation of Food Stamp Program regulations are recovered and returned to the program to improve program operations.
- We were unable to obtain sufficient and competent evidential matter to support the Statement of Financing. This was due to deficiencies in the accounting systems. Because of the conditions noted, we determined that it was not practicable to perform further alternate procedures to satisfy ourselves as to the value of any of the financial statement line items on the Statement of Financing.

The Statement of Financing is designed to report differences between accrual-based accounting in the Statement of Net Costs and the obligation-based accounting in the Statement of Budgetary Resources. The Statement of Financing provides information on the total resources used by the agency, both those received through the budget and those received through other venues during the reporting period.

- Problems continue with the methodology used to establish an allowance for loss on administrative accounts receivable maintained by the OCFO/NFC.

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 \$121 billion in assets and a budget of about \$75 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 its decision-making process. Our disclaimer of opinion for the last 5 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.

OIG and GAO have reported many material weaknesses with the financial management systems within 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.

In last year's audit, we recommended the following to OCFO:

- Reassess the "Financial Information Systems Vision and Strategy" to assure that it addresses all agency financial management systems within the Department and will lead the Department to a single integrated system.
- Establish a CFO led group to develop a plan to reduce and consolidate financial management systems in the Department.
- Suspend all agency initiatives/renovations of financial management systems until OCFO determines the development meets the integrated financial management plan of the Department.

OCFO responded, on January 19, 1999, that it has concluded that the concept of a single integrated financial system throughout the Department is no longer a viable option and advised its plans to strive for a set of financial systems that are integrated. Planning to achieve this revised goal is as follows:

- March 1999: Form CFO-led group to develop a plan to reduce and consolidate financial management systems in the Department.
- May 1999: In conjunction with Office of the Chief Information Officer (OCIO), decide on a methodology to develop Departmentwide strategy for an integrated financial system architecture.

RECOMMENDATION NO. 2a

Develop policies and procedures that will enable the OCFO to close the OCFO/NFC general ledger and the Consolidated Financial Statement System by October 31.

RECOMMENDATION NO. 2b

Assign an independent team to analyze the number, reasons, and propriety of the adjustments made to the general ledger. Develop appropriate remedial actions that would assure these problems are corrected prior to fiscal year 1999 closing.

RECOMMENDATION NO. 2c

Work with USDA agencies to identify the reasons for the problems noted in their account analysis and implement corrective actions to prevent these matters from recurring.

FINDING NO. 3

**FMFIA Corrective Action Needs
to be More Timely**

The Department, for the seventh year in a row, has been unable to provide reasonable assurance to the President of the United States, that the Department's financial management systems conform with certain standards and principles. These systems account for over \$121 billion in total assets.

The Comptroller General, in a report to the President of the Senate and the Speaker of the House of Representatives,⁵ identifies the major performance and management challenges facing the Department that have limited the effectiveness of the USDA. The report includes the following:

- USDA's field structure for managing its farm programs is obsolete and inefficient. While USDA has made progress in closing about 1,000 county office locations, its field structure still includes about 2,700 county office locations that serve a decreasing number of farmers.
- The increasing incidence of foodborne illness has heightened concerns about the Federal Government's effectiveness in ensuring the safety of food. The concern has resulted in, among other things, the use of more scientific approaches to meat and poultry inspection.
- Inefficiency and waste throughout USDA's Forest Service's operations and organization have cost taxpayers hundreds of millions of dollars. In particular, the Forest Service has not obtained fair market value for its goods or recovered its costs for services, cannot accurately account for a significant amount of its assets and expenditures, has generally unreliable financial statements, and has weak contracting practices. While the Forest Service has made progress in recent years, it is still far from achieving financial accountability and possibly a decade or more away from being fully accountable for its performance. Since the financial problems at the Forest Service are so pervasive and long-standing, GAO is now designating the Forest Service's financial management a high-risk area. To improve its operational efficiency and effectiveness, the Forest Service must be accountable for its financial operations and performance.
- In 1990, GAO placed USDA's farm loan programs on its high-risk list. In 1998, GAO reported that the size of USDA's direct loan portfolio, \$9.7 billion at the end of fiscal year 1997, as well as the percentage of the portfolio held by delinquent borrowers had decreased since 1995. Nevertheless, USDA continues to carry a high level of delinquent farm loan debt and to write off large amounts of unpaid loans held by problem borrowers. In addition, farm loan delinquencies may increase because of the droughts and low prices for major crops and livestock in 1998.

⁵ GAO Performance and Accountability Series, "Major Management Challenges and Program Risks," Department of Agriculture, January 1999, GAO/OCG-99-2.

- USDA has a long-standing history of deficiencies in its accounting and financial management systems. Since 1991, because of these deficiencies, USDA's Inspector General has issued a series of unfavorable financial audit reports on USDA and several of its component agencies' financial statements. In addition, USDA's ability to comply with budgetary and financial statement reporting requirements is severely hampered by its accounting and financial systems' deficiencies that call for full implementation by October 1, 2002. Given the long-standing nature of USDA's financial management deficiencies, complete resolution by October 1, 2002, will be a significant challenge.
- While USDA has begun to address the Year 2000 problem, it still faces significant challenges renovating and replacing all its mission critical systems in time and taking the necessary steps to ensure that vital public services are not disrupted.

As we have noted in OIG reports, we share GAO's concerns. We have reported concerns with the lack of timely corrective actions on long-standing material weaknesses since 1991 in our financial statement audits. Our review of the draft 1998 FMFIA report identified similar concerns. For example:

- Of the 23 material Section 2 weaknesses existing prior to fiscal year 1998, we noted seven weaknesses where the estimated completion timeframes for corrective action had been extended for at least five and up to nine times. To illustrate, one Section 2 material weakness, involving the Forest Service timber activities was first reported in 1988. Since that time, there have been nine extensions in the target completion date with a current estimated completion date of fiscal year 1999. Overall, 20 of the 23 weaknesses experienced extensions in the timeframes for completion (see exhibit B for details).
- We also analyzed each of the 10 Section 4 systems nonconformances existing prior to fiscal year 1998 and reported in the fiscal year 1998 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 10 Section 4 systems nonconformances had at least two extensions in the targeted completion dates, two had four extensions, and six had five or more.

For example, one weakness was originally reported in the fiscal year 1983 FMFIA report. The reported FMFIA

nonconformance involves the guaranteed loan accounting subsystem which is inadequate to support program and management needs. Targeted completed action dates have slipped seven times with a current estimated completion date of fiscal year 2001. (See exhibit C for additional details regarding the frequent inability to meet planned timeframes for corrective actions.)

The report to the President is a requirement of the FMFIA. It should be signed by the Secretary by December 31. However, for fiscal year 1998, the report has been delayed. Because of this delay, we were unable to assess the report as part of our USDA financial statement audit. However, we did note where one material weakness was eliminated from the report without achieving full corrective action. The material weakness OCFO-95-01 was described as "NFC needs to update the Application System Life Cycle requirements and comply with its requirements to attain Level 2 or higher of the Capability Maturity Model (CMM)." The corrective action was to attain an independent assessment of NFC's level under CMM. As noted later in this report, NFC is not CMM Level 2 compliant NFC-wide. OCFO believed the weakness was corrected because a KPMG Peat Marwick LLP study had reported this weakness as it related to the Thrift Savings Plan (TSP) operations of the OCFO/NFC and TSP was validated as CMM Level 2 compliant during the year. However, this finding was also noted by OIG and an independent contractor as it related to centerwide operations. We believe it is misleading to report the weaknesses as corrected since it relates to all OCFO/NFC operations which are not CMM Level 2 compliant.

In last year's financial statement audit, we recommended:

- 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, and
- develop a corrective action plan and establish realistic timeframes for achieving corrective action. Require agency administrators to discuss this plan and its achievements, in detail, in their annual FMFIA report to the Secretary.

The OCFO responded that it agreed with the finding in general, but believed the recommendations were not cost effective because they essentially duplicate actions already in progress. OCFO recognized the need for timeliness and was already taking appropriate action. It monitors the status of planned corrective actions and has notified the agencies that detailed explanations would be required

for actions that are not completed timely. When OCFO determines that action is not proceeding appropriately, the matter is elevated to the subcabinet for attention.

In addition, during fiscal year 1998, OCFO began to revise the management control directive which governs the identification and reporting of material deficiencies. The revised directive places responsibility for timely correction of material weaknesses with the agency heads and subcabinet officials, and provides the support needed by the CFO to address relevant issues directly with those officials.

Many of the problems are long-standing and remain open because agencies have not focused on corrective actions. This year, OCFO has begun to seek resolution of these matters. We support this effort. If the agencies emphasize correction of these matters, we believe many can be resolved.

We disagree with the OCFO response to our recommendations. As noted in numerous OIG and GAO audit reports, the Department has not taken sufficient action in resolving material problems. Clearly more must be done. Since we are still working with the CFO to resolve prior recommendations, we are not making any other recommendations at this time.

FINDING NO. 4

Improvements Are Needed in ADP Security and Controls

As reported in our prior financial statement reports, material internal control weaknesses exist in selected computer operations of the Department. During fiscal year 1998, we reported weaknesses at the OCFO/NFC, Rural Development, and with the Department's Y2K effort. The following discusses the more serious conditions noted.

- For the last 8 years, we have reported numerous material internal control weaknesses in the operation of the OCFO/NFC. While NFC has taken actions that, in the future, should correct the accounting system problems and has plans in place to address remaining problems, the internal control weaknesses are severe and have remained outstanding for substantial periods. For example:

As previously reported, requirement documentation for older systems is incomplete and many applications are poorly documented. To address this problem, OCFO/NFC initiated efforts to obtain CMM "Level 2" status. This discipline would address previously reported control weaknesses and improve software development and related project management

control practices for existing and new applications. However, because resources have been dedicated to the higher priority "Year 2000 Project," the CMM effort was halted during fiscal year 1998 for USDA applications.

The OCFO/NFC initiated a 5 year plan to improve system documentation as systems are re-engineered and to use computer assisted software engineering (CASE) tools to supplement the documentation needs. Our review of one newly developed application using CASE tools revealed that documentation was substantially improved.

Our review disclosed that improvements in the documentation and approval of production deviations have been made. However, we continue to find instances where production deviations (1) were used to circumvent software release procedures; (2) lacked adequate documentation; (3) had improper approvals; and (4) were missing other necessary information. We also noted an increase from year-to-year in the total number of deviations requested. For example from fiscal year 1996 to 1998, the number of production deviations increased from 1,610 to 2,398 (49 percent).

- The Rural Development Information Technology security program also needs strengthening. During fiscal year 1998, Rural Development developed corrective action plans to address the problem areas noted in last year's audit. Details follow.

Rural Development has not certified its financial management systems in compliance with OMB Circular A-130, "Management of Federal Information Resources." Circular A-130 requires certification/recertification reviews, which provide assurances that systems have adequate security to prevent misuse or unauthorized access to or modification of information. Rural Development will develop a plan by March 31, 1999, to complete certification and recertification of major applications and general support systems over a 3-year cycle. Rural Development plans to complete the certification/recertification of systems by December 31, 2001.

Rural Development has not implemented a "firewall system" to provide security over Internet telecommunications, leaving much of the Local Area Network/Wide Area Network open to intrusion from unauthorized sources through the Internet. Rural Development has evaluated and selected firewall software for the Internet Service Provider at St. Louis, Missouri, in accordance with the Department's OCIO guidelines. The firewall software will be installed by April 30, 1999.

Disaster recovery and contingency plans, which assist in the continuity of operations, are not up-to-date and did not exist for all Rural Development facilities. During fiscal year 1999, Rural Development is taking the necessary actions to update the disaster recovery and contingency plans.

During fiscal year 1998, OIG reviewed the Department's Y2K conversion efforts. We have reviewed the Department's progress in renovating and validating its critical systems; how the Department/agencies were handling data exchanges; and the efforts concerning business continuity and contingency planning.

We identified problems and made recommendations to the Department's CIO to:

- Advise OMB of the discrepancies in the Department's reports concerning the actual percentage of systems that should be considered Y2K compliant and advise OMB of the actual number of mission critical systems that will not meet the March 1999 implementation date.
- Instruct the agencies to ensure that their reporting of problem systems properly classifies the systems as behind schedule, when applicable and instruct the agencies to critically reassess the target dates for systems behind schedule to assure the revised target dates are achievable.
- Require agencies to record the actual costs associated with their Y2K conversion efforts.
- Instruct the agencies to adhere to a standard project tracking methodology.
- Require the agencies to formally document data exchange agreements with their data exchange partners.
- Provide additional guidance to agencies to identify and define their core business processes and for other areas that may assist agencies in completing their business continuity plans.

The CIO agreed with our findings and recommendations and has initiated appropriate corrective actions.

We are not making any additional recommendations at this time.

FINDING NO. 5

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. In addition, it includes a standard requiring internal control techniques to be effective and efficient in accomplishing internal control objectives. 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 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 National Information Technology Center 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 area 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, 3 and 4 are material weaknesses.

This report is intended for the information of the management of USDA, OMB and Congress. However, this report is a matter of public record and its distribution is not limited.

ROGER C. VIADERO
Inspector General

February 12, 1999



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 accompanying financial statements of USDA as of and for the fiscal year ended September 30, 1998, and have issued our report thereon dated February 12, 1999.

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, noncompliance with which could have a direct and material effect on the determination of financial amounts and certain other laws and regulations specified in OMB Bulletin 98-08. We tested compliance with:

- Anti-Deficiency 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;
- 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

As part of the audits of six 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.)

As part of the audit, we reviewed management's process for evaluating and reporting on internal control and accounting systems, as required by the FMFIA, and compared USDA's most recent FMFIA reports, with the evaluation we conducted of USDA's internal control structure. We also reviewed and tested USDA policies, procedures, and systems for documenting and supporting financial, statistical, and other information presented in the Overview section. However, providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit, and accordingly, we do not express such an opinion.

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 SGL at the transaction level. To meet this requirement, we performed tests of compliance using the implementation guidance for FFMIA included in Appendix D of OMB Bulletin 98-08.

The results of our tests disclosed instances, described in our "Findings" section, where the Department's financial management systems, as a whole, did not substantially comply with the three requirements in the preceding paragraph.

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" section of this report.

FINDINGS

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 Federal Executive 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 (1) establishing core competencies, (2) establishing mandatory continuing professional education requirements, (3) encouraging professional certifications, (4) training, (5) establishing a Financial Management Professional Development Program Manager within the OCFO, (6) exploring the possibility of mass training initiatives, (7) participating and (8) presenting timely forums and symposiums, and using Individual Development Plans. The Department plans to implement these recommendations by September 30, 1999.

We assessed the CFO's compliance with the Act's requirements and concluded that the CFO was overall, in general compliance with the Act. We did note two areas where we had concerns.

- 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. In addition, it does not always provide for complete, reliable, and consistent information.

However, for fiscal year 1998, despite the hurdles of new financial statements and problems related to agency and faulty accounting systems, the Department was able to complete its financial statements on schedule.

- As noted in our fiscal year 1997 financial statement audit of the Department's financial statements, 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 issued 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.

However, this review does not include fees associated with the Department's lending programs. OCFO stated that fees associated with lending programs are exempt from the biennial review requirement of the CFO Act. The basis for its conclusion was that OMB Circular No. A-25, "User Charges," is the implementing guidance for the biennial review requirement and OMB Circular No. A-11, "Preparation and Submission of Budget Estimates," states that fees associated with lending programs are not user fees, and hence do not need to be reviewed under OMB No. A-25.

We continue to believe that the user fees associated with loans should be included in the biennial review required by the CFO Act. Without such reviews, the Department does not have sufficient independent information to make valid

determinations about the user fees or the need to adjust the fees.

We do not believe that OMB Circular No. A-25 is the implementing guidance for the biennial review provision of the CFO Act. The authority for Circular No. A-25 is title V of the Independent Offices Appropriation Act of 1952, not the CFO Act of 1990. Furthermore, while OMB Circular No. A-11 does specifically exclude credit program collections from the OMB Circular No. A-25 review, we do not believe it can override the CFO Act provisions.

We have requested clarification from OMB on this issue and are waiting on its comments. Therefore, we are making no further recommendations at this time.

FINDING NO. 2

Substantial Noncompliance With FFMIA

We continue to note that not all of USDA's financial management systems substantially comply with the three requirements of FFMIA. FFMIA requires each agency to implement and maintain financial management systems that comply 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 FFMIA.

The USDA financial management system does not always meet OMB Circular No. A-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 six general ledgers which account for different program and administrative functions. The system is not yet able to accurately record, process, summarize, and report departmentwide financial information.

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 our opinion on the Department's financial statements and report on internal controls.

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 qualified opinion on the internal control structure at the OCFO/NFC and other departmental weaknesses discussed in our report on the internal control structure.

The Department has acknowledged that it does not currently comply with FFMIA requirements. To correct problems with its accounting system, the Department plans to implement a new accounting system by October 1, 2002. The Department has prepared its remediation plan which includes planned remedial actions necessary along with its planned completion dates.

We will monitor the actions taken to accomplish the remediation plan. As required by the law, we will include our assessment of the progress achieved in our future Semiannual Report to Congress.

Based on the remediation plan and related corrective actions, we are making no further recommendations at this time.

We noted and reported on agency specific instances of noncompliance during our audits of the six USDA agencies/mission area 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 1998 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.

This report is intended for the information of the USDA management, OMB and Congress. However, this report is a matter of public record, and its distribution is not limited.

ROGER C. VIADERO
Inspector General

February 12, 1999

**EXHIBIT A: RECENT USDA FINANCIAL STATEMENTS
AND FINANCIAL RELATED AUDITS**

AUDIT NO.	TITLE	RELEASE DATE
50401-24-FM	Audit of USDA's Fiscal Year 1997 Consolidated Financial Statements	July 1998
06401-9-FM	Audit of Commodity Credit Corporation's Financial Statements for Fiscal Year 1998	February 1999
50401-28-FM	Audit of Rural Development's Consolidated Financial Statements for Fiscal Year 1998	February 1999
08401-8-AT	Audit of Forest Service's Fiscal Year 1998 Financial Statements	February 1999
27401-14-HY	Audit of Food and Nutrition Service's Fiscal Year 1998 Financial Statements	February 1999
05401-5-FM	Audit of Federal Crop Insurance Corporation/Risk Management Agency's Financial Statements for Fiscal Year 1998	February 1999
11401-4-FM	Fiscal Year 1998 National Finance Center Review of Internal Control Structure	Estimated March 1999
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 1998 Section 2 - Material Weaknesses					
Fiscal Year 1998 FMFIA Report Identifier	Weakness	First Year OCFO Identified	Number of Times Corrective Action Timeframes Were Extended	FY 1998 Target Completion Date	
1	FSA-97-03	Increased accountability and visibility of Equal Employment Opportunity	1997	1	2000
2	RMA-96-01	Regulations for submission of alternative insurance policies	1996	2	1999
3	FCS-90-01	Cost Reimbursements in the Food Stamp Program	1990	6	1999
4	FCS-90-02	Cost Reimbursements in the Women, Infant, and Children (WIC) Program	1990	7	1999
5	FCS-90-04	Management of food delivery systems for the WIC Program	1990	8	2000
6	FCS-90-06	Illegal transactions involving the exchange of food stamps	1990	5	2000
7	FCS-91-01	Internal controls for mangement of recipient claims	1991	3	1999
8	FCS-91-02	Administration of the Food Stamp Program at State agencies	1991	6	1999
9	FCS-94-01	Management of Child and Adult Care Food Program	1994	2	2000
10	FCS-97-01	Avoidable costs in Food Stamp Program	1997	0	1999
11	FS-91-01	Administration of Timber Sales program (combines FS-88-04 and FS-89-01)	1988	9	1999
	FS-88-04	Theft of National Forest Timber			
	FS-89-01	Timber thefts despite controls			
12	FS-91-02	Adequacy of financial systems (combines FS-89-02 and FS-90-01)	1989	4	2000
	FS-89-02	Violations of Anti-Deficiency Act			
	FS-90-01	Financial accounting subsystem lacks controls			
13	FS-92-01	Administration of Lands Special Use Permits	1992	4	2000
14	FS-92-02	Enrochments on National Forest Service lands	1992	3	2002
15	RD-96-01	Loan Subsidy Costs	1995	1	1999
16	RHS-92-01	Automated Data Processing modernization	1992	5	1999
17	RHS-96-02	Oversight of the Multi-Family Housing Program	1992	1	2000
18	DA-97-01	Biological Material and Waste Management by USDA Agencies	1997	0	1999
19	OCFO-96-01	Adjustments and reconciliations of ledger accounts at the National Finance Center	1996	2	2003
20	OCIO-95-02	Local Area Network Security planning	1992	3	1999
21	OCIO-96-01	Inter operability and compatibility of network architecture	1992	1	2000
22	OCIO-96-02	Telecommunications and Network planning	1995	2	2000
23	OCIO-97-01	Resolution of Year 2000 processing problems	1997	0	1999

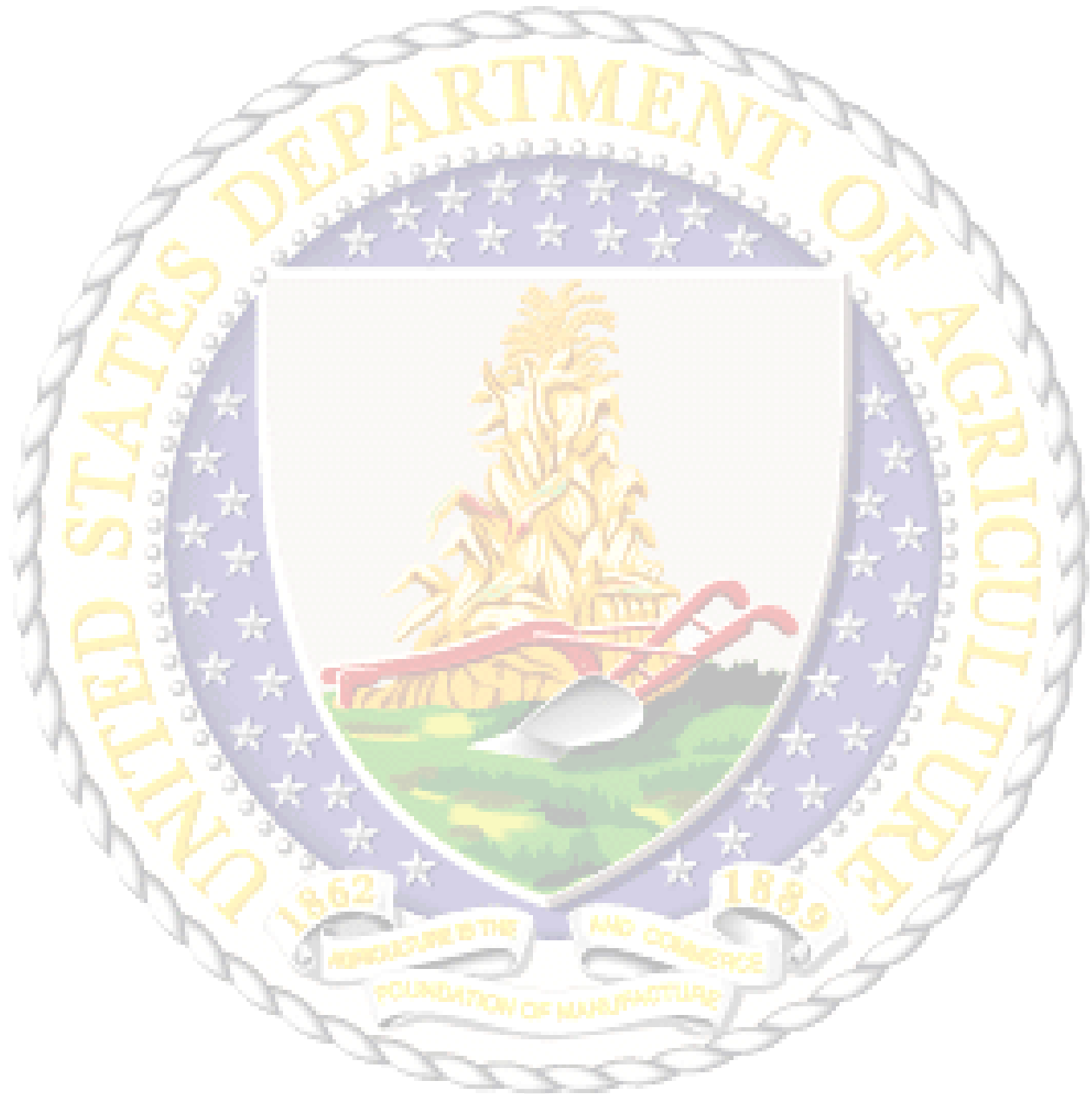
EXHIBIT C: SECTION 4 - SYSTEM NONCONFORMANCES

Status of Date Slippages Prior to FY 1998 Section 4 - Systems Nonconformances					
Fiscal Year 1998 FMFIA Report Identifier	Nonconformance	First Year OCFO Identified	Number of Times Corrective Action Timeframes Were Extended	FY 1998 Current Target Completion Date	
1	FSA-93-02	Accountability and control over personal computer hardware, software, and peripherals.	1993	5	1999
2	FSA-94-01	Account information in subsidiary subsystems does not agree with applicable general ledger accounts.	1994	4	2000
3	FS-89-01	The subsystem that maintains and reports real property does not conform to standards.	1989	4	2000
4	FS-90-01	The accounts receivable collection process lacks specific manual direction.	1990	6	2000
5	FS-90-02	Incorrect classification of undelivered orders caused accounts payable to be overstated.	1990	6	2000
6	RD-94-01	Inadequate direct loan servicing and reporting subsystems exist.	1994	3	2001
7	RHS-83-01	Automated interest credit recapture processes for loan receivables are inefficient.	1983	8	1999
8	RHS-83-02	Inadequate guaranteed loan accounting subsystem exists.	1983	7	2001
9	RHS-85-01	RHS has not fully implemented the debt collection and deficit reduction provisions in OMB A-129.	1985	7	1999
10	OCFO-92-01	The Departmental Financial Information System is inadequate.	1992	2	2003

ABBREVIATIONS

Act	-	Federal Credit Reform Act
ADP	-	Automated Data Processing
CAS	-	Central Accounting System
CCC	-	Commodity Credit Corporation
CFO	-	Chief Financial Officer
CIO	-	Chief Information Officer
CMM	-	Capability Maturity Model
FFIS	-	Foundation Financial Information System
FFMIA	-	Federal Financial Management Improvement Act
FFMSR	-	Federal Financial Management System Requirements
FMFIA	-	Federal Managers Financial Integrity Act
FNS	-	Food & Nutrition Service
FSA	-	Farm Service Agency
GAO	-	General Accounting Office
GPRA	-	Government Performance Results Act
INFRA	-	Infrastructure
NFC	-	National Finance Center
OCFO	-	Office of the Chief Financial Officer
OCIO	-	Office of the Chief Information Officer
OIG	-	Office of the Inspector General
OMB	-	Office of Management & Budget
OSI	-	Overview and Supplemental Information
SFFAS	-	Statements of Federal Financial Accounting Standards
SF	-	Standard Form
SGL	-	U.S. Government Standard General Ledger
USDA	-	U.S. Department of Agriculture
Y2K	-	Year 2000

U.S. DEPARTMENT OF AGRICULTURE



Fiscal Year 1998 Annual Financial Statement

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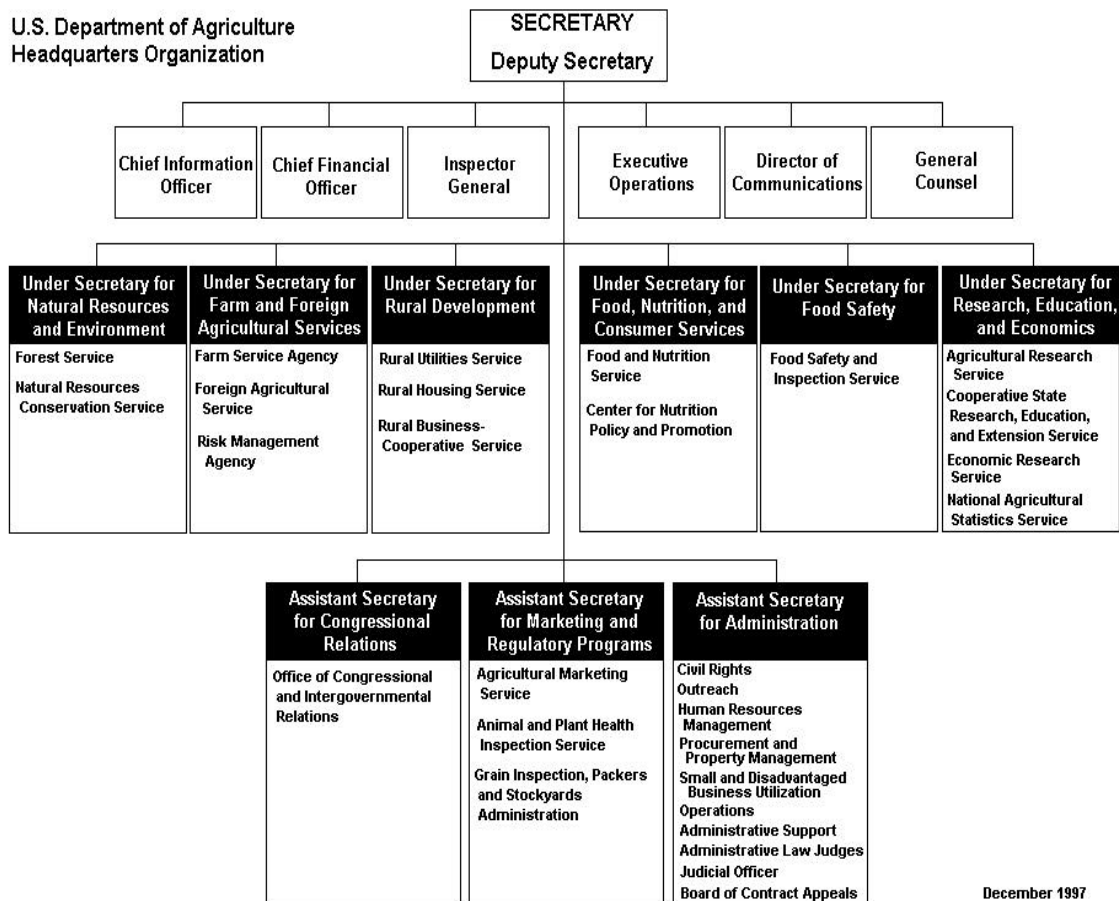
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MISSION AND ORGANIZATIONAL STRUCTURE

The mission of United States Department of Agriculture (USDA) 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.

The mission of USDA is carried out by agencies working cooperatively, with each having its own role, to achieve the Department's mission. The chart below depicts the organizational structure of USDA.

PERFORMANCE GOALS AND RESULTS



Embodied in the USDA Mission Statement are the three themes the Secretary has identified as strategic goals for USDA policies and programs:

- ▶ Expand economic and trade opportunities for agricultural producers and other rural residents;
- ▶ Ensure food for the hungry, and a safe, affordable, nutritious, and accessible food supply; and
- ▶ Promote sensible management of our natural resources.

Each of these goals is supported by a set of management initiatives designed to provide effective customer service and efficient program delivery.

GOAL 1: Expand Economic and Trade Opportunities for Agricultural Producers and Other Rural Residents

In support of the first goal, USDA has expanded economic and trade opportunities for agricultural producers and other rural residents by:

- Enhancing the economic safety net for farmers and ranchers;
- Opening, expanding, and maintaining global market opportunities for agricultural producers, and;
- Providing access to capital and credit to enhance the ability of rural communities to develop, grow, and invest in projects to expand economic opportunities and improve the quality of life for farmers and rural residents.

1.1 Enhance the Economic Safety Net for Farmers and Ranchers

Primary Agency Programs

Farm Service Agency (FSA) and Risk Management Agency (RMA) are the primary providers of commodity and income support, farm credit, risk management, and related programs that provide a safety net to help ensure the long-term economic vitality of American farmers and ranchers.

FSA administers the farm credit program and guarantees of loans made by private lenders for farm ownership and operations to provide a safety net for farmers and ranchers. Eligibility is limited to those who cannot obtain credit elsewhere. The performance of the farm credit program is measured by the number of beginning farmers and ranchers and socially disadvantaged borrowers assisted by the program, as well as write-off and delinquency rates.

<i>Fiscal Year 1998</i>	<i>Actual</i>
Increase in the Number of Direct and Guaranteed Loans to Beginning Farmers and Ranchers, and Socially Disadvantaged Borrowers	3,185
Percent Decrease in Farm Loan Principal Write-offs from Previous Year	4%
Delinquent Direct and Guaranteed Borrowers as a Percentage of Each Loan Portfolio	Direct 11% Guaranteed 6%

FSA administers the Commodity Credit Corporation (CCC) production flexibility contracts (PFC) under the Agricultural Market Transition Act (AMTA). AMTA provides fixed but declining income support payments to eligible producers who applied during the one-time sign up. Payments are independent of farm

prices and production levels. High participation rates in the AMTA contracts indicate producers find the program an effective means of farm income support and an effective part of the economic safety net. The goal of CCC is to achieve a 98 percent annual participation rate during the period of FY 1996 through 2002. This was achieved as of September 30, 1998, when the total of production flexibility contract acres enrolled was 213 million out of a 217 million potential acres.

The number of farms enrolled under PFC in FY 1998 was significantly higher than the number of farms typically enrolled in the predecessor Acreage Reduction Program. 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 stability and viability of the agricultural sector.

Maintaining a balance between supply and demand in the marketplace stabilizes the price of tobacco and peanuts by helping to ensure that market prices exceed price support loan rates. When market prices exceed loan rates, producers' income improves 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

<i>Crop Year 1998</i>	<i>Target (Price Support)</i>	<i>Average (Market Price)</i>	<i>Variance Favorable (Unfavorable)</i>
Price per Pound of Tobacco	\$1.70	\$1.82*	7%
Assessment per Pound of Tobacco	\$.004	\$.020	400%

* Estimated average market price for the 1998 crop year.

Analysis of Peanut Price Support Program Activity

<i>Crop Year 1997</i>	<i>Target (Price Support)</i>	<i>Average (Market Price)</i>	<i>Variance Favorable (Unfavorable)</i>
Price per Pound of Peanuts - Quota	\$.00367	\$.00366	(0.27)%
Assessment per Pound of Peanuts - Nonquota	\$.0004	\$.0008	100%

Risk Management Agency (RMA) is creating numerous risk management tools and providing them to producers to ensure a safety net for farmers and ranchers. This allows them to customize their risk management plans to cover production losses due to unavoidable causes, and it enables them to deal with fluctuations in the marketplace as well as natural disasters. One of the risk management tools is crop insurance. It is administered by RMA through the Federal Crop Insurance Corporation and delivered by private sector reinsured companies. Crop insurance is the primary means of federal assistance for agricultural crop losses.

<i>Fiscal Year 1998</i>	<i>Actual</i>
Number of Insurance Plans Available	100
Total Crop Insurance Premium	\$1.9 billion
Percent of Net Crop Land Acres Insured	63%
Total Insurance in Force	\$28.3 billion
Total Number of Policies in Force	1,257,000
Revenue Insurance in Force	\$4.9 billion

Other Agency Programs

In addition to the programs of FSA and RMA, other agencies contribute to the safety net for farmers and ranchers.

- Agricultural Marketing Service (AMS) programs ensure fair and competitive marketing through administration of marketing orders, other marketing tools, and regulations.
- Economic Research Service (ERS) provides economic analyses of the issues affecting the U.S. food and agriculture sector's competitiveness, including factors relating performance, structure, risk and uncertainty, marketing, changing market structure, and domestic policy reforms.
- Agriculture Research Service (ARS) develops new knowledge and integrated technologies for more efficient and economically sustainable agricultural production systems 1) for farms of all sizes, 2) for alternative crops and new agricultural products and processes which increase demand for agricultural commodities, and 3) to control or eliminate postharvest insects and disease to increase market quality and product longevity.
- Cooperative State Research, Education, and Extension Service (CSREES) integrates research and extension activities to improve access to information and adopt appropriate scientific discoveries and technologies targeted toward enhancing small-scale farm operations.

1.2 Open, Expand, and Maintain Global Market Opportunities for Agricultural Producers

The USDA role is to protect, open, expand, and maintain the position of American agricultural and forestry products in foreign markets. Economic growth, currency exchange rates, weather and crop conditions, barriers to market access, changing consumer lifestyles and food preferences, national support programs, and public and private market promotion efforts affect foreign demand for American agricultural products. Exports of agricultural and forestry products provide expanded market opportunities and increased incomes for agricultural producers and forest product harvesters as well as food processing companies and associated manufacturing, financing, marketing, and transportation firms.

Agency Programs for Global Market Opportunities

The role to open, expand, and maintain global market opportunities for agricultural products is carried out by several USDA agencies.

- Foreign Agricultural Service (FAS) opens and expands global market opportunities for American food and agricultural enterprises through trade agreements, market promotion activities, commodity analyses, and export credit programs. FAS’ efforts to negotiate, implement, and enforce trade agreements have played a large role in creating a strong market for exports.
- CCC administers export credit guarantee programs that encourage the export of U.S. agricultural products to buyers in countries where credit is necessary to maintain or increase U.S. sales. In some markets, financing may not be available without CCC guarantees.
- AMS is developing a national organic production and labeling standard as well as an accreditation and certification program to enhance returns to producers and to reduce nontariff trade barriers in foreign markets.
- Animal and Plant Health Inspection Service (APHIS) strengthens the domestic and international marketability of livestock, poultry, and other agricultural products by responding to, controlling, and eradicating outbreaks of damaging pests and diseases that threaten to reduce the value of American agricultural exports and their access to international markets. By responding to, controlling, and eradicating fruit fly outbreaks APHIS is ensuring that barriers to trade are not erected by foreign governments to prevent the access of American agricultural products to their markets in an attempt to block the spread of the fruit fly into their agricultural system. APHIS also ensures that produce is not damaged or of low quality, reducing market value. The control of brucellosis limits trade barriers for U.S. livestock for the same reasons. APHIS also ensures that agricultural trade complies with international science-based plant and animal health standards. Some countries establish nontariff trade barriers based on questionable scientific reasoning for purely protectionist reasons. The scientific expertise for resolving these disputes resides in APHIS. Questionable trade barriers can be lifted when faulty scientific reasoning is exposed because the World Trade Organization requires that non-tariff trade barriers be based on sound scientific theory which indicates that the prohibited trade could potentially cause biosecurity contamination.

<i>Fiscal Year 1998</i>	<i>Target</i>	<i>Actual</i>
Number of Fruit Fly Outbreaks	Not established	11
Number of States in Brucellosis-free Status (Including Puerto Rico and the Virgin Islands)	50	45
Sanitary and Phytosanitary Trade Barrier Issues That Were Resolved	Not established	77*

**Data for fiscal year 1997, data for fiscal year 1998 was not available at the time of publication.*

- Grain Inspection, Packers, and Stockyards Administration (GIPSA) ensures a fair, open, and competitive market environment for livestock, meat, and poultry by identifying and correcting unfair, deceptive, or discriminatory trade practices that affect the marketplace. GIPSA also promotes and protects the integrity of the domestic and global marketing of U.S. grains by enhancing the uniformity of grain quantity and quality measurements.
- National Agricultural Statistics Service (NASS) provides price and production data that assist in the administration of agricultural price, income support, and production adjustment programs.
- ARS provides knowledge and technology to expand and improve the grading systems for agricultural products. ARS also demonstrates methods to measure the critical processing and end-use properties of agricultural commodities important to the agricultural marketing system and the processing industry.

Greater income potential is provided to agricultural producers as well as other related businesses when global markets are opened, expanded, or maintained. In addition, agricultural exports enhance the Nation's ability to make efficient use of land, labor, and capital resources, and this efficiency increases the United States' comparative advantage in agricultural production.

1.3 Provide Access to Capital and Credit to Enhance the Ability of Rural Communities to Develop, Grow, and Invest in Projects to Expand Economic Opportunities and Improve the Quality of Life for Farmers and Rural Residents

USDA provides access to capital and credit to enhance the ability of rural communities to develop, grow, and invest in projects to expand economic opportunities and improve the quality of life for farm and rural residents. A major concern of USDA is ensuring that the 20 percent of Americans residing in rural areas have the same opportunity for economic growth as other Americans. Rural America faces greater difficulties in providing basic community facilities and services. Three million rural households lack adequate, safe water, and 1.3 million rural Americans live in substandard housing. To ensure local needs are met, USDA is partnering with State, local, and tribal governments, educational institutions, and other organizations to tailor programs to meet the special needs of rural communities.

Primary Agency Programs

USDA's Rural Development (RD) mission area has the lead role in the economic development of rural communities. RD provides access to affordable capital and credit, and technical assistance that is essential for business development, home ownership, and the creation of an infrastructure to support economic and social improvements. RD programs help rural families and communities to build, purchase, or rehabilitate housing for low income families; provide communities facilities for fire protection, health care clinics, and libraries; and provide loans and grants to rural cooperatives to develop telecommunications, electric, water, and wastewater service.

It is difficult to measure the actual tangible benefits to rural residents as a result of better job opportunities and a higher quality of life in rural areas. However, indicators of their benefits can be found in the number

of rural residents that have access to modern, affordable utility services, home ownership, and perhaps the most important, good paying jobs.

<i>Fiscal Year 1998</i>	<i>Target</i>	<i>Actual</i>
Rural Consumers Benefitting from Electric System Improvements Made Possible with New Loan Assistance	1.6 million	2.8 million
Rural Families Receiving Home Ownership Loans and Grants for Purchase or Repair	75,000	63,144
Jobs Created or Saved Through Business and Industry Loans and Guarantees	35,000	51,944

Other Agency Programs

FSA provides supervised credit and technical assistance to borrowers in obtaining secure loans from commercial lenders.

Alternative Agricultural Research and Commercialization Corporation (AARCC) makes equity investments in early-stage private companies, seeking to commercialize the production of biobased industrial products made from agricultural raw materials and animal byproducts, thereby creating economic opportunities in rural communities.

GOAL 2: Ensure Food for the Hungry, and a Safe, Affordable, Nutritious, and Accessible Food Supply

In support of USDA's second goal, the Department has ensured food for the hungry, and a safe, affordable, nutritious, and accessible food supply by:

- Reducing hunger by assuring low-income households access to adequate supplies of nutritious food;
- Reducing the incidence of foodborne illness and ensuring that commercial food supplies are safe and wholesome;
- Promoting gleaning and other food recovery programs;
- Improving dietary practices and promoting a healthy, well nourished population through nutrition education and research, and;
- Enhancing world food security and assisting in the reduction of world hunger.

2.1 Reduce Hunger by Assuring Low-income Households Access to Adequate Supplies of Nutritious Food

Agency Food and Nutrition Assistance Programs

The purpose of the Nation's food assistance programs administered by Food and Nutrition Service (FNS) is to promote general welfare and safeguard the health and well being of the Nation's population by reducing hunger and raising levels of nutrition among low income households. This is achieved via the Food Stamp, Child Nutrition, Child and Adult Care Feeding, and Special Supplemental Food programs.

The Food Stamp Program is an entitlement program with standardized eligibility and benefits administered through a federal-State partnership and is the primary source of nutrition assistance for low-income Americans.

<i>Fiscal Year 1998</i>	<i>Actual</i>
Household Participation per Month	8.3 million
Individual Participation per Month	19.8 million
Average Monthly Per-Person Benefit	\$71.09
Total Program Costs	\$20.4 billion

The Department is continuing its commitment to fight waste, fraud, and abuse in the Food Stamp Program. The Food and Nutrition Service implemented tough new integrity provisions for food stamp retailers, including preauthorization screening, tougher postauthorization controls, stiffer penalties for violators and increased State participation in the Electronic Benefits Transfer (EBT) program. By eliminating paper coupons and creating an electronic record of every food stamp transaction, EBT is a useful tool for improving program delivery and reducing certain types of food stamp fraud and trafficking.

In 1998, 36 States used the EBT to issue food stamp benefits, an increase from 22 States in 1997. The percentage of food stamp benefits issued by EBT rose from 20 percent in 1997 to 51 percent in 1998.

The Child Nutrition Program (Lunch and Breakfast) provides nutritionally balanced, low cost or free lunches or breakfasts to children each day in public and nonprofit private schools or residential child care institutions.

<i>Lunch</i>	
<i>Fiscal Year 1998</i>	<i>Actual</i>
Average Participation per Day	26.6 million
Total Lunches Served	4.4 billion
Total Program Costs	\$5.0 billion

<i>Breakfast</i>	
<i>Fiscal Year 1998</i>	<i>Actual</i>
Average Participation per Day	7.1 million
Total Breakfasts Served	1.2 billion
Total Program Costs	\$1.3 billion

The Child and Adult Care Food Program ensures that children and adults in day care receive healthy meals by reimbursing participating day care operators for their meal costs and providing them with USDA commodity food.

<i>Fiscal Year 1998</i>	<i>Actual</i>
Average Attendance per Day	2.5 million
Number of Meals Served	1.6 million
Total Program Costs	\$1.5 billion

The Special Supplemental Food Program for Women, Infants, and Children (WIC) is a grant program designed to improve the health of pregnant, postpartum, and breastfeeding women, as well as infants and children up to 5 years old by providing supplemental foods, nutrition education, and access to health care.

<i>Fiscal Year 1998</i>	<i>Actual</i>
Average Participation per Month	7.4 million
Total Program Costs	\$3.8 billion

In FY 1998, Wyoming became the first State to begin statewide rollout of an electronic benefits transfer (EBT) system for WIC which will be completed in 1999. Two States will begin joint WIC/FSP pilot operations of statewide EBT systems in FY 1999. In addition, one State will implement a WIC-only pilot in FY 1999. Finally, two States will complete the design for WIC-only pilots in FY 1999 for implementation in FY 2000.

2.2 Reduce the Incidence of Foodborne Illness and Ensure That Commercial Food Supplies Are Safe and Wholesome

Agency Programs for Safe Food

Upon publication of the Hazard Analysis and Critical Control Points (HACCP) final rule on July 25, 1996, the Food Safety and Inspection Service (FSIS) established new requirements for all meat and poultry plants to improve food safety and began the long-awaited modernization of USDA's meat and poultry inspection system. All slaughter and processing plants are required to adopt the system of process controls known as HACCP to prevent food safety hazards. HACCP systems target pathogens that cause foodborne illness, strengthen industry responsibility to produce safe food, and focus inspection and plant activities on prevention objectives. FSIS expects the combination of HACCP-based process control, microbial testing, pathogen reduction performance standards, and sanitation standard operating procedures to significantly reduce contamination of meat and poultry with harmful bacteria and reduce the risk of foodborne illness. This new food safety system also enables USDA to modernize its inspection program by focusing attention on the most significant food safety hazards and on ensuring that all plants have systems in place that are effectively preventing food safety problems.

<i>Fiscal Year 1998</i>	<i>Actual</i>
Percentage of Meat and Poultry Slaughter and Processing Facilities in Compliance with the HACCP Rule	99.99%
Number of FSIS Meat and Poultry Employees Trained in HACCP Tasks and Procedures	2,500
Number of People Reached with Food Safety Information Through Media Stories, Circulation Reports, Home Page Visits, Hotline Calls	132 million

ARS researches new foodborne illness testing technologies to reduce the time needed for testing and to improve the accuracy of results, and develops new technologies for preventing introduction of pathogens such as E. coli and Salmonella into the food supply.

2.3 Promote Gleaning and Other Food Recovery Programs

Each year millions of pounds of good food go to waste in fields, commercial kitchens, markets, stores, and restaurants while millions of people go hungry. Allowing good food to go to waste is no longer acceptable. The Department has worked with nonprofit organizations, communities, businesses, and government agencies to reduce this waste through food recovery and gleaning programs. Food recovery and gleaning refer to programs that collect excess wholesome food that would otherwise be wasted from farms, orchards, food markets, retail grocery stores, restaurants, and cafeterias for delivery to hungry people.

2.4 Improve Dietary Practices and Promote a Healthy, Well Nourished Population Through Nutrition Education and Research

Agency Programs for Improved Nutrition

The Center for Nutrition Policy and Promotion (CNPP) produces and disseminates up-to-date science-based guidance for a healthful diet including revision and production of the USDA-Health and Human Services' Food Guide Pyramid that serves the general population as the basis for making healthful food choices.

ARS develops nutritious plant and animal products for human consumption, determines requirements for nutrients and other food components, provides new measurement techniques and results of surveys, and disseminates effective nutrition intervention strategies.

2.5 Enhance World Food Security and Assist in the Reduction of World Hunger

American food exports have played a major role in improving world food security and reducing the number of chronically undernourished and malnourished people in foreign countries in the last four decades. USDA carries out this goal by helping developing countries meet their food import needs and improves long-term food security through foreign food aid, technical assistance, research, and economic development activities.

Agency Programs for Food Security and Hunger Reduction

FAS administers a number of foreign food assistance programs that reduce world hunger. FAS also administers technical assistance, training, and research programs that promote agricultural development in developing countries.

CCC administers Public Law 480 programs that provide agriculture assistance to countries that are at different levels of economic development to combat hunger and malnutrition; promote broad-based equitable and sustainable development, including agriculture development; expand international trade; develop and expand export markets for U.S. agricultural commodities; and foster and encourage the development of private enterprise and democratic participation.

CSREES facilitates research primarily through the land grant university system to acquire, preserve, and enhance genetic resources and to develop new knowledge and technologies that increase the productive capacity and usefulness of plants, animals, and other organisms that contribute to world food security and assist in reducing hunger.

GOAL 3: Promote Sensible Management of Our Natural Resources

In support of its third goal, USDA has promoted sensible management of the Nation's natural resources by:

- Promoting sustainable production of food and fiber products while maintaining a quality environment and strong natural resource base, and;
- Promoting sustainable management of public lands, and protecting and restoring critical forest land, rangeland, wilderness and aquatic ecosystems.

3.1 Promote Sustainable Production of Food and Fiber Products While Maintaining a Quality Environment and Strong Natural Resource Base**Conservation Programs**

Natural Resources Conservation Service (NRCS) programs play a key role in promoting sustainable production of food and fiber products while maintaining a quality environment and strong natural resource base. NRCS provides national leadership in a partnership effort to help people conserve, improve, and sustain the Nation's natural resources and environment. It assists rural and urban resource managers in sustaining and improving natural resources, environmental quality, and economic productivity by facilitating locally-led conservation activities; developing, transferring, and supporting conservation technology; and providing timely and high quality resource information and technical assistance. In addition, NRCS assists local governments and other local groups in ensuring healthy and sustainable communities by providing leadership; educational, technical, and financial assistance; resource information; and training. NRCS also assists in efforts to sustain or enhance natural resources within watersheds to meet human needs by improving soil, water, and air quality and plant and animal habitats.

The annual performance measurements for these multi-year goals rely on measures of "conservation on the land" that are achieved with direct technical assistance from NRCS and its partners at the field level. Because FY 1998 is a transition year for NRCS reporting systems, the performance data that is currently available relates to measures that differ somewhat from the measures that will be reported in the future.

<i>Fiscal Year 1998</i>	<i>Actual</i>
Conservation Management Systems on Cropland	14 million acres
Conservation Management Systems on Grazing Land	15 million acres
Conservation Management Systems on Forest Land	1.7 million acres
Conservation Management Systems on Wildlife Land	2 million acres
Waste Management Systems Installed	9,600
Annual Benefits of Watershed Operations	\$700 million
Resource Conservation and Development Projects Completed	2,500

The outcomes of these actions are 1) a healthy and productive land that sustains food and fiber production, sustains functioning watersheds and natural systems, enhances the environment, and improves urban and rural landscapes, and 2) individuals and their neighbors working together as effective and willing stewards of the natural resources on their property and in their communities.

The Conservation Reserve Program (CRP) is administered by FSA with technical assistance provided by NRCS under which CCC safeguards approximately 36.4 million acres of environmentally sensitive land to prevent soil erosion, increase wildlife habitats, and protect ground and surface water. Maintaining high enrollment levels in CRP and implementing approved conservation practices on enrolled lands, restoring wetlands, and improving wildlife habitats protects the Nation's natural resources and assists agricultural producers in attaining a high level of stewardship on America's farmland and ranches.

<i>Fiscal Year 1998</i>	<i>Target</i>	<i>Actual*</i>
Number of Acres Enrolled	32.8 million	29.8 million
Trees and Shrubs Planted on Enrolled Acreage	12.0%	6.4%
Acres of Select Priority	.35 million	1.8 million
Established Acres of Enhanced Wildlife Habitat	1.5 million	1.8 million

**Actual are estimates based on active contracts as of September 1998.*

Other Agency Environment and Nature Resource Programs

Many other USDA agencies collaborate to develop and transfer natural resource management technology and tools to individual landowners and communities, to sustain land productivity, and to conserve and enhance natural resources.

- ARS research is directed at managing and conserving the Nation's soil, water, and air resources for a stable and productive agriculture. The research focuses on developing technologies and systems

to conserve water and protect its quality, enhance soil quality and reduce erosion, and improve air quality. The effects of global change are also researched.

- APHIS administers a number of programs that protect natural resources, livestock, and the overall health of American agriculture. APHIS protects American agricultural production and natural resources by effectively managing plant and animal pests and diseases and wildlife damage which pose risks to agriculture, natural resources, or public health and safety. APHIS also facilitates the development of significant biotechnology derived products for the benefit of agricultural producers and consumers.
- NASS provides statistical data and ERS provides economic and other analyses on natural resource issues. CSREES research and extension activities support the Department’s conservation goals.

<i>Fiscal Year 1998</i>	<i>Target</i>	<i>Actual</i>
New Noxious Weed Infestations Detected/Assessed Through the National Early Warning System	Not established	9
Percentage of Crops That Are Genetically Engineered		
Corn	Not established	23%
Soybean	Not established	33%
Cotton	Not established	53%
Number of New and Improved Wildlife Control Methods from the National Wildlife Research Center	15	17

3.2 Promote Sustainable Management of Public Lands, and Protect and Restore Critical Forest Land, Rangeland, Wilderness and Aquatic Ecosystems

National Forest System Programs

The Forest Service (FS) plays a key role in promoting sustainable management of public land, and protecting and restoring critical forest land, rangeland, wilderness and aquatic ecosystems. The FS manages approximately 192 million acres of public lands, about 8 percent of the land area of the United States, located in 44 States, Puerto Rico and the Virgin Islands. These lands, collectively known as the National Forest System (NFS), provide a variety of natural resource benefits including water, wildlife habitat, outdoor recreation opportunities, timber, minerals, and forage for livestock. The ecosystem approach to management of the NFS integrates ecological, economic, and social factors to maintain and enhance the quality of the environment to meet the needs of current and future generations. Through implementation of land and resource management plans, the agency will ensure sustainable ecosystems while providing multiple benefits for people within the capabilities of those ecosystems on NFS lands.

Restoration of NFS lakes and streams not only improves the aquatic and riparian ecosystems being restored, but also has a positive impact downstream.

<i>Fiscal Year 1998</i>	<i>Target</i>	<i>Actual</i>
Streams Restored or Enhanced	1,784 miles	2,187 miles
Lakes Restored or Enhanced	8,399 acres	11,089 acres
Acres of Soil and Water Resource Improvements	27,305 acres	57,650 acres

Reforestation is one of many forest health-related activities which reduces soil erosion and stream contamination, provide cover for wildlife, and allow the ecosystem to recover more quickly.

<i>Fiscal Year 1998</i>	<i>Target</i>	<i>Actual</i>
Reforestation	261,129 acres	287,905 acres
Timber Stand Improvements	287,958 acres	296,951 acres
NFS Lands Treated for Fuels Management	1,358,993 acres	1,571,022 acres
Range Nonstructural Improvements	30,124 miles	32,458 acres
Timber Volume Offered	7.4 billion cubic feet	6.3 billion cubic feet

Other Agency Forest and Ecosystem Programs

Through cooperation with State, local, and tribal governments, other research agencies which include CSREES, APHIS, and ARS, and colleges and universities, FS provides the scientific foundation for sustainable forest management and the information and technology needed to assure the health, diversity, and productivity for forest and rangeland ecosystems.

APHIS provides federal leadership in managing problems that interact with wildlife, to reduce the damage caused by wildlife to the lowest possible levels while, at the same time, reducing wildlife mortality.

<i>Fiscal Year 1998</i>	<i>Actual</i>
Percentage Reduction in Risk From Aircraft/Wildlife Strikes	10%

MANAGEMENT INITIATIVE: Improved financial management and reporting

One of USDA's management initiatives is improved financial management and reporting. The intent is to implement an integrated financial information system for the entire Department that can be used to produce financial statements which warrant an unqualified audit opinion. The cornerstone of that system is called the Foundation Financial Information System (FFIS). Among other things, FFIS will help ensure compliance with financial management laws and regulations and the U.S. Standard General Ledger.

During FY 1998, the Chief Financial Officer hired a new management team to direct the implementation of FFIS. The team developed a 5-year plan for FFIS implementation to be completed by October 1, 2002.

REPORTING YEAR 2000 (Y2K) ISSUES

The year 2000 problem is rooted in the way dates are recorded and computed in automated information systems. For the past several decades, systems have typically used two digits to represent the year. With this two-digit format, the year 2000 is indistinguishable from the year 1900. USDA is committed to promptly resolving the problems posed by Y2K and making sure that critical government services will not be disrupted by the transition to the year 2000.

As of October 31, 1998, USDA has identified 362 mission critical systems of which 234 were Y2K compliant, 41 were being replaced, 79 were being repaired, and eight were being retired. Originally, 270 of the 362 systems were identified as repairable and began the following four-phase process.

<i>Phase</i>	<i>Assessment</i>	<i>Renovation</i>	<i>Validation</i>	<i>Implementation</i>
<i>Due Date</i>	<i>October 1997</i>	<i>September 1998</i>	<i>January 1999</i>	<i>March 1999</i>
Number of Systems to Have Completed Phase as of October 31, 1998	270	256	210	191

The potential impact of the Y2K problem extends beyond USDA's internal information systems. USDA depends on data provided by its business partners including State, local, and tribal governments; other federal agencies; foreign entities; third parties; and vendors who provide telecommunications, utilities, software, and other goods and services. USDA has actively participated in governmentwide efforts to coordinate Y2K progress with its business partners.

If the systems (internal and external) that support USDA's various programs cannot operate reliably into the next century, the effects would soon be felt throughout the world. The systems support many vital public health and safety, and economic activities, and if they are not properly fixed, tested, and implemented, severe consequences could result, such as the following:

- ▶ Payments to farmers, schools, and others in rural communities could be delayed or incorrectly computed.
- ▶ The economy could be adversely affected if information critical to crop and livestock providers and investors is late, unavailable, or unreliable.
- ▶ The import and export of agricultural products could be delayed, thus increasing the likelihood that they will not reach their intended destinations before spoiling.
- ▶ Food distribution to schools and others could be stopped or delayed.
- ▶ Public health and safety could be at risk if equipment used in USDA's many laboratories to detect bacteria, diseases, and unwholesome foods is not compliant.

An estimated \$165 million will have been spent by USDA through fiscal year 2000 to resolve the Y2K problem. The table provides the estimated cost by fiscal year.

<i>Fiscal Year</i>	<i>1996</i>	<i>1997</i>	<i>1998</i>	<i>1999</i>	<i>2000</i>	<i>Total</i>
<i>Cost (in millions)</i>	\$2.7	\$16.9	\$62.1	\$75.5	\$7.8	\$165.0

These estimates include the costs of identifying changes, evaluating the cost effectiveness of making those changes (fix or scrap decisions), making changes, testing systems, and preparing contingencies for failure recovery. They include the costs of fixing or replacing both mission critical and nonmission critical systems, as well as noninformation technology products and systems such as air conditioning and heating. They do not include the costs of upgrades or replacements that would otherwise occur as part of the normal systems life cycle, or the federal share of the costs for State information systems that support federal programs such as welfare.

USDA is developing a departmentwide Y2K Business Continuity Plan (BCP) to ensure delivery of a minimum acceptable level of services in the event of Y2K induced failures. The BCP will identify risks and threats, establish mitigation strategies for the identified risks and threats, and provide contingencies in the event risk mitigation efforts fail.

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. 351(b).

While the statements have been prepared from the books and records of the entity in accordance with the formats prescribed by the Office of Management and Budget (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 of this is that liabilities cannot be liquidated without legislation that provides resources to do so.

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Principal Statements

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U.S. DEPARTMENT OF AGRICULTURE
 CONSOLIDATED BALANCE SHEET

As of September 30, 1998
 (in thousands)

ASSETS

Assets for Use by Entity:

Federal

Fund Balance with U.S. Treasury (Note 2)	\$36,885,835
Investments (Note 4)	13,657
Accounts Receivable, Net (Note 5)	408,471
Receivable from Appropriations	5,520,718
Advances and Prepayments	117,419
Other Assets (Note 6)	112,174

Nonfederal

Investments (Note 4)	73,270
Accounts Receivable, Net (Note 5)	1,152,724
Credit Program Receivables and Related Foreclosed Property, Net (Note 7)	69,756,931
Domestic Commodity Loans, Net (Note 7)	2,281,917
Other Foreign Receivables, Net (Note 7)	379,568
Advances and Prepayments	35,465
Cash and Other Monetary Assets (Note 3)	101,459
Inventory and Related Property, Net (Note 8)	442,876
General Property, Plant, and Equipment, Net (Note 9)	3,632,659
Other Assets (Note 6)	54,707

Total Assets for Use by Entity	<u>120,969,850</u>
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Assets Not for Use by Entity:

Federal

Fund Balance with Treasury (Note 2)	623,598
Accounts Receivable, Net (Note 5)	13,800

Nonfederal

Accounts Receivable, Net (Note 5)	92,083
Cash and Other Monetary Assets (Note 3)	18,859
Other Assets (Note 6)	6,331

Total Assets Not for Use by Entity	<u>754,671</u>
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Total Assets	<u>\$121,724,521</u>
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LIABILITIES

Liabilities Covered by Budgetary Resources:

Federal

Accounts Payable	\$1,287,456
Debt (Note 10)	73,821,975
Unearned Revenue	173,267
Trust and Deposit Liabilities	79,454
Resources Payable to Treasury	17,632,020
Other Liabilities (Note 11)	31,858

Nonfederal

Accounts Payable	2,782,773
Debt (Note 10)	821,289
Estimated Losses on Loan and Foreign Credit Guarantees (Note 7)	3,405,344
Accrued Program Liabilities (Note 12)	2,299,757
Unearned Revenue	194,929
Trust and Deposit Liabilities	795,675
Other Liabilities (Note 11)	2,593,140

Total Liabilities Covered by Budgetary Resources	<u>105,918,937</u>
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Liabilities Not Covered by Budgetary Resources:

Federal

Other Liabilities (Note 11)	580,866
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Nonfederal

Annual Leave	436,027
Federal Employees Compensation Act Liability	648,172
Other Liabilities (Note 11)	14,212

Total Liabilities Not Covered by Budgetary Resources	<u>1,679,277</u>
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Total Liabilities	<u>107,598,214</u>
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NET POSITION (Note 13)

Unexpended Appropriations	29,722,972
Cumulative Results of Operations	<u>(15,596,665)</u>
Total Net Position	<u>14,126,307</u>
Total Liabilities and Net Position	<u>\$121,724,521</u>

The accompanying notes are an integral part of these statements.

U.S. DEPARTMENT OF AGRICULTURE
 CONSOLIDATING STATEMENT OF NET COST

For the year ended September 30, 1998

(in thousands)

	Food, Nutrition, and Consumer Service	Farm and Foreign Agricultural Services	Natural Resources and Environment	Research, Education, and Economics
Costs (Note 15)				
Program Costs:				
Federal	\$621,542	\$386,272	\$937,685	\$266,886
Nonfederal:				
Grants and Transfers	32,297,395	13,286,395	133,601	
Other Program Costs	627,613	3,721,064	3,693,021	1,761,386
Total Program Production Costs	33,546,550	17,393,731	4,764,307	2,028,272
Less Earned Revenues (Note 16)	174,215	2,022,870	1,124,156	67,531
Excess Production Costs Over Revenues	33,372,335	15,370,861	3,640,151	1,960,741
Non production Costs:				
Acquisition Cost of Stewardship Land		64,070	81,903	
Gain or (Loss) on Disposition of Assets		1,017	5,512	
Net Program Costs	33,372,335	15,435,948	3,727,566	1,960,741
Costs Not Assigned to Programs	25,835	14,074	3,540	4,279
DEFERRED MAINTENANCE (Note 18)				
NET COST OF OPERATIONS	\$33,398,170	\$15,450,022	\$3,731,106	\$1,965,020

Rural Development	Marketing and Regulatory Programs	Food Safety	Other USDA Services	Adjustments	Intra-USDA Eliminations	1998
\$5,015,455	\$215,754	\$143,870	\$126,055		(\$1,115,456)	\$6,598,063
1,619,021						47,336,412
(557,642)	1,270,758	618,852	448,617	25		11,583,694
6,076,834	1,486,512	762,723	574,672	25	(1,115,456)	65,518,170
5,091,688	460,280	89,497	301,074		(271,341)	9,059,970
985,146	1,026,232	673,226	273,598	25	(844,115)	56,458,200
						145,973
						6,529
985,146	1,026,232	673,226	273,598	25	(844,115)	56,610,702
13,956				9,637	(61,381)	9,940
\$999,102	\$1,026,232	\$673,226	\$273,598	\$9,662	(\$905,496)	\$56,620,642

The accompanying notes are an integral part of these statements.

U.S. DEPARTMENT OF AGRICULTURE
 CONSOLIDATING STATEMENT OF CHANGES IN NET POSITION

For the year ended September 30, 1998

(in thousands)

	Food, Nutrition, and Consumer Service	Farm and Foreign Agricultural Services	Natural Resources and Environment	Research, Education, and Economics
Net Cost of Operations	\$33,398,170	\$15,450,022	\$3,731,106	\$1,965,020
Financing Sources (other than exchange revenues):				
Appropriations Used	32,751,367	4,951,455	3,698,039	1,885,097
Taxes (and other non-exchange revenues)		74,846		
Donations (non-exchange revenue)			121	
Imputed Financing	646,803	910,212	242,549	63,482
Transfers-In			6,288	
Transfers-Out		(201,193)	(152,544)	
Other Financing Sources		(72,418)		
Net Results of Operations	0	(9,787,120)	63,347	(16,441)
Net Results Not Affecting Net Position		970,607		
Prior Period Adjustments (Note 19)		(9,410,723)	(5,385,791)	
Net Change in Cumulative Results of Operations	0	(18,227,236)	(5,322,444)	(16,441)
Increase (Decrease) in Unexpended Appropriations	372,361	(1,190,407)	1,199,579	3,163
Change in Net Position	372,361	(19,417,643)	(4,122,865)	(13,278)
Net Position - Beginning of Period	17,892,552	4,321,485	8,815,183	1,433,080
Net Position - End of Period	\$18,264,913	(\$15,096,158)	\$4,692,318	\$1,419,802

Rural Development	Marketing and Regulatory Programs	Food Safety	Other USDA Services	Adjustments	Intra-USDA Eliminations	1998
\$999,102	\$1,026,232	\$673,226	\$273,598	\$9,662	(\$905,496)	\$56,620,642
2,017,395	395,098	619,893	261,844	25		46,580,213
						74,846
						121
73,882	72,114	51,342	33,556	9,637	(905,496)	1,198,081
6,046						12,334
(268,799)						(622,536)
9,831			6,419			(56,168)
839,253	(559,020)	(1,991)	28,221	0	0	(9,433,751)
(1,276,647)						(306,040)
9,647			(104)			(14,786,971)
(427,747)	(559,020)	(1,991)	28,117			(24,526,762)
(396,868)	638,841	(31)	47,836	39		674,513
(824,615)	79,821	(2,022)	75,953	39	0	(23,852,249)
4,740,686	817,514	(106,106)	64,226	(64)		37,978,556
\$3,916,071	\$897,335	(\$108,128)	\$140,179	(\$25)	\$0	\$14,126,307

The accompanying notes are an integral part of these statements.

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U.S. DEPARTMENT OF AGRICULTURE
 CONSOLIDATED STATEMENT OF BUDGETARY RESOURCES
 For the year ended September 30, 1998
 (in thousands)

Budgetary Resources:	
Budget Authority (line 1)	\$75,016,855
Unobligated Balances - Beginning of Period (line 2)	25,183,525
Spending Authority from Offsetting Collections (line 3)	20,630,759
Adjustments (lines 4-6)	<u>(15,054,135)</u>
Total Budgetary Resources (line 7)	<u>\$105,777,004</u>
Status of Budgetary Resources:	
Obligations Incurred (line 8)	\$80,127,584
Unobligated Balances - Available (line 9)	9,944,627
Unobligated Balances - Not Available (line 10)	<u>15,704,793</u>
Total, Status of Budgetary Resources (line 11)	<u>\$105,777,004</u>
Outlays:	
Obligations Incurred (line 9)	\$80,127,584
Less: Actual Spending Authority from Offsetting Collections and Actual Adjustments (lines 3A, B, D, & 4A)	22,321,767
Obligated Balance, Net - Beginning of Period (line 12)	20,933,898
Less: Obligated Balance, Net - End of Period (line 14)	<u>21,177,502</u>
Total Outlays (line 15)	<u>\$57,562,213</u>

*Line numbers refer to lines on the SF-133, Report on Budget Execution.

The accompanying notes are an integral part of these statements.

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U.S. DEPARTMENT OF AGRICULTURE
 CONSOLIDATED STATEMENT OF FINANCING
 For the year ended September 30, 1998
 (in thousands)

Resources Used to Finance Operations:

Budgetary

Budgetary Resources Obligated for Items to Be Received or Provided to Others	\$80,127,582
Less: Offsetting Collections, Recoveries of Prior Year Authority, and Changes in Unfilled Customer Orders	20,817,449
Net Budgetary Resources Used to Finance Operations	59,310,132

Nonbudgetary

Property Received from Others Without Reimbursement	6,409
Less: Property Given to Others Without Reimbursement	28,177
Costs Incurred by Others Without Reimbursements	1,198,081
Other Nonbudgetary Resources	(3,160)
Net Nonbudgetary Resources Used to Finance Operations	<u>1,173,153</u>

Total Resources Used to Finance Operations	<u>60,483,286</u>
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Resources Used to Fund Items Not Part of the Net Cost of Operations

Increase or (Decrease) in Budgetary Resources Obligated to Order Goods or Services Not Yet Received	706,057
Budgetary Offsetting Collections Not Increasing Earned Revenue or Decreasing Expense	(15,651,517)
Less: Adjustments Made to Compute Net Budgetary Resources Not Affecting Net Cost of Operations	(4,207,469)
Resources Funding Expenses Recognized in Prior Periods	1,740,585
Resources Financing the Acquisition of Assets or Liquidation of Liabilities	15,048,480
Other Resources Used to Fund Items Not Part of the Net Cost of Operations (Note 21)	9,647
Total Resources Used to Fund Items Not Part of the Net Cost of Operations	<u>6,060,721</u>

Resources Used to Finance the Net Cost of Operations	54,422,565
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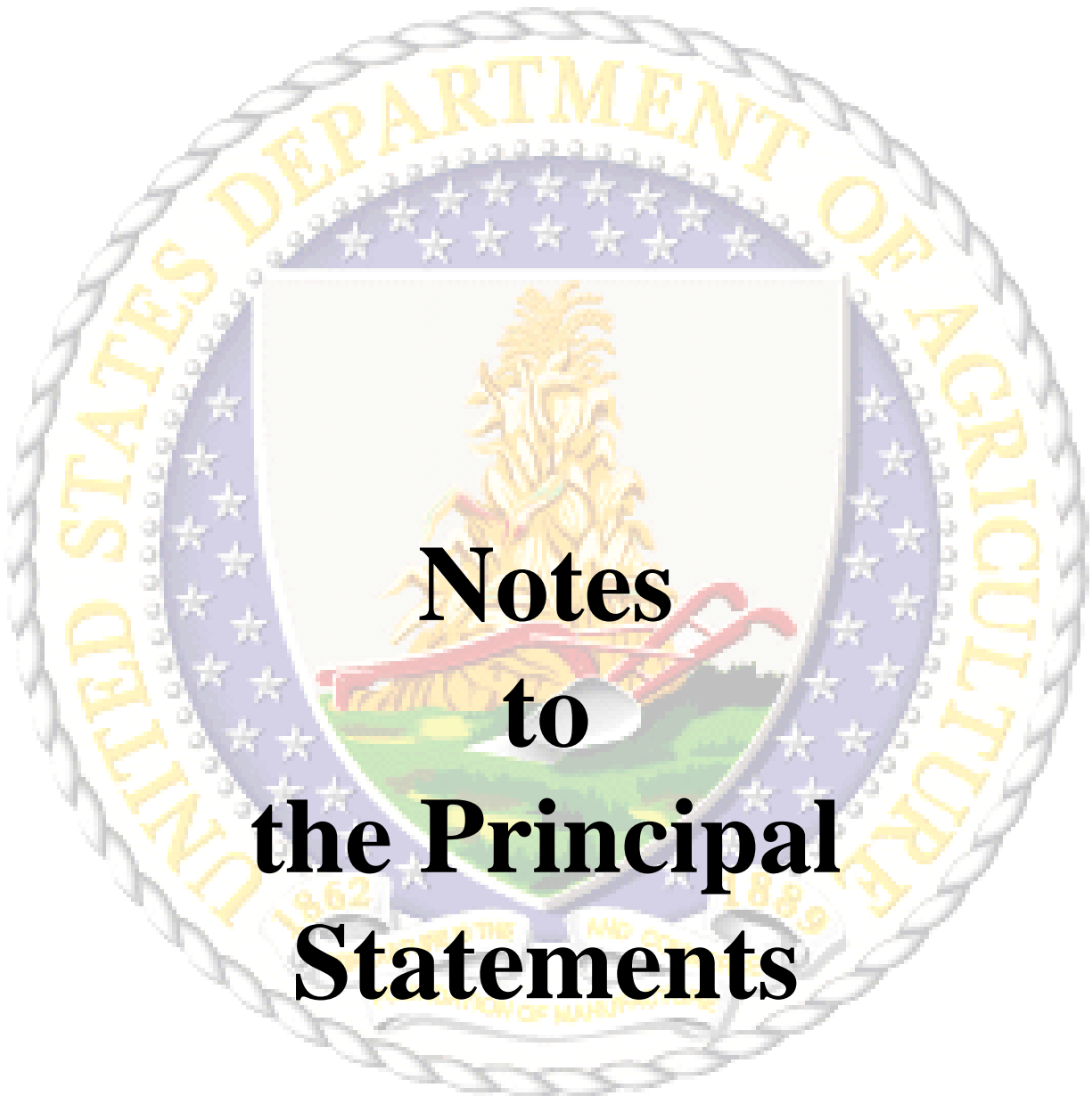
Components of Net Cost of Operations Not Requiring or Generating Resources During the Reporting Period

Expenses or Earned Revenue Related to the Disposition of Assets or Liabilities, or Allocation of Their Cost over Time	30,384
Expenses Which Will Be Financed with Budgetary Resources Recognized in Future Periods	2,704,627
Other Net Cost Components Not Requiring or Generating Resources During the Reporting Period (Note 21)	(536,934)
Total Components of Net Cost of Operations Not Requiring or Generating Resources During the Reporting Period	<u>2,198,077</u>

NET COST OF OPERATIONS	<u><u>\$56,620,642</u></u>
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The accompanying notes are an integral part of these statements.

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**Notes
to
the Principal
Statements**

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NOTES TO PRINCIPAL FINANCIAL STATEMENTS

AS OF SEPTEMBER 30, 1998

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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 1998, USDA employed over 96,000 full-time employees. In addition, it paid for the services of over 10,000 county office employees of the Farm Service Agency.

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

Alternative Agricultural Research and Commercialization Corporation (AARCC)

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)

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)

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)
Rural Telephone Bank (RTB)

Beginning in FY 1998, funds of the Milk Market Administrators (MMA) have not been included in the USDA consolidated financial statements. The operations of MMA are financed by assessments levied on milk handlers within the market. These funds are not federal government monies. As overseer of MMA operations, the Agricultural Marketing Service ensures that these levies are equitable and that the handling and expenditure of these funds is done efficiently and legally. The effect of removing MMA funds from the consolidated financial statements for FY 1998 is removal of combined assets of \$32,562 thousand; liabilities of \$4,040 thousand; and equities of \$28,521 thousand.

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.

Basis of Presentation

USDA consolidated financial statements include data for all agencies previously described under the Reporting Entity section. Consolidated statements are presented net of material activity between USDA entities. The Statements of Net Cost and Changes in Net Position are presented in a consolidating manner by responsibility segment, with a total USDA column that presents information 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 financial statements in accordance with the prescribed form and content, they differ from the reports that are used to monitor and control USDA's use of budgetary resources.

Basis of Accounting

The financial statements have been prepared pursuant to the requirements of the CFOs 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 results of operations. USDA's hierarchy of accounting policies is as follows:

- (1) Statements of Federal Financial Accounting Standards (SFFASs) agreed to by the Director of OMB, the Controller General, and the Secretary of the Treasury and published by OMB and the General Accounting Office.
- (2) Interpretations related to the SFFASs issued by OMB in accordance with OMB Circular A-134, "Financial Accounting Principles and Standards."
- (3) OMB Bulletin No. 97-01, "Form and Content of Agency Financial Statements"; 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.

The accounting structure of federal government agencies is designed to reflect both accrual and budgetary accounting transactions. 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. The budgetary accounting principles, on the other hand, are designed to recognize the obligation of funds according to legal requirements, which in many cases is prior to the occurrence of an accrual-based transaction. The recognition of budgetary accounting transactions is essential for compliance with legal constraints and controls.

OTHER ACCOUNTING POLICIES:

Accrued Interest Payable

Accrued interest payable is primarily the interest due on borrowings from the Treasury and the FFB at fiscal year-end and is included with accounts payable in the financial statements. USDA is required to make periodic interest payments to Treasury based on its debt to the Treasury.

Appropriations

USDA receives the majority of the funding needed to support its programs through appropriations. Appropriations are provided on an annual, multi-year, and no-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. Additional funds are obtained through reimbursements for goods and services provided to other government and nongovernment entities.

Direct Loans and Loan Guarantees

In accordance with the Credit Reform Act of 1990, USDA records most direct loans and loan guarantees committed after September 30, 1991, based on the present value of net cash flows estimated over the life of the loan or guarantee. Direct loans made prior to October 1, 1991, may be recorded under the present value method or the allowance for loss method (the outstanding principal reduced by an allowance for uncollectible amounts when it is more likely than not that the loans will not be collected in full). Liabilities related to loan guarantees committed prior to October 1, 1991, may be recorded under the present value method or the allowance for loss method (the amount the agency estimates will more likely than not require a future cash outflow to pay default claims).

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.

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 loan 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 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.

Other sources of financing include long-term and interim borrowings from the Treasury, the Federal Financing Bank (FFB), and private lending agencies. Borrowings payable to the Treasury result from the Secretary of Agriculture's authority to make and issue notes for the purpose of discharging obligations for RD's insurance funds and CCC's unreimbursed realized losses and debt related to the foreign assistance programs.

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.

Note 7 provides additional information concerning direct loan and loan guarantee programs.

Exchange and Nonexchange Revenue

In accordance with federal government accounting guidance, USDA classifies revenue as either "exchange revenue" or "nonexchange revenue." Exchange revenue arise from transactions that occur when each party to the transaction sacrifices value and receives value in return. In most cases, USDA agencies are required to remit exchange revenue receipts to the U. S. Department of the Treasury (Treasury). Some agencies are authorized to use a portion of their exchange revenues for specific purposes.

Full Cost

In accordance with federal government accounting guidance, USDA measures and reports the full costs of products and services generated from the consumption of resources. Full cost is the total amount of resources used to produce a product or provide a service unless otherwise noted. For FY 1998, Treasury Judgment Fund costs not associated with a particular mission area (responsibility segment) are presented in an adjustment column on the Statement of Net Cost.

Fund Balance with Treasury and Cash

USDA does not, for the most part, maintain cash in commercial bank accounts. Cash receipts and disbursements are processed by 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. Note 2 provides additional information concerning fund balance with Treasury.

Imputed Pension and Other Retirement Benefits

In accordance with federal government accounting guidance, USDA recognizes the liability and associated expense for employee pensions and other retirement benefits (including health care and other postemployment benefits) at the time the employee's services are rendered.

Pension expense, retirement health benefits, and related liabilities are recorded at estimated actuarial present value of future benefits, less the estimated actuarial present value of normal cost contributions made by, and for covered employees. Other postemployment benefits expense and related liability are recognized when the future outflow of resources is probable and measurable on the basis of events occurring on or before the reporting date.

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 nonfederal 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.

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.

Operating Leases

Since USDA reimburses the General Services Administration (GSA) for rental space, USDA has no rental leases to disclose. The operating leases of the Commodity Credit Corporation and the Farm Service Agency are addressed in Note 14, Contingencies and Commitments. OCFO will lead an effort to ensure that remaining leases are suitably disclosed in the financial statement for FY 1999.

Property, Plant, and Equipment

Property, plant, 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, plant, or equipment valued at \$5,000 or more, with a useful life greater than 2 years, are capitalized. All other purchases of property, plant, or equipment are fully expensed in the year of acquisition. Note 9 provides additional information concerning property, plant, and equipment.

USDA manages approximate 192 million acres of public land known as the National Forest System. In accordance with federal government accounting guidance, USDA assigns no value to the public land it administers. The required supplemental stewardship information provides additional information concerning public land.

Related Party Transactions

CCC's domestic programs are carried out primarily through FSA personnel. CCC issues checks for many FSA programs. During fiscal year 1998, FSA transferred to CCC \$589 million to cover checks written by CCC in the approximate amount of \$634 million. CCC recorded these transactions in its deposit and trust liability account.

The Corporation also provides and uses the services of other USDA agencies to carry out its authorities and responsibilities. AMS and FNS fund the purchase of some commodities. In addition, AMS funds the purchase of commodities for the purpose of facilitating additional sales in world markets at competitive prices. As of September 30, 1998, the related deposit and trust liability for AMS and FNS was \$377 million.

CCC donates commodities for use under domestic feeding programs administered by FNS. The value of commodities donated for these domestic purposes, including related transportation and storage costs, for the fiscal year ended September 30, 1998, was \$25 million. In fiscal year 1998, CCC purchased and sold to FNS commodities worth \$3 million.

Under Credit Reform, CCC transferred \$4 million to FAS and an additional \$1 million to FSA during fiscal year 1998 for salaries and expenses of the foreign programs.

During fiscal year 1998, outlays under reimbursable agreements with other USDA agencies amounted to \$26 million. Interagency accruals, reflecting probable outlays for expenses incurred, but not yet paid as of September 30, 1998, on reimbursable agreements amounted to \$4 million.

Amounts held on behalf of the Federal Crop Insurance Corporation for NAP and catastrophic administrative fees collected totaled \$7 million as of September 30, 1998.

During the fiscal year ended September 30, 1998, the Corporation transferred \$31 million to the Animal and Plant Health Inspection Service (APHIS) for the eradication of animal and plant diseases, including karnal bunt. The related deposit and trust liability to cover payments for karnal bunt on behalf of APHIS was \$8 million as of September 30, 1998.

In addition, CCC transferred \$30 million to NRCS for the administration of WHIP, and \$10 million to the Risk Management Agency for the Dairy Options Pilot Program of which the Corporation established a receivable of \$9 million.

Retirement Benefits

USDA employees participate in either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS) that became effective on January 1, 1987. Most employees hired after December 31, 1983, are automatically covered by FERS and Social Security. Employees hired prior to January 1, 1984, could elect to either join FERS and Social Security or remain in CSRS.

USDA makes matching contributions to CSRS on behalf of CSRS employees. Employees covered by CSRS are not subject to Social Security taxes, nor are they entitled to accrue Social Security benefits for wages subject to CSRS.

Under the FERS plan, USDA contributes an amount equal to one percent of the employee's basic pay to the tax deferred thrift savings plan and matches employee contributions up to an additional four percent of pay. FERS employees can contribute 10 percent of their gross earnings to the plan. CSRS employees are limited to a contribution of five percent of their gross earnings and receive no matching contribution from USDA.

The Office of Personnel Management is responsible for reporting the assets, accumulated plan benefits, and unfunded liabilities, in any, applicable to CSRS participants and FERS employees governmentwide, including USDA employees.

NOTE 2. FUND BALANCE WITH TREASURY*(U.S. dollars in thousands)*

	<i>Assets for Use by Entity</i>	<i>Assets Not for Use by Entity</i>	<i>Total</i>
Trust Funds	405,189		405,189
Revolving Funds	5,932,108		5,932,108
Appropriated Funds	29,943,344	477,215	30,420,559
Other Fund Types	605,117	146,383	751,500
Eliminations & Adjustments	77		77
Total	<u>36,885,835</u>	<u>623,598</u>	<u>37,509,433</u>

Other Information:

The Treasury performs cash management activities for all USDA agencies. The fund balance with Treasury represents the appropriated, reimbursable, revolving, and trust funds that are available to pay allowable expenditures. Cash balances held outside Treasury are not material.

Any material differences between the fund balance with Treasury as reported on the Treasury Year-End Closing Statement (TFS Form 2108), the Fund Balance with Treasury, and Cash as reported in these financial statements are caused by timing delays in receiving accounting information from various sources. Fund balance with Treasury and Cash reported in these financial statements have been adjusted to include cash receipt and disbursement transactions through September 30, 1998.

NOTE 3. CASH, FOREIGN CURRENCY, AND OTHER MONETARY ASSETS*(U.S. dollars in thousands)*

	<i>Assets for Use by Entity</i>	<i>Assets Not for Use by Entity</i>
Cash	77,481	18,859
Other Monetary Assets	23,978	
Total Cash, Foreign Currency and Other Monetary Assets	<u>101,459</u>	<u>18,859</u>

NOTE 4. INVESTMENTS*(U.S. dollars in thousands)*

	<i>Cost</i>	<i>Amortization Method</i>	<i>Unamortized (Premium) Discount</i>	<i>Market Value</i>	<i>Investments, Net</i>	<i>Required Market Value Disclosure</i>
<i>Federal Securities:</i>						
Marketable	13,657	NA		Unknown	13,657	13,657
Subtotal	<u>13,657</u>		<u>0</u>	Unknown	<u>13,657</u>	<u>13,657</u>
<i>Nonfederal Securities:</i>						
Certificates of Deposit	73,270	NA		Unknown	73,270	73,270
Subtotal	<u>73,270</u>		<u>0</u>	Unknown	<u>73,270</u>	<u>73,270</u>
Total	<u>86,927</u>		<u>0</u>	Unknown	<u>86,927</u>	<u>86,927</u>

NOTE 5. ACCOUNTS RECEIVABLE*(U.S. dollars in thousands)*

	Gross Accounts Receivable	Allowance for Uncollectible Accounts			Net Accounts Receivable
		Beginning Balance	Additions (Reductions)	Ending Balance	
<i>Accounts Receivable for Use by Entity</i>					
Federal:					
CCC Foreign Programs - Treasury and Other					
Federal Agencies	152,475				152,475
FCIC Deposited Refunds	34				34
Debts owed to FNS	923				923
FS Agreements with Other Federal Agencies	61,487				61,487
FSA Reimbursable Agreements	42,561				42,561
FSA Collections in Transit from CCC	9,824				9,824
RD Reimbursable Agreements	4,395				4,395
A/R Revenue, Reimbursement, and Refund	298,870				298,870
All Other Agencies Interest Receivable	28				28
Elimination Entries					(162,126)
Subtotal	570,597	0	0	0	408,471
Nonfederal:					
CCC Claims Originating in State Offices	84,419	70,189	(10,539)	59,650	24,769
CCC Interest Receivable	43,263	45,604	(5,189)	40,415	2,848
Producer Overpayments on CCC Programs	41,490	3,158	(553)	2,605	38,885
CCC Other Claims	3,206	8,287	(6,660)	1,627	1,579
CCC Less Offset in Deferred Receivables	(39,393)				(39,393)
FCIC Farmer Premium Fees and Premium Tax	775,913	34,892	(19,077)	15,815	760,098
Debts owed to FNS	171,697	777,555	(777,193)	362	171,335
FS State Agreements for Fire Prevent & Suppression	107,130		(20,934)	(20,934)	86,196
FSA Program Claims	1,069	556	152	708	361
RD Guaranteed FFB Loans	610				610
RD Salaries and Expense	108				108
A/R Revenue, Reimbursement, and Refund	90,132		1,594	1,594	88,538
Other	16,940	597	(447)	150	16,790
Subtotal	1,296,584	940,838	(838,846)	101,992	1,152,724
Total Accounts Receivable for Use by Entity	1,867,181	940,838	(838,846)	101,992	1,561,195
<i>Accounts Receivable Not for Use by Entity</i>					
Federal:					
FS General and Special Fund Receipt Accounts	483				483
RD Reimbursable Agreements	3				3
A/R Revenue, Reimbursement, and Refund	12,789				12,789
All Other Agencies Interest Receivable	525				525
Subtotal	13,800	0	0	0	13,800
Nonfederal:					
Debts owed to FNS	39,535	1,501	111	1,612	37,923
FSA Amounts Due from the Public and Timber Sales and Accrued Interest for Defaulted Timber Sales	58,131		(28,001)	(28,001)	30,130
FSA Marketing Quota Penalties	37,240	36,414	(1,036)	35,378	1,862
RD Salaries and Expense	46				46
A/R Revenue, Reimbursement, and Refund	22,238		116	116	22,122
Subtotal	157,190	37,915	(28,810)	9,105	92,083
Total Accounts Receivable Not for Use by Entity	170,990	37,915	(28,810)	9,105	105,883
Total Accounts Receivable	2,038,171	978,753	(867,656)	111,097	1,667,078

NOTE 6. OTHER ASSETS*(U.S. dollars in thousands)*

<i>Other Assets for Use by Entity</i>		<i>Other Assets Not for Use by Entity</i>	
Federal		Nonfederal	
NFC OPAC Susperse	112,174	FS Timber Security Deposits	6,136
Total	<u>112,174</u>	Equipment Not Reported as Property, Plant, and Equipment	195
		Total	<u>6,331</u>
Nonfederal			
Investments in Land Asset Sale Trust	54,615		
Other	92		
Total	<u>54,707</u>		

NOTE 7. CREDIT PROGRAM RECEIVABLE AND RELATED PROPERTY, NET

Direct Loan obligations or loan guarantee commitments made prior to FY 1992 and the resulting direct loans or loan guarantees are reported at net present value or net realizable value.

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

Loans Subject to Credit Reform:*(U.S. dollars in thousands)*

<i>Summary Schedule:</i>	<i>Loan/Credit Receivable, Gross</i>	<i>Interest Receivable, Gross</i>	<i>Foreclosed Property, Gross</i>	<i>Related Allowance</i>	<i>Program Receivable, Net</i>
P.L. 480 Title I	10,679,244	138,881		6,761,248	4,056,877
Enterprise for the Americas	62,740			12,907	49,833
Food for Progress	507,830	11,292		499,959	19,163
Export Credit Guarantee Program	6,724,037	70,415		4,059,405	2,735,047
Agriculture Credit Insurance Fund (ACIF)	9,658,912	405,186	128,279	2,291,133	7,901,244
Bureau of Reclamation Loan Fund (BRLF)	306				306
Rural Housing Service (RHS)	29,651,180	109,847	58,164	9,922,986	19,896,205
Rural Utilities Service (RUS)	40,110,527	106,268		5,343,375	34,873,420
Rural Business Service (RBS)	365,870	2,116		143,150	224,836
Total	<u>97,760,646</u>	<u>844,005</u>	<u>186,443</u>	<u>29,034,163</u>	<u>69,756,931</u>

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 do not include the price support loans of CCC.

<i>(U.S. dollars in thousands)</i>	<i>Gross Receivable</i>	<i>Allowance</i>	<i>Net Receivable</i>
Domestic	2,426,142	144,225	2,281,917
Foreign	426,881	47,313	379,568
Total Loans Receivable Exempt from Credit Reform	2,853,023	191,538	2,661,485

The Department operates the following loan and loan guarantee programs:

The Agriculture Credit Insurance Fund (ACIF) provides loans for farm ownership, operations, and emergencies.

The purpose of the Agricultural Resource Conservation Demonstration (ARCD) Program (Farms for the Future) is to assist states in financing a farmland protection effort to preserve our vital farmland resources for future generations. This purpose is achieved through 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 Agricultural Trade Development and Assistance Act of 1954 (Public Law 480) provides foreign credit to promote agricultural trade, provides humanitarian relief, and aids 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 Bureau of Reclamation Loan Fund (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.

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

*Direct Loans Obligated Prior to FY 1992:**(U.S. dollars in thousands)*

<i>Loan Programs</i>	<i>Loans Receivable, Gross</i>	<i>Interest Receivable, Gross</i>	<i>Foreclosed Property, Gross</i>	<i>Allowance for CPR (PV)</i>	<i>Credit Program Receivables (NPV)</i>
P.L. 480 Title I	9,145,504	116,369		5,525,647	3,736,226
ACIF	6,930,544	366,924	124,697	1,573,963	5,848,202
BRLF	306				306
RHS	19,651,678	75,916	43,100	7,356,632	12,414,062
RUS	31,914,423	73,443		4,404,528	27,583,338
RBS	80,609	321		31,154	49,776
Total	67,723,064	632,973	167,797	18,891,924	49,631,910

*Direct Loans Obligated After FY 1991:**(U.S. dollars in thousands)*

<i>Loan Programs</i>	<i>Loans Receivable, Gross</i>	<i>Interest Receivable, Gross</i>	<i>Foreclosed Property, Gross</i>	<i>Allowance for Subsidy Cost (PV)</i>	<i>Credit Program Receivables (NPV)</i>
P.L. 480 Title I	1,533,740	22,512		1,235,601	320,651
Enterprise for the Americas	62,740			12,907	49,833
Food for Progress	507,830	11,292		499,959	19,163
ACIF	2,728,368	38,262	3,582	717,170	2,053,042
RHS	9,999,502	33,931	15,064	2,566,354	7,482,143
RUS	8,196,104	32,825		938,847	7,290,082
RBS	285,261	1,795		111,996	175,060
Total	23,313,545	140,617	18,646	6,082,834	17,389,974

*Defaults on Pre- 1992 Guaranteed Loans:**(U.S. dollars in thousands)*

<i>Loan Guarantee Programs</i>	<i>Defaulted Guaranteed Loan: Receivable, Gross</i>	<i>Interest Receivable, Gross</i>	<i>Foreclosed Property, Gross</i>	<i>Allowance for Subsidy Cost (PV)</i>	<i>Credit Program Receivables (NPV)</i>
Export Credit Guarantee Program	5,418,482	47,754		3,330,521	2,135,715
Total	5,418,482	47,754	0	3,330,521	2,135,715

*Defaults on Post- 1991 Guaranteed Loans:**(U.S. dollars in thousands)*

<i>Loan Guarantee Programs</i>	<i>Defaulted Guaranteed Loan: Receivable, Gross</i>	<i>Interest Receivable, Gross</i>	<i>Foreclosed Property, Gross</i>	<i>Allowance for Subsidy Cost (PV)</i>	<i>Credit Program Receivables (NPV)</i>
Export Credit Guarantee Program	1,305,555	22,661		728,884	599,332
Total	1,305,555	22,661	0	728,884	599,332

*Guaranteed Loans Outstanding:**(U.S. dollars in thousands)*

<i>Loan Programs</i>	<i>Outstanding Principal Guaranteed Loans Face Value</i>	<i>Amount of Outstanding Principal Guaranteed</i>
Export Credit Guarantee Program	4,530,428	4,289,621
ACIF Liquidating	780,900	659,830
ACIF Financing	6,234,271	5,621,535
ARCD Financing	23,548	23,548
RHS	7,443,600	6,634,486
RUS	829,248	793,508
RBS	1,895,695	1,492,054
Total	21,737,690	19,514,582

*Liability for Loan Guarantees:**(U.S. dollars in thousands)*

<i>Loan Programs</i>	<i>Liability for Losses on Pre-1992 Guarantees</i>	<i>Liabilities for Post-1991 Loan Guarantees (PV)</i>	<i>Total Liabilities for Loan Guarantees</i>
Export Credit Guarantee Program	16	2,739,515	2,739,531
A CIF Liquidating	128,379		128,379
A CIF Financing		73,230	73,230
ARCD Financing		3,554	3,554
RHS	3,733	205,549	209,282
RUS	149,095	(1,115)	147,980
RBS		103,388	103,388
Total	<u>281,223</u>	<u>3,124,121</u>	<u>3,405,344</u>

*Subsidy Expense for Post-1991 Loans and Credit Receivables**(U.S. dollars in thousands)**Current Year's Direct Loans*

<i>Loan Programs</i>	<i>Interest Differential</i>	<i>Defaults</i>	<i>Fees</i>	<i>Other</i>	<i>Total</i>
P.L. 480 Program	66,447	90,119			156,566
Enterprise for the Americas					
Food for Progress					
A CIF	24,742	54,357	(186,200)	186,451	79,350
RHS	249,935	11,002	(68,719)	37,075	229,293
RUS	173,868	(7,705)	(1,331)	(10,783)	154,049
RBS	24,748	332		(162)	24,918
Total					<u>644,176</u>

Direct Loan Modifications and Reestimates

<i>Loan Programs</i>	<i>Modifications</i>	<i>Reestimates</i>
P.L. 480 Program		(68,511)
Enterprise for the Americas		(6,219)
Food for Progress		127,752
A CIF		13,019
RHS		59,390
RUS		(112,765)
RBS		(6,292)

Total Direct Loan Subsidy Expenses

<i>Loan Programs</i>	<i>Total</i>
P.L. 480 Program	88,055
Enterprise for the Americas	(6,219)
Food for Progress	127,752
A CIF	92,369
RHS	288,683
RUS	41,284
RBS	18,626
Total	<u>650,550</u>

*Subsidy Expense for Post-1991 Loan Guarantees**(U.S. dollars in thousands)**Current Year's Loan Guarantees*

<i>Loan Program</i>	<i>Defaults</i>	<i>Fees</i>	<i>Interest Supplement</i>	<i>Other</i>	<i>Total</i>
Export Credit Guarantee	440,920	(22,857)			418,063
ACIF	42,320	(10,365)	19,134	(2,039)	49,050
RHS	9,432	(4,483)	2,626	32	7,607
RUS	236	(22)		(267)	(53)
RBS	28,772	(15,801)		(2,550)	10,421
Total					<u>485,088</u>

Loan Guarantee Modifications and Reestimates

<i>Loan Programs</i>	<i>Modifications</i>	<i>Reestimates</i>
Export Credit Guarantee		516,769
ACIF		69,457
RHS		105,309
RUS		(63)
RBS		44,840

Total Loan Guarantee Subsidy Expense

<i>Loan Programs</i>	<i>Total</i>
Export Credit Guarantee	934,832
ACIF	118,507
RHS	112,916
RUS	(116)
RBS	55,261
Total	<u>1,221,400</u>

*Administrative Expense:**(U.S. dollars in thousands)*

<i>Entity</i>	<i>Direct Loans and Loan Guarantees</i>
CCC	5,670
FSA	219,574
Total	<u>225,244</u>

Other Information:

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 Treasury average interest rate. RD estimated that the net cumulative effect of reporting the unamortized discount would cause an approximate \$1,200 million reduction in net loans receivable.

Nonperforming Loans: The unpaid principal balance of CCC Foreign Credit, FSA loans, and RD loans in a nonperforming status at fiscal year-end totaled \$3,956 million; \$2,331 million; and \$1,500 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 \$74 million, \$174.2 million, and \$77 million, to a total of \$1,066 million; \$732.8 million; and \$3,800 million reduction in net loans receivable respectively during fiscal year 1998 and increased by \$631 million; \$1,019 million; and \$270 million; respectively during the entire delinquency.

Servicing Actions Available to Assist Financially Troubled Borrowers: All three lending agencies restructure loans in order to provide a reduction or deferral of interest and/or principal because of a deterioration in the financial position of the borrower. The principal amounts of the restructured loans as of September 30, 1998, for FSA and RD totaled \$229 million and \$7,600 million respectively.

NOTE 8. INVENTORY AND RELATED PROPERTY

Goods Held Under Price Support and Stabilization Programs

(U.S. dollars in thousands)

	Amount
Beginning Balance	376,776
Acquired During the Year	295,326
Disposals During the Year	
Sales	(20,994)
Donations	(124,369)
Other Dispositions	(573)
Other Additions and Deductions	5,083
Ending Balance, Gross	<u>531,249</u>
Related Allowance Calculated by Commodity	<u>(186,238)</u>
Ending Balance, Net	<u><u>345,011</u></u>
Amount Estimated to be Donated or	
Transferred During the Coming Period	86,098
Amount That May Be Received as a Result	
of Collateral Related to Nonrecourse	
Loans Outstanding	584

Required Disclosure:

Commodity loan forfeitures during the fiscal year ended September 30, 1998, were \$63 million.

In accordance with the Agricultural Act of 1970, as amended, USDA may establish, maintain, and dispose of a separate reserve of inventories for the purpose of alleviating distress caused by a natural disaster. These inventories may consist of feed grains, soybeans, and wheat. The reserve, which was initiated at 75 million bushels, has been depleted. The amount held in reserve cannot exceed 20 million bushels (P.L. 105-18). USDA maintains a required commodity reserve for use when domestic supplies are so limited that quantities cannot meet the availability criteria under P.L. 480. In addition, if commodities that meet unanticipated needs under Title II of P.L. 480 cannot be made available in a timely manner, the Secretary may release up to 500,000 metric tons of wheat or an equivalent value of eligible commodities, plus up to 500,000 metric tons of eligible commodities that could have been released, but were not released, under this authority in prior fiscal years. Commodities are to be used solely for emergency food assistance in developing countries. As a result of the Federal Agricultural Improvement and Reform Act of 1996, 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 USDA. The authority to replenish the reserve expires at the end of fiscal year 2002.

*Operating Materials and Supplies**(U.S. dollars in thousands)*

	<i>Amount</i>	<i>Valuation Method</i>
Items Held for Use	97,865	Weighted Average and FIFO
Total Operating Materials and Supplies	97,865	

Valuation Methods: The majority of operating supplies and materials inventories are valued based on the weighted average method. The operating supplies and materials inventory maintained for emergency fire fighting are valued at GSA catalog prices as of January 1, 1998. This valuation method may approximate historical costs, depending on the extent that the emergency fire fighting inventory stock is depleted each year because of the severity of the fire season.

Allowances: Management has established no allowance against these balances because operating material and supplies that are not usable because of spoilage, obsolescence, damage, etc., are considered immaterial.

NOTE 9. GENERAL PROPERTY, PLANT, AND EQUIPMENT*Existing General Property, Plant, and Equipment:**(U.S. dollars in thousands)*

<i>Classes</i>	<i>Cost</i>	<i>Accumulated Depreciation</i>	<i>Book Value</i>	<i>Estimated Useful Life **</i>	<i>Method of Depreciation *</i>
<i>Personal Property:</i>					
ADP Hardware	380,758	183,254	197,504	various	SL
Equipment	676,253	420,787	255,466	various	SL
Vehicles	798,699	161,012	637,687	1-5	SL
Other	775,216	510,400	264,816	4-15	SL
<i>Real Property:</i>					
Buildings	1,068,268	562,508	505,760	>20	SL
Dam Systems	42,518	20,649	21,869	>20	SL
Developed Sites	810,329	629,421	180,908	>20	SL
Land	114,746		114,746		
Roads and Bridges	1,294,850	611,589	683,261	>20	SL
Other	3,123,282	2,352,653	770,629	various	SL
Eliminations and Adjustments	13		13		
Total	9,084,932	5,452,273	3,632,659		

** Depreciation Methods*

SL	Straight Line
D	Double Declining Balance
S	Sum of the Years Digits
IN	Interest (sinking fund)

*** Range of Service Life*

1-5	1 to 5 years
6-10	6 to 10 years
11-20	11 to 20 years
>20	over 20 years

The Department implemented the Statement of Federal Financial Accounting Standards (SFFAS) Number 6 and removed from general PP&E \$2,276,142 thousand in road prisms and \$4,238,124 thousand in stewardship land. These assets were previously recognized for balance sheet reporting. No heritage assets were removed from general PP&E. In addition, \$1.5 billion of general PP&E was reevaluated and added to other general PP&E due to SFFAS Number 6 implementation.

NOTE 10. DEBT*(U.S. dollars in thousands)*

	<i>Beginning Balance</i>	<i>Net Borrowing</i>	<i>Ending Balance</i>
<i>Agency Debt:</i>			
Held by the Public	2,171,667	(1,350,378)	821,289
Total Agency Debt	<u>2,171,667</u>	<u>(1,350,378)</u>	<u>821,289</u>
<i>Other Debt:</i>			
Debt to the Treasury	30,243,009	11,638,297	41,881,306
Debt to the Federal Financing Bank	36,622,728	(4,682,059)	31,940,669
Total Other Debt	<u>66,865,737</u>	<u>6,956,238</u>	<u>73,821,975</u>
Total Debt	<u><u>69,037,404</u></u>	<u><u>5,605,860</u></u>	<u><u>74,643,264</u></u>
<i>Classification of Debt:</i>			
Federal Debt		73,821,975	
Nonfederal Debt		<u>821,289</u>	
Total Debt		<u><u>74,643,264</u></u>	

Other Information:

The Secretary of Agriculture is authorized under Title 7, U.S.C., to make and issue notes to the Secretary of the Treasury of the purposes of obtaining funds necessary for discharging obligations of the crop insurance fund, unrealized losses and debt related to the foreign assistance programs.

Interest on permanent indefinite borrowing authority from Treasury is paid at a rate based upon the average interest rate of all outstanding marketable obligations (of comparable maturity date) of the United States as of the preceding month. Monthly interest rates ranged from 5.25 percent to 5.50 percent during fiscal year 1998. Interest expense incurred on these borrowings was \$285 million for fiscal year 1998.

The fiscal year 1998 interest rate on long-term borrowings under the permanent indefinite borrowing authority for the foreign assistance programs was 6.16 percent. This is the annual weighted average interest rate computed by OMB and used uniformly by all government entities, unless specific exemptions apply. A quarterly rate is determined by OMB and then a weighted average rate is calculated at year-end and applied retroactively to all borrowings from October 1 of the preceding year.

During fiscal year 1998, the terms for borrowings made for the export credit guarantee programs were at least 10 years, while the repayment terms for the P.L. 480 program were 30 years. Interest expense incurred on borrowings associated with the these programs amounted to \$111 million for fiscal year 1998.

Debt related to crop insurance consists of amounts due to Treasury and the Federal Financing Bank (FFB). FFB borrowings are in the form of certificates of beneficial ownership or loans executed directly between the borrower and FFB, and are secured by unpaid loan principal balances.

NOTE 11. OTHER LIABILITIES

Other Liabilities Covered by Budgetary Resources

(U.S. dollars in thousands)

	Noncurrent	Current	Total
Federal:			
CCC Reimbursable Activities		5,123	5,123
FCIC Other Funds Available for Obligation		15,291	15,291
FCIC DOPP Funds from CCC		9,582	9,582
FSA Marketing Quota Penalty claims	1,862		1,862
Total	1,862	29,996	31,858
Nonfederal:			
CCC Deferred Credits		22,982	22,982
CCC Unapplied Receipts		20,692	20,692
FCIC Reserve for Reinsurance Losses		516,155	516,155
FCIC Reserve for Contingent Liabilities		3,000	3,000
FCIC Estimated Losses on Insurance Claims		1,009,676	1,009,676
FS Security Deposits		376	376
FSA Advances		82	82
FSA Amount Due Investors		10,585	10,585
FSA Collections from CCC		9,824	9,824
RD B and C Stock Payable	743,029		743,029
RD Dividends Payable		14,362	14,362
Accrued Funded Payroll and Benefits		126,140	126,140
Retirement Plans		8,727	8,727
Other	14,157	93,353	107,510
Total	757,186	1,835,954	2,593,140

Other Liabilities Not Covered by Budgetary Resources

(U.S. dollars in thousands)

	Noncurrent	Current	Total
Federal			
FNS Custodial Liabilities	37,923		37,923
FS Due for Return of Fire Fighting Advances	486,434		486,434
Accrued FECA Liability		715	715
Other		55,794	55,794
Total	524,357	56,509	580,866
Nonfederal			
Canceled Year Accounts Payable	14,212		14,212
Total	14,212	0	14,212

During fiscal years 1988 through 1997, the USDA incurred obligations to fight fires which were not funded in advance by appropriations. The USDA used unobligated balances in the Knutson-Vandenburg (K-V) Trust Fund to pay these expenses. As of September 30, 1998, the trust fund has not been reimbursed \$492,870 thousand. We have not recognized this amount as a receivable in the financial statements and will not until such time as Congress authorizes supplemental funding to repay the trust fund load.

NOTE 12. ACCRUED PROGRAM LIABILITIES

Liabilities Covered by Budgetary Resources

(U.S. dollars in thousands)

Nonfederal

Conservation Reserve Program	1,579,163
Other Accrued Expenses	281,986
Dairy Export Incentive Program	59,325
Dairy Production Disaster Assistance	6,528
Environmental Quality Incentives Program	6,516
Noninsured Assistance Program	6,407
1998 Livestock Indemnity Program	3,800
Export Enhancement Program	803
Accrued Payroll & Benefits	98,122
Liability for Deposit and Suspense Accounts	21,065
Payments to States and Counties	222,399
Disaster Program Payments	13,643
Total Accrued Program Liabilities	<u><u>2,299,757</u></u>

NOTE 13. NET POSITION

Unexpended Appropriations

(U.S. dollars in thousands)

Unobligated	
Available	6,958,858
Unavailable	18,029,650
Undelivered Orders	4,687,519
Special Fund Receipts	47,561
Eliminations & Adjustments	(616)
Total	<u><u>29,722,972</u></u>

Cumulative Results of Operations:

Due to the FY 1998 implementation of Statement of Federal Financial Accounting Standard No. 7, Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting, equity accounts formerly shown as future funding requirements and invested capital were closed to cumulative results of operations and are no longer presented separately on the balance sheet. At the beginning of the period, the amounts closed to cumulative results of operations were \$1,710 million and \$6,335 million respectively. Because these amounts were included in the determination of net position for FY 1997, there are no retroactive effects on net position due to this change.

NOTE 14. CONTINGENCIES AND COMMITMENTS**A. Contingencies**

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. 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 below. Once the claim is settled or court judgment is assessed against USDA and the Judgment Fund is determined to be the appropriate source for payment of claims, USDA records an imputed other financing source. During FY 1998, approximately \$25 million was paid from the Fund to settle actions against USDA.

Forest Service (FS)

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. In FY 1998, according to the Office of the General Counsel, if the claimants are successful in all of these actions, a scenario which will not necessarily occur, FS could be responsible for paying damages of at least \$274,036 thousand. These damages represent claims in excess of \$10 million.

Federal Crop Insurance Corporation (FCIC)

FCIC is a defendant in various litigation cases arising in the normal course of business. Management has recorded a liability in the financial statements for the estimated settlement amount of these cases based on its best estimate at the time of financial statement preparations. Furthermore, in order to defend its policies and procedures, FCIC may, in some instances, pay litigation expenses and judgments over and above indemnities found to be due under the Standard Reinsurance Act for reinsured companies. For this reason, FCIC is consulted with and approves significant decisions in the litigation process. In exchange for FCIC consideration, the reinsurance companies reimburse the FCIC an amount equal to 50% of the expense reimbursement due the reinsured companies on such policies.

Commodity Credit Corporation (CCC)

The Federal Agricultural Improvement and Reform Act of 1996 replaced acreage reduction programs with production flexibility contract payments. These payments are made on a fixed payment schedule over 7 years. CCC paid \$6 billion during FY 1998, with \$19 billion remaining to be paid over the next 4 years.

Under WRP, CCC purchases easements, based on agricultural value, for wetlands that have previously been drained and converted to agricultural uses. While the landowner retains control of access, CCC reimburses the producer for restoration costs. Program expenses for the FY ended September 30, 1998, were \$64 million. At September 30, 1998, CCC's estimated future liabilities were \$183 million.

The Noninsured Assistance Program (NAP) 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. Program expenses for the FY ended September 30, 1998, were \$23 million. It is estimated that CCC's annual payments for this program could range from \$90 million to \$140 million. The Corporation did not record an accrual for NAP in FY 1998 because the probability and estimates of future payments could not be determined accurately.

Commitments to acquire commodities represent the contract value of commodities not yet delivered under CCC purchase contracts. Commodity contracts amounted to \$462 million at September 30, 1998.

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. Program expenses were approximately \$103 million for FY 1998. The accrued liability for FY 1998 was \$59 million. On September 30, 1998, CCC estimated its future liabilities to be \$110 million.

The Corporation formerly operated approximately 4,500 grain storage facilities in the United States. To date, at approximately 110 of these facilities, Carbon Tetrachloride (a fumigant commonly used at grain storage facilities during that time) was discovered in ground water. As of September 30, 1998, the Environmental Protection Agency has designated CCC the potentially responsible party for ground water contamination near 4 of the former 110 CCC grain storage locations. CCC is undertaking site investigations at these and other former locations. USDA roughly estimates the total cost of this effort (including site inspection and cleanup, as well as operations and maintenance) to be \$40 million for the fiscal years 1999 through 2003. Of this amount, the Department is expected to provide funding of \$15 million under the ongoing department-wide hazardous waste management program. However, this amount is contingent on the amount actually appropriated to the USDA hazardous waste fund and subsequently allotted to CCC. Potential costs are extremely difficult to estimate until site investigations are completed. CCC intends to monitor the cost estimate and make revisions as necessary.

The Market Access Program was authorized by the Agriculture Trade Act of 1978, as amended, to encourage the development, maintenance, and expansion of commercial export markets for agricultural commodities through cost-share assistance to eligible trade organizations that implement a foreign market development program. CCC makes funds available to reimburse program participants for authorized promotional expenses. Program expenses for the FY ended September 30, 1998, were \$92 million. At September 30, 1998, CCC estimated its future liabilities could range up to \$160 million. These amounts are not accrued because agreement on the actual use of the funds has not been reached.

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. Program expenses for the FY ended September 30, 1998 were \$2 million. At September 30, 1998, CCC estimated its future liabilities could range up to \$1 million.

Other USDA

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. Farmers are likely to receive \$30 million in damages and the release of \$300 to \$600 million in unpaid debts, in a debt forgiveness settlement. The Department of Agriculture

neither admits or denies any specific allegations in the lawsuit, however plans to settle with a significant amount of money.

Cecil C. Brewington, et al. v. Dan Glickman is a case closely related to Timothy Pigford et al. v. Dan Glickman, where a class action was brought by black farmers who filed administrative discrimination complaints with USDA, between 1983 and February 21, 1997, alleging race discrimination in FSA farm programs. This matter currently is in litigation, and it is very likely that a settlement of the Pigford case will affect this case.

B. Commitments

Contracts Under Conservation Reserve Program (CRP)

Through CRP, 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 the future liability for CRP annual rental payments through year 2009 is \$18 billion. This estimate is based on current program levels with no provision for cancellations or amendments to existing contracts. At September 30, 1998, accrued payments totaled \$1,579 million.

Hazardous Waste Cleanup

USDA has a contingent liability, under the provisions of the Comprehensive Environment Response, Compensation, and Liability Act (CERCLA), and the Resource Conservation and Recovery Act (RCRA), to clean up hazardous materials on USDA lands. 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. USDA expended approximately \$20 million for hazardous waste cleanup in FY 1998. The expenses were incurred by APHIS, ARS, CCC, FSA, 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.

FS estimates the cleanup costs for CERCLA sites on National Forest Systems lands is \$2.0 billion. Of this amount, approximately \$1.9 billion relates to abandoned mine lands and \$0.1 billion for non-CERCLA mines on NFS lands. These estimates are very tentative and sensitive to changes in remedy standards and new technology. The site discovery and assessment process will continue for several more years; and the actual number of sites discovered and cleanup costs will continually change as the process continues. This estimate also does not reflect anticipated cost recovery from or contribution to cleanup costs by responsible parties because the amounts are highly speculative. There is reasonable possibility, however, that some of the cleanup cost will be paid by parties other than the FS.

Program Continuance

FCIC Program Continuance: Since the enactment of the Federal Crop Insurance Act of 1980, FCIC has incurred significant losses from operations which have accumulated to approximately \$3.9 billion at September 30, 1998. FCIC has relied on additional funding from CCC and borrowing from the U.S. Treasury to meet its obligations. Without significant changes in insurance program operations, FCIC will likely continue to suffer losses and require additional assistance from CCC or other sources of congressional funding.

Operating Leases

The following is a schedule of future minimum rental payments required under FSA operating leases for which CCC is directly liable. The leases can be canceled after a period not to exceed 120 days.

<i>Fiscal Year Ended</i>	<i>(U.S. dollars in millions)</i>
1999	4
2000	2
2001	1
2002 and thereafter	*
Total	7

* Less than \$500 thousand.

Allocated rent expense net of reimbursements received on these leases was \$60 million for FY 1998.

FSA is a party to various operating leases which contain termination clauses not to exceed 120 days. The following is a schedule of future minimum rental payments required under operating leases which are to be paid from future FSA appropriations.

<i>Fiscal Year Ended</i>	<i>(U.S. dollars in thousands)</i>
1999	59,284
2000	51,050
2001	33,133
2002	14,899
2003	2,752
2004 and thereafter	121
Total	161,239

Substantially all leased space maintained by FSA is with other federal agencies. Several federal agencies are the lessee under these agreements, however, for most leases FSA is the lessee. There are reimbursable agreements in effect for FSA to either reimburse or be reimbursed by the other Federal agencies. Gross rent expense for FY 1998 was \$113,067 thousand and reimbursements were \$35,580 thousand.

NOTE 15. SUPPORTING SCHEDULES FOR THE STATEMENT OF NET COST

The responsibility segments and their major programs are presented in the following schedules.

Food, Nutrition, and Consumer Services

(U.S. dollars in thousands)

	<i>Food Stamp Program</i>	<i>Child Nutrition Program</i>	<i>Women, Infants, and Children Program</i>	<i>Commodity Assistance</i>
COSTS				
Program Costs:				
Federal	20,136	6,228	3,146	78
Nonfederal:				
Grants and Transfers				
Grants and Payments	20,091,359	8,201,432	3,804,741	63,571
Commodity Inventory Costs	168,812	221,860	150	64,625
Other Program Costs	114,992	34,909	13,960	1,281
Total Program Production Costs	20,395,299	8,464,429	3,821,997	129,555
Less Eamed Revenues	174,215			
Excess Production Costs Over Revenues	20,221,084	8,464,429	3,821,997	129,555
Net Program Costs	20,221,084	8,464,429	3,821,997	129,555

(continued)

	<i>Other Programs</i>	<i>Adjustments and Intraarea Eliminations</i>	<i>Total</i>
COSTS			
Program Costs:			
Federal	591,377	577	621,542
Nonfederal:			
Grants and Transfers			
Grants and Payments	136,292		32,297,395
Commodity Inventory Costs	4,031		459,478
Other Program Costs	2,993		168,135
Total Program Production Costs	734,693	577	33,546,550
Less Eamed Revenues			174,215
Excess Production Costs Over Revenues	734,693	577	33,372,335
Net Program Costs	734,693	577	33,372,335
Costs Not Assigned to Programs			25,835
NET COST OF OPERATIONS			33,398,170

Farm and Foreign Agricultural Services

(U.S. dollars in thousands)

	Farm Income Support Programs	Conservation Reserve Program	Commodity Program	Farm Loans	Crop Insurance
COSTS					
Program Costs:					
Federal	211,261	50,465	452,913	963,857	33,736
Nonfederal:					
Grants and Transfers					
Grants and Payments	6,921,031	1,696,125		2,334	
Indemnities					1,391,898
Loan Subsidy Costs				210,877	
Commodity Inventory Costs	23,725		214,664		
Other Program Costs	828,995	127,718	204,229	(120,975)	474,841
Total Program Production Costs	7,985,012	1,874,308	871,806	1,056,093	1,900,475
Less Earned Revenues	247,922		452,967	665,766	526,781
Excess Production Costs Over Revenues	7,737,090	1,874,308	418,839	390,327	1,373,694
Net Program Costs	7,737,090	1,874,308	418,839	390,327	1,373,694

(continued)

	International Operations	Other Programs	Adjustments and Intraarea Eliminations	Total
COSTS				
Program Costs:				
Federal	189,683	188,585	(1,704,228)	386,272
Nonfederal:				
Grants and Transfers				
Grants and Payments	857,812	1,061,898		10,539,200
Indemnities				1,391,898
Loan Subsidy Costs	1,144,420			1,355,297
Commodity Inventory Costs				238,389
Other Program Costs	1,777,758	190,109		3,482,675
Total Program Production Costs	3,969,673	1,440,592	(1,704,228)	17,393,731
Less Earned Revenues	714,337	302,527	(887,430)	2,022,870
Excess Production Costs Over Revenues	3,255,336	1,138,065	(816,798)	15,370,861
Nonproduction Costs:				
Acquisition Cost of Stewardship Land		64,070		64,070
(Gain) or Loss on Disposition of Assets		1,017		1,017
Net Program Costs	3,255,336	1,203,152	(816,798)	15,435,948
Costs Not Assigned to Programs				14,074
NET COST OF OPERATIONS				15,450,022

Natural Resources and Environment

(U.S. dollars in thousands)

	Management of National Forests and Grasslands	State and Private Forestry	Forest Research	Natural Resource Conservation Programs
COSTS				
Program Costs:				
Federal	450,688	139,186	32,024	226,445
Nonfederal:				
Grants and Transfers				
Grants and Payments	39	118,181	4,388	
Indemnities	6,937	878	174	
Other Program Costs	2,069,780	593,378	163,129	789,864
Total Program Production Costs	2,527,444	851,623	199,715	1,016,309
Less Earned Revenues	838,044	97,955	26,187	159,611
Excess Production Costs Over Revenues	1,689,400	753,668	173,528	856,698
Nonproduction Costs:				
Acquisition Cost of Stewardship Land	81,903			
(Gain) or Loss on Disposition of Assets	12	9	(3)	
Net Program Costs	1,771,315	753,677	173,525	856,698

(continued)

	Other Programs	Adjustments and Intraarea Eliminations	Total
COSTS			
Program Costs:			
Federal	87,689	1,653	937,685
Nonfederal:			
Grants and Transfers			
Grants and Payments	2,542		125,150
Indemnities	462		8,451
Other Program Costs	76,870		3,693,021
Total Program Production Costs	167,563	1,653	4,764,307
Less Earned Revenues	2,359		1,124,156
Excess Production Costs Over Revenues	165,204	1,653	3,640,151
Nonproduction Costs:			
Acquisition Cost of Stewardship Land			81,903
(Gain) or Loss on Disposition of Assets	5,494		5,512
Net Program Costs	170,698	1,653	3,727,566
Costs Not Assigned to Programs			3,540
NET COST OF OPERATIONS			3,731,106

Research, Education, and Economics*(U.S. dollars in thousands)*

	Agricultural Research	Cooperative State Research, Education, and Extension	Economic Research	National Agricultural Statistics Service
COSTS				
Program Costs:				
Federal	117,095	69,475	17,860	62,213
Nonfederal:				
Other Program Costs	738,408	891,430	49,347	82,201
Total Program Production Costs	855,503	960,905	67,207	144,414
Less Eamed Revenues	40,860	2,627	9,639	15,655
Excess Production Costs Over Revenues	814,643	958,278	57,568	128,759
Net Program Costs	814,643	958,278	57,568	128,759

(continued)

	Adjustments and Intraarea Eliminations	Total
COSTS		
Program Costs:		
Federal	243	266,886
Nonfederal:		
Other Program Costs		1,761,386
Total Program Production Costs	243	2,028,272
Less Eamed Revenues	(1,250)	67,531
Excess Production Costs Over Revenues	1,493	1,960,741
Net Program Costs	1,493	1,960,741
Costs Not Assigned to Programs		4,279
NET COST OF OPERATIONS		1,965,020

Rural Development

(U.S. dollars in thousands)

	Rural Housing Service	Rural Utilities Service	Rural Business Cooperative Research	Other Programs
COSTS				
Program Costs:				
Federal	2,338,049	2,133,824	984,427	
Nonfederal:				
Grants and Transfers				
Grants and Payments	609,485	(42)	492,826	98
Loan Subsidy Costs	400,885	(47,362)	163,035	96
Other Program Costs	616,861	(1,375,699)	201,196	
Total Program Production Costs	3,965,280	710,721	1,841,484	194
Less Eamed Revenues	2,202,643	2,358,574	971,173	143
Excess Production Costs Over Revenues	1,762,637	(1,647,853)	870,311	51
Net Program Costs	1,762,637	(1,647,853)	870,311	51

(continued)

	Adjustments and Intraarea Eliminations	Total
COSTS		
Program Costs:		
Federal	(440,845)	5,015,455
Nonfederal:		
Grants and Transfers		
Grants and Payments		1,102,367
Loan Subsidy Costs		516,654
Other Program Costs		(557,642)
Total Program Production Costs	(440,845)	6,076,834
Less Eamed Revenues	(440,845)	5,091,688
Excess Production Costs Over Revenues	0	985,146
Net Program Costs	0	985,146
Costs Not Assigned to Programs		13,956
NET COST OF OPERATIONS		999,102

Marketing and Regulatory Programs

(U.S. dollars in thousands)

	<i>Improved Marketing Programs</i>	<i>Animal and Plant Health Programs</i>
COSTS		
Program Costs:		
Federal	76,272	149,063
Nonfederal:		
Commodity Inventory Costs	566,852	
Other Program Costs	254,978	448,928
Total Program Production Costs	898,102	597,991
Less Earned Revenues	204,512	263,143
Excess Production Costs Over Revenues	693,590	334,848
Net Program Costs	693,590	334,848

(continued)

	<i>Adjustments and Intraarea Eliminations</i>	<i>Total</i>
COSTS		
Program Costs:		
Federal	(9,581)	215,754
Nonfederal:		
Commodity Inventory Costs		566,852
Other Program Costs		703,906
Total Program Production Costs	(9,581)	1,486,512
Less Earned Revenues	(7,375)	460,280
Excess Production Costs Over Revenues	(2,206)	1,026,232
Net Program Costs	(2,206)	1,026,232
NET COST OF OPERATIONS		1,026,232

Food Safety*(U.S. dollars in thousands)*

	<i>Food Safety and Inspection Services</i>	<i>Adjustments and Intraarea Eliminations</i>	<i>Total</i>
COSTS			
Program Costs:			
Federal	142,997	873	143,870
Nonfederal:			
Other Program Costs	618,852		618,852
Total Program Production Costs	761,850	873	762,723
Less Earned Revenues	89,497		89,497
Excess Production Costs Over Revenues	672,353	873	673,226
Net Program Costs	672,353	873	673,226
NET COST OF OPERATIONS			673,226

Other USDA Services*(U.S. dollars in thousands)*

	<i>Department Working Capital Fund</i>	<i>Departmental Offices and Programs</i>	<i>Adjustments and Intraarea Eliminations</i>	<i>Total</i>
COSTS				
Program Costs:				
Federal	(20,825)	146,880		126,055
Nonfederal:				
Other Program Costs	277,652	170,965		448,617
Total Program Production Costs	256,827	317,845		574,672
Less Earned Revenues	251,530	49,544		301,074
Excess Production Costs Over Revenues	5,297	268,301		273,598
Net Program Costs	5,297	268,301		273,598
Costs Not Assigned to Programs				
NET COST OF OPERATIONS				273,598

NOTE 16. EARNED REVENUE*(U.S. dollars in thousands)*

	<i>Food, Nutrition, and Consumer Service</i>	<i>Farm and Foreign Agricultural Services</i>	<i>Natural Resources and Environment</i>	<i>Research, Education, and Economics</i>	<i>Rural Development</i>
Earned Revenues from Nonfederal Parties					
Loan Program Interest Revenues		829,179			3,772,536
Other Program Revenues	174,215	910,278	906,997	29,246	9,128
Total Earned Revenues from Nonfederal Parties	174,215	1,739,457	906,997	29,246	3,781,664
Earned Revenues from Federal Parties		283,413	217,159	38,285	1,310,024
Total Earned Revenues Attributed to Programs	174,215	2,022,870	1,124,156	67,531	5,091,688

(continued)

	<i>Marketing and Regulatory Programs</i>	<i>Food Safety</i>	<i>Other-USDA Services</i>	<i>Intra-USDA Eliminations</i>	<i>Total</i>
Earned Revenues from Nonfederal Parties					
Loan Program Interest Revenues					4,601,715
Other Program Revenues	160,192	77,676	18,781		2,286,513
Total Earned Revenues from Nonfederal Parties	160,192	77,676	18,781		6,888,228
Earned Revenues from Federal Parties	300,088	11,820	282,293		2,443,082
Total Earned Revenues Attributed to Programs	460,280	89,497	301,074	(271,341)	9,059,970

Other Information:

Premium revenue is recognized as earned on a pro rata basis over each crop's growing season and is stated net of the underwriting gains which will be returned to reinsured companies. The portion of premium not recognized during a fiscal year (unearned premium) is classified as unearned revenue, nonfederal in the Balance Sheet. The portion of the premium subsidy not recognized is classified as federal unearned revenue in the Balance Sheet. The FCIC's risk of loss commences when the crop is planted and continues through the growing season until the crop is harvested, destroyed, or otherwise removed from the field. Premiums are generally collected at the end of the growing season when the crops are harvested. Under the Standard Reinsurance Act (SRA), the collection of producer premiums is the responsibility of the reinsured company. With respect to catastrophic policies the premium is fully subsidized by the federal government and only a nominal administrative fee is collected from the farmer.

NOTE 17. TOTAL COST AND EARNED REVENUE BY BUDGET FUNCTIONAL CLASSIFICATION*(U.S. dollars in thousands)*

<i>Budget Function Classification</i>		<i>Total Cost</i>	<i>Earned Revenue</i>	<i>Net Cost</i>
051	Department of Defense - Military	96		96
151	International Development and Humanitarian Assistance	701,805	229,069	472,736
271/272	Energy Supply/Conservation	706,523	2,328,375	(1,621,852)
301	Water Resources	3,082	143	2,939
302	Conservation and Land Management	4,387,085	1,023,972	3,363,113
303	Recreational Resources	92,189	19,812	72,377
304	Pollution Control and Abatement	13,743	90	13,653
351	Farm Income Stabilization	16,516,265	1,792,209	14,724,056
352	Agricultural Research and Services	3,980,624	643,373	3,337,251
371	Mortgage Credit	3,336,287	2,202,643	1,133,644
451	Community Development	629,203		629,203
452	Area and Regional Development	1,209,723	950,997	258,726
453	Disaster Relief and Insurance	32,734		32,734
554	Consumer and Occupational Health and Safety	731,234	84,705	646,529
604	Housing Assistance	563,846		563,846
605	Food and Nutrition Assistance	32,926,877	173,440	32,753,437
806	General Purpose Fiscal Assistance	240,583	12,369	228,214
999	Cost Not Assigned to Programs	9,940		9,940
		<u>66,081,839</u>	<u>9,461,197</u>	<u>56,620,642</u>

NOTE 18. DEFERRED MAINTENANCE

Deferred maintenance is maintenance that was not performed when it should have been or was scheduled to be performed but was delayed until a future period. It represents a cost that the Government has elected not to fund and, therefore, the costs are not reflected in the financial statements. Maintenance is defined to include preventive maintenance, normal repairs, replacement of parts and structural components, and other activities needed to preserve the asset so that it continues to provide acceptable services and achieves its expected life. It excludes activities aimed at expanding the capacity of an asset or otherwise upgrading it to service needs different from, or significantly greater than, those originally intended. Deferred maintenance is reported for general property, plant, and equipment (PP&E) and stewardship assets, and is also reported separately for critical and noncritical amounts of maintenance needed to return each major class of asset to its acceptable operating condition.

(U.S. dollars in thousands)

<i>Asset Class</i>	<i>Overall Condition</i>	<i>Cost to Return to Acceptable Condition</i>	<i>Critical Maintenance</i>	<i>Noncritical Maintenance</i>
Forest Service				
General Property, Plant, and Equipment				
Buildings	Varies 1/	465,321	172,170	293,151
Dam Systems	Varies 1/	31,027	13,416	17,611
Developed Recreation Sites	Fair	1,086,416	1,086,416	
Roads and Bridges	Varies 1/	4,239,478	1,093,500	3,145,978
Other	Varies 1/, 2/	625,555	576,082	49,473
Total Deferred Maintenance for General PP&E		6,447,797	2,941,584	3,506,213
Stewardship Land				
Trails	Poor	485,575	485,575	
Heritage Assets 3/				
Historic Structures	Poor	42,652	42,652	
Total Deferred Maintenance		6,976,024	3,469,811	3,506,213
Agricultural Research Service				
Heritage Assets				
Historic Structures	Fair - Good	900		900
Total Deferred Maintenance		900	0	900
Total USDA Deferred Maintenance		6,976,924	3,469,811	3,507,113

Deferred Maintenance for Forest Service

The Forest Service uses condition surveys to estimate deferred maintenance on all major classes of property, plant, and equipment. There is no deferred maintenance on equipment because the fleet vehicles and IBM computer equipment are both in a working capital fund. The fleet vehicles are each maintained according to schedule, and the computer equipment has no deferred maintenance. Any other equipment that is acquired is not capitalized as property, plant, and equipment; hence, there is no deferred maintenance on general equipment assets.

1/ Condition of these major classes of property range from poor to good depending on location, age, and type of property. There is currently no comprehensive national assessment of property in the Forest Service. The current deferred maintenance estimates were based on statistical and random sampling. The Forest Service is working on long range plans to conduct condition assessments on all major classes of property.

Condition of administrative facilities:

- 22% of buildings are obsolete, over 50 years old
- 27% of buildings are in Poor condition needing major alterations and renovations

- 24% of buildings are in Fair condition needing minor alterations and renovations
- 27% of buildings are in Good condition needing routine maintenance and repairs

Condition of Dams:

The average condition of dams is below acceptable. The condition is considered to be acceptable when the dam meets current design standards and does not have any deficiencies that threaten the safety of the structure or public, or that need to be corrected to restore functional use, correct unsightly conditions, or prevent more costly damage.

2/ Condition of Other-Range Structures:

In general, the condition of range improvements varies from Poor to Fair. On average most range improvements are over 30 years old and deteriorating. Deferred maintenance on range structures is estimated to be \$466 million, all of which is considered to be critical.

3/ Heritage assets other than heritage structures currently are not covered by a national inventory and condition assessment. The Forest Service has begun a long term condition assessment survey.

The standards for acceptable operating condition for different classes of general PP&E are as follows:

Buildings - Comply with the National Life Safety Code, the Forest Service Health and Safety Handbook, and the Occupational Safety Health Administration as determined by condition surveys.

Dams - Comply with Forest Service Manual 7500 - Water Storage and Transmission, and Forest Service Handbook - Dams Management Handbook as determined by condition surveys.

Developed Recreation Sites - This is a wide category of assets that includes campgrounds, trail heads, interpretive facilities, and visitor centers. All developed sites are managed in accordance with federal laws and regulations (CFR 36). Detailed management guidelines are contained in the Forest Service Manual (FSM 2330) and regional and forest level user guides. Standards of quality for developed recreation sites were developed under the meaningful measures system and established for the following categories: health and cleanliness, setting, safety and security, responsiveness, and condition of facility.

Roads and Bridges - Conditions of the National Forest Development Road system are measured by various standards including applicable regulations for the Highway Safety Act developed by the National Highway Transportation Safety Administration, best management practices for road construction and maintenance developed by the Environmental Protection Agency to implement the Clean Water Act, and Forest Service manuals and handbooks.

Other-Range Structures - The condition assessment was based on a determination by knowledgeable Range Specialists or other district personnel whether the improvement was performing the original intended function or through use of a system to assess conditions based on age. A long range methodology is being developed to gather this data for 1999 and beyond.

Other-Water Systems - Forest Service drinking water systems are maintained in accordance with the Safe Drinking Water Act of 1996, Primary and Secondary Drinking Water Standards, and Forest Service Direction. Wastewater Systems are maintained in accordance with the Clean Water Act, Water Quality Standards, National Pollution Discharge Elimination System, and Forest Service Directions.

Other-Wildlife, Fish, and Threatened and Endangered Species Structures - Field Biologists at the forest used their professional judgment in determining deferred maintenance. Deferred maintenance was considered to be upkeep that had not occurred on a regular basis, and the amount was deemed critical if resource damage or species endangerment would likely occur if maintenance was deferred much longer.

Trails - Trails are managed according to federal law and regulations (CFR 36). More specific direction is contained in the Forest Service Manual (FSM 2350) and the Forest Service Trails Management Handbook (FSH 2309.18). Standards of quality for trails have been developed under the meaningful measures system. Standards have been established for the following categories: health and cleanliness, setting, safety and security, and condition of facility.

Critical maintenance is defined as a serious threat to public health or safety, a natural resource, or the ability to carry out the mission of the organization.

Noncritical maintenance is defined as potential risk to the public or employee safety or health; compliance with codes, standards, regulations, etc.; or potential adverse consequences to natural resources or mission accomplishment.

Deferred Maintenance for Agricultural Research Service

The Agricultural Research Service (ARS) owns the Plum Island Lighthouse which is eligible for inclusion on the National Register of Historic Places and is reported as a stewardship heritage asset. ARS has taken steps to ensure the structural integrity of the Lighthouse; however, noncritical deferred maintenance of \$900,000 is estimated to restore the Lighthouse (\$400,000) and protect it from coastal erosion (\$500,000). ARS has no deferred maintenance related to its general property, plant, and equipment as it is all in good condition.

NOTE 19. DISCLOSURE RELATED TO THE STATEMENT OF CHANGES IN NET POSITION

(U.S. dollars in thousands)

Prior Period Adjustments	Farm and Foreign			Other USDA Services	Total
	Agricultural Services	Natural Resources and Environment	Rural Development		
RTB Interest Earned for Fiscal Year 1997				9,647	9,647
Change in Invested Capital	50				50
Change in Future Financing Sources	(16)				(16)
Receivable for Reimbursable Losses	(9,268,877)				(9,268,877)
Deferred Reimbursable Losses	(141,880)				(141,880)
To Adjust NRCS Easement		(194,426)			(194,426)
Uncollectable Interest Receivable		(30,000)			(30,000)
Property, Plant, and Equipment		1,352,902		(104)	1,302,307
Stewardship Land		(6,514,267)			(6,463,776)
Total Prior Period Adjustments	(9,410,723)	(5,385,791)	9,647	(104)	(14,786,971)

NOTE 20. DISCLOSURES RELATED TO THE STATEMENT OF BUDGETARY RESOURCES

<i>(U.S. dollars in thousands)</i>	<i>Amount</i>
Net Budgetary Resources Obligated for Undelivered Orders	21,598,985
Available Borrowing and Contract Authority	17,784,411
Net Adjustments During the Reporting Period to Budgetary Resources Available at the Beginning of the Reporting Period	(10,151,474)

Repayment Requirements, Financing Sources for Repayment, and Other Terms of Borrowing Authority Used

USDA has a permanent indefinite borrowing authority, as defined by OMB Circular A-11, Preparation and Submission of Budget Estimates. The Secretary of Agriculture has the 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.

The permanent indefinite borrowing authority of \$30 billion includes both interest bearing and non-interest notes. These notes are drawn upon daily when disbursements exceed deposits. Notes payable under the 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.

In addition, USDA has permanent indefinite borrowing authority for the 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. Interest is paid on these borrowings based on weighted average interest rates for the cohort to which the borrowings are associated. Interest is earned on the daily balance of uninvested funds in the credit reform financing funds maintained at Treasury. The interest income is used to reduce interest expense on the underlying borrowings.

USDA has authority to borrow from the Federal Financing Bank (FFB) and private investors are in the form of certificates of beneficial ownership (CBO) or loans executed directly between the borrower and FFB with an unconditional USDA repayment guarantee. 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.

Prepayments can be made on Treasury borrowings without penalty; however, they cannot be made on FFB CBOs without penalty.

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.

Net Adjustments During the Reporting Period to Budgetary Resources Available at the Beginning of the Reporting Period

In 1998 FCIC received \$10,082,880 from CCC to administer the Dairy Options Pilot Program, a program designed to determine whether futures and options can provide a meaningful reduction in market risk faced by milk producers. These funds are to remain available until fully expended.

Actual recoveries of prior year obligations represent cancellations or downward adjustments of obligations incurred in prior fiscal years that did not result in an outlay. For expired accounts, these recoveries are available for upward adjustments of valid obligations that were incurred during the unexpired period but not recorded.

Cancellations of expired accounts represent the amount of appropriation authority which is canceled five years after the expiration of an annual or multi-year appropriation.

Redemption of debt represents the amount of principal repayments paid to the Treasury or the FFB on outstanding borrowings. It does not include interest payments, which are shown as an obligation and an outlay.

Other authority withdrawn represents the withdrawal of unobligated balances of indefinite budget authority realized in no-year or multiple year accounts through downward adjustments of prior year obligations.

Existence, Purpose, and Availability of Permanent Indefinite Appropriations

USDA has permanent indefinite appropriations available to fund 1) subsidy costs incurred under credit reform programs, 2) certain costs of the crop insurance program, and 3) certain costs associated with Forest Service programs. The permanent indefinite appropriations for credit reform are mainly available to finance any disbursements incurred under the liquidating accounts. These appropriations become available pursuant to standing provisions of law without further action by Congress after transmittal of the Budget for the year involved. They are treated as permanent the first year they become available, as well as in succeeding years. However, they are not stated as specific amounts but are determined by specified variable factors, such as "cash needs" for liquidating accounts and information about the actual performance of a cohort or estimated changes in future cash flows of the cohort in the program accounts. The permanent indefinite appropriation for the crop insurance program is used to cover premium subsidy, delivery expenses, losses in excess of premiums and research and delivery costs. The permanent indefinite appropriation for Forest Service (FS) programs is used to fund Pacific Yew, Recreation Fee Collection Costs, Brush Disposal, Licensee Programs, Smokey Bear and Woodsey Owl, Restoration of Forest Lands and Improvements, Roads and Trails for State, National Forest Fund, Timber Roads, Purchaser Elections, Timber Salvage Sales and Operation, Maintenance of Quarters, Construction, National Forest System, Research, and State and Private. Monies received are appropriated and made available until expended by the FS to fund the costs associated with their appropriate purpose. Federal law (16 U.S.C. Section 556d) provides that the FS may advance money for any FS appropriation to the fire fighting appropriation for the purpose of fighting fires.

Legal Arrangements Affecting the Use of Unobligated Balances of Budget Authority

Unobligated budget authority is the difference between the obligated balance and the total unexpended balance. It represents that portion of the unexpended balance unencumbered by recorded obligations. Appropriations are

provided on an annual, multi-year, and no-year basis. An appropriation expires on the last day of its period of availability and is no longer available for new obligations. Unobligated balances retain their fiscal-year identity in an expired account for an additional five fiscal years. The unobligated balance remains available to make legitimate obligation adjustments, i.e., to record previously unrecorded obligations and to make upward adjustments in previously underestimated obligations, for five years. At the end of the fifth year, the authority is canceled. Thereafter, the authority is not available for any purpose.

Any information about legal arrangements affecting the use of the unobligated balance of budget authority will be specifically stated by program and fiscal year in the appropriation language or in the alternative provisions section at the end of the appropriations act.

Explanation of Differences

The statement of budgetary resources agrees with the SF-133, Report on Budget Execution. The statement is, however, not directly traceable to the FMS-2108, Year-End Closing Statement. The differences are attributed to the fact that CCC's borrowing authority is incorrectly reported as definite on the FMS-2108 report. CCC is currently working with the Office of Management and Budget and Treasury to correctly restate CCC's borrowing authority as indefinite on the FMS-2108 report for FY 1999.

NOTE 21. DISCLOSURE RELATED TO THE STATEMENT OF FINANCING

(U.S. dollars in thousands)

Other Resources Used to Fund Items Not Part of the Net Cost of Operations

Rural Development Prior Period Adjustment	9,647
Total Other Resources Used to Fund Items Not Part of the Net Cost of Operations	<u>9,647</u>

Other Net Cost Components Not Requiring or Generating Resources During the Reporting Period

Program Expenses	(3,348)
Related Accruals	(87,835)
Apportioned Programs - Reversal of Prior Year Accrual	(116,713)
Miscellaneous	2,662
PL 480 - Reversal of Prior Year Lag Accrual	(28,912)
Adjustments to Receivables for Amounts Held by CCC	1,342
Adjustments for Claims Receivable	(84)
Future Funding Requirements	6,282
Accounts Payable Writedown	<u>(310,328)</u>
Total Other Net Cost Components Not Requiring or Generating Resources During the Reporting Period	<u>(536,934)</u>

NOTE 22. DISCLOSURE NOT RELATED TO A SPECIFIC STATEMENT

(U.S. dollars in thousands)

Sources of Collections

Repayment of Farm Credit Loans	1,718,482
Warehouse Fees	2,538
Assessments and Penalties	20,541
Administrative and Other Service Fees	14,969
Interest	330
Penalties and Fines	3,408
Other	(2,006)
Accrual Adjustment	4,371
Total Revenue Collected	<u>1,762,633</u>

Disposition of Collections

Farm Service Agency	1,717,641
Department of Treasury	30
Transferred to Others: (by recipient)	1,775
Increase (Decrease) in Amounts to be Transferred	4,308
Amounts Retained by the Agency	<u>38,879</u>
Total Disposition of Revenue	<u>1,762,633</u>

Net Custodial Activity	<u><u>0</u></u>
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Other Information:

The majority of the funds retained by the CCC were received too late in the fiscal year to transfer to the proper agency.

Custodial activity represents all accounts receivable activity related to canceled year appropriations for interest, fines and penalties assessed and collected. For example, civil monetary penalties, interest, and retailer and wholesaler fines and penalties. USDA transfers these types of collections to the Department of Treasury. USDA custodial collection activities are considered immaterial and incidental to the mission of the USDA. Note 1 provides additional information concerning accounts receivable.



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REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION

STEWARDSHIP ASSETS AND INVESTMENTS

USDA has stewardship responsibility for certain resources that have been entrusted to it that do not meet the criteria for assets and liabilities required to be reported in the financial statements. Information about these resources are important to understanding USDA's operations and financial condition at the date of the financial statements and in subsequent periods. Costs of these stewardship-type resources are treated as expenses in the Statement of Net Cost in the year the costs are incurred; however, the costs and resultant resources are intended to provide long-term benefits to the public and are reported to highlight their long-term-benefit nature and USDA's accountability over them.

The two general types of stewardship resources are investments in physical capital and investments in other than physical capital. Investments in physical capital include stewardship land and heritage assets. Stewardship land is the solid part of the surface of the earth (i.e., excluding natural depletable or renewable resources) not acquired for or in connection with items of general property, plant, and equipment (PP&E). USDA's stewardship land consists of national forests and grasslands, and easements acquired for conservation purposes.

Heritage assets are PP&E that are unique because of their historical or natural significance; their cultural, educational or artistic importance; or their significant architectural characteristics. Heritage assets are generally expected to be preserved indefinitely. USDA's heritage assets include its national forests, which are also reported as stewardship land, as well as historic sites and structures on its land. Some heritage assets reside on national forest and grassland stewardship land, and other assets are on land acquired for operational purposes where the heritage asset was incidental to the purchase. Both stewardship land and heritage assets are reported in units rather than dollar amounts.

Stewardship investments in other than physical capital include nonfederal physical property, where title to the property is held by State or local governments; investments in human capital for education and training; and research and development. These stewardship investments are made for the benefit of the Nation. They are reported as expenses in the Statement of Net Cost in the year incurred, but they are also reported as supplemental stewardship information because USDA has been entrusted with and made accountable for the resources. USDA has significant stewardship investments in research and development, and human capital.

Stewardship investment expenses are required to be reported on a full cost basis, consistent with the Statement of Federal Financial Accounting Standards Statement Number 4 "Managerial Cost Accounting Concepts and Standards for the Federal Government." Some USDA agencies have not implemented managerial cost accounting such that stewardship investment program expenses can be reported on a full cost basis, so obligations have been reported as an estimate of full cost. Plans will be developed and implemented so that full costs can be reported for stewardship investments in the fiscal year 1999 financial statements.

STEWARDSHIP LAND

Forest Service				
<i>Description</i>	<i>Fiscal Year 1997 Balance</i>	<i>Net Additions (Withdrawals)</i>	<i>Fiscal Year 1998 Balance</i>	<i>Condition Assessment</i>
National Forest System (<i>in acres</i>)				
National Forests				
National Forest Purposes	144,028,337	64,735	144,093,072	
National Forest Wilderness Areas	34,738,894	1,006	34,739,900	
National Wild and Scenic River Areas	944,376	398	944,774	
National Forest Primitive Areas	173,762	0	173,762	
National Recreation Areas	2,739,784	19	2,739,803	
National Scenic Areas	126,964	216	127,180	
National Scenic - Research Areas	6,630	(12)	6,618	
National Game Refuges and Wildlife Preserve Areas	1,218,990	0	1,218,990	
National Monument Areas	3,267,573	120	3,267,693	
National Monument Volcanic Areas	167,427	0	167,427	
National Historic Areas	6,540	0	6,540	
Total National Forest	187,419,277	66,482	187,485,759	
National Grasslands	3,841,781	(10,574)	3,831,207	
Purchase Units	347,176	140	347,316	
Land Utilization Projects	2,833	(957)	1,876	
Research and Experiment Areas	64,871	0	64,871	
Other Areas	109,622	15,081	124,703	
Total National Forest System Acreage	191,785,560	70,172	191,855,732	Varies 1/
Roads and Trails (<i>in miles</i>)				
Roads	377,976	5,642	383,518	Poor
Trails	133,087 2/		133,087	Poor

Commodity Credit Corporation				
<i>Description</i>	<i>Fiscal Year 1997 Balance</i>	<i>Net Additions (Withdrawals)</i>	<i>Fiscal Year 1998 Balance</i>	<i>Condition Assessment</i>
Wetlands Reserve Program (<i>in acres</i>)	125,727	118,505	244,232	3/

Natural Resources Conservation Service				
<i>Description</i>	<i>Fiscal Year 1997 Balance</i>	<i>Net Additions (Withdrawals)</i>	<i>Fiscal Year 1998 Balance</i>	<i>Condition Assessment</i>
NRCS Easements (<i>in acres</i>)				
Emergency Watershed Protection Programs		3,727	3,727	3/
Emergency Wetlands Reserve Program	76,339	8,501	84,840	3/
Total NRCS Easements	76,339	12,228	88,567	

1/ The condition of National Forest Service System lands are generally considered to be good insofar as they are providing important wildlife habitat and watershed protection functions. In some areas watershed health is deteriorating. Methodologies for assessing condition are being explored in conjunction with the Department of Interior's Bureau of Land Management.

2/ Trail miles are based on a 1996 inventory. The number of trail miles has not been updated since that time. The predominate activity is reconstruction of existing trails.

3/ The condition of the land is not an issue for the conservation easement programs so long as the easement on the land meets the eligibility requirements of each program.

NATIONAL FORESTS AND GRASSLANDS

The Forest Service is committed to protecting and restoring the land by not letting its use outstrip its capacity to restore itself. The Forest Service also protects rare and vulnerable plants and animals as well as fish and wildlife, preserves wild places, and restores damaged forests and range lands. The Nation's public lands offer an astonishingly rich and diverse package of benefits for all Americans. By protecting and restoring the land, present and future generations will reap the benefits that healthy, diverse, and productive ecosystems provide.

The Forest Service is guided by the principles of multiple use and sustained yield in managing public lands. Congress has defined multiple use as management of the public lands and their various resource values so they are utilized in the combinations that will best meet the present and future needs of the American people. The 192 million acres of land the Forest Service manages is generally known as National Forest System (NFS) land, of which approximately 75 percent is available for multiple use and sustained yield goals as identified in Forest Land Management Plans. The remaining 25 percent of NFS land is included in areas of special congressional designation, such as wilderness, wild and scenic rivers,

national recreation areas, national monuments, and other designations. These areas are managed based on specific congressional mandates creating them, with attention to their special values and unique contributions to both current society and future generations.

Additions to NFS land are primarily the result of purchases and land exchanges. Much of the land acquired through land exchanges is within classified wilderness areas, national recreation areas, wild and scenic river corridors, and other congressionally designated areas and includes critical wildlife habitat, wetland, and riparian areas. Land acquired through purchase is needed to protect critical wildlife habitat, cultural and historic values, congressionally designated areas, and other outdoor recreation and conservation purposes. Withdrawals are primarily the result of land exchanges.

Net additions to road miles occur through new construction, correction of errors in the inventory systems, and inclusion of unclassified roads that had previously not been included in the road system. The inventory of trails is as of 1996. Efforts are focused primarily on reconstruction of existing trails rather than adding new trails.

Management Areas for National Forests and Grasslands include the following:

National Forests - A unit formally established and permanently set aside and reserved for national forest purposes. The following categories of NFS land have been set aside for specific purposes in designated Areas:

National Forest Wilderness Areas - Areas designated by Congress as a part of the National Wilderness Preservation System.

National Forest Primitive Areas - Areas designated by the Chief of the USDA Forest Service as primitive areas. They are administered in the same manner as national wilderness areas, pending studies to determine suitability as a component of the National Wilderness Preservation System.

National Wild and Scenic River Areas - Areas designated by Congress as part of the National Wild and Scenic River System.

National Recreation Areas - Areas established by Congress for the purpose of assuring and implementing the protection and management of public outdoor recreation opportunities.

National Scenic Research Areas - Areas established by Congress to provide use and enjoyment of certain ocean headlands and to insure protection and encourage the study of the area for research and scientific purposes.

National Game Refuges and Wildlife Preserve Area - Areas designated by Presidential Proclamation or by Congress for the protection of wildlife.

National Monument Areas - Areas including historic landmarks, historic and prehistoric structures, and other objects of historic or scientific interest, declared by Proclamation or by Congress as national monuments.

National Grasslands - A unit designated by the Secretary of Agriculture and permanently held by the Department of Agriculture under Title III of the Bankhead-Jones Tenant Act.

Purchase Unit - A unit of land designated by the Secretary of Agriculture or previously approved by the National Forest Reservation Commission for purposes of Weeks Law acquisition.

Land Utilization Project - A unit designated by the Secretary of Agriculture for conservation and utilization under Title III of the Bankhead-Jones Tenant Act.

Research and Experimental Area - A unit reserved and dedicated by the Secretary of Agriculture for forest and range research and experimentation.

Other Area - An area administered by the Forest Service that is not included in one of the above groups.

CONSERVATION EASEMENTS

Wetlands Reserve Program

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

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

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

Withdrawals from the program are rare. The Secretary of Agriculture has the authority to terminate contracts, with agreement from the landowner, after an assessment of the effect on public interest, and following a 90-day notification period of the House and Senate agriculture committees. There were 244 thousand acres enrolled at the end of fiscal year 1998.

Emergency Watershed Protection Program

The Natural Resources Conservation Service (NRCS) administers the Emergency Watershed Protection Program (EWP). A flood plain easement is purchased on lands prone to flooding to provide a more permanent solution to repetitive disaster assistance payments and to achieve greater environmental benefits where the situation warrants and the affected landowner is willing to participate in the easement approach. The easement is to restore, protect, manage, maintain, and enhance the functions of wetlands, riparian areas, conservation buffer strips, and other lands.

Easements purchased under this program meet the definition of stewardship land. NRCS records an expense for the acquisition cost of purchasing easements plus any additional costs such as closing, survey, and restoration costs. Easements purchased under EWP are permanent duration. In exchange for establishing a permanent easement, the landowner receives payment based on agricultural value of the land, a geographic land payment cap, or the landowner offer. Easement values are assessed on pre-disaster conditions. The landowner may receive up to 100 percent of the installation and maintenance of land treatment measures deemed necessary and desirable to effectively achieve the purposes of the easement. The easements provide permanent restoration of the natural flood plain hydrology as an alternative to traditional attempts to restore damaged levees, lands, and structures. There are no provisions in the easement to terminate the purchase.

There were almost 4 thousand acres of flood plain easements at the end of fiscal year 1998, all of which had been acquired during the fiscal year.

Emergency Wetlands Reserve Program

The NRCS also administers the Emergency Wetlands Reserve Program (EWRP) that was established as part of the emergency restoration package following the flooding of the Mississippi River and its tributaries in 1993. EWRP provides landowners an alternative to bringing former wetlands back into agricultural production. The program is patterned after the Wetlands Reserve Program. Participants in the program sell a conservation easement to USDA in order to restore and protect wetlands. The landowner voluntarily limits the future use of the land, yet retains private ownership.

To be eligible, the land must have been damaged by a natural disaster and be restorable as a wetland. Once the land is enrolled in the program, the landowner continues to control access to the land. The land is monitored to ensure the wetland is in compliance with contract requirements, including compatible uses such as recreational activities or grazing livestock.

Easements purchased under this program meet the definition of stewardship land. NRCS records an expense for the acquisition cost of purchasing easements plus any additional costs such as closing, survey, and restoration costs. Easements purchased under EWRP are permanent duration. In exchange for establishing a permanent easement, the landowner receives payment based on agricultural value of the land, a geographic land payment cap, or the landowner offer. Easement values are assessed on

predisaster conditions. The landowner may receive up to 100 percent of restoring the wetland. There are no provisions in the easement to terminate the purchase.

At the end of fiscal year 1998 there were almost 85 thousand acres of easements in the EWRP.

HERITAGE ASSETS

Forest Service		
<i>Category</i>	<i>Inventory (in sites)</i>	<i>Condition Assessment</i>
Total Heritage Assets	277,000*	Poor - Fair
Eligible for the National Register of Historic Places	109,000*	Poor - Fair
Listed on the National Register of Historic Places	887	Fair
Sites with Structures listed on the National Register of Historic Places	335	Poor - Fair
National Historic Landmarks	7	Fair
World Heritage Sites	0	
<i>*Based on estimates</i>		

Agricultural Research Service		
<i>Category</i>	<i>Inventory (in sites)</i>	<i>Condition Assessment</i>
Listed on the National Register of Historic Places	2	Fair - Good
Eligible for the National Register of Historic Places	1	Fair

Forest Service Sites

The USDA Forest Service manages 155 national forests and 20 grasslands on over 192 million acres of public land. This encompasses a significant number of cultural and heritage resources. The Forest Service does not have a national database of all these heritage assets. Some are listed on the National Register of Historic Places and some have been designated as National Historic Landmarks. Forest Service cultural resource specialists at the 155 national forests maintain separate lists, and they have not been consolidated at the regional or national levels. It is estimated that there are approximately 277,000 heritage assets on lands managed by the Forest Service. The vast majority of these assets have no annual maintenance performed on them. The Forest Service is formulating a long term methodology to better assess the extent and condition of these assets.

The categories of heritage assets as maintained by Forest Service are the following:

National Register of Historic Places - The National Register of Historic Places is the official listing of important historical sites. Included are properties, buildings, and structures that are significant in United States history, architecture, archaeology and culture. These are resources that contribute to the understanding of the historical and cultural foundation of the nation.

Historic Structures - Historic structures are constructed works consciously created to service some human purpose. They include buildings, monuments, logging and mining camps, and ruins. Structures are classified as historic if they meet the minimum requirements of the National Register of Historic Places. The Forest Service manages many thousands of historic assets that are not listed with the National Register of Historic Places.

National Historic Landmarks - National Historic Landmarks are sites, buildings, or structures that possess exceptional value in commemorating or illustrating the history of the United States. These are places that possess exceptional value or quality in illustrating or interpreting the heritage of the United States. The Secretary of the Interior is the official designator of National Historic Landmarks.

World Heritage Sites - The preservation of a common world heritage is the objective of the International Convention Concerning the Protection of the World's Cultural and Natural Heritage. To be listed as a World Heritage Site, an asset must meet specific criteria that establish its outstanding global value.

Land purchases and exchanges may result in acquisition and withdrawal of heritage assets. The primary method of additions to heritage resources are the result of survey, evaluation, and protection of heritage resources in coordination with other resource activities that could affect heritage resources.

Agricultural Research Service

The Agricultural Research Service (ARS) owns three heritage assets which are either listed on or will soon be nominated for inclusion in the National Register of Historic Places. These sites include Fort El Reno at El Reno, Oklahoma; the United Brick Corporation brickyard at the U.S. National Arboretum in Washington, D.C.; and Plum Island Light Station at Plum Island, New York. ARS does not receive any appropriated funds for the specific purpose of maintaining these heritage assets. All of the ARS owned heritage assets are mixed use properties predominately used in general Government operations.

STEWARDSHIP INVESTMENT IN NONFEDERAL PROPERTY

(U.S. dollars in thousands)

<i>Program</i>	<i>Fiscal Year 1998 Expense</i>	<i>USDA Agency</i>
Buildings and Facilities	144*	Cooperative State Research, Education, and Extension Service (CSREES)
Extension 1890s Facilities Program	158*	CSREES
Food Stamp Program ADP Equipment and Systems	57,722	Food and Nutrition Service (FNS)
Total USDA Expense	<u>58,024</u>	

**Obligations used as an estimate of expense.*

Cooperative State Research, Education, and Extension Service Programs

Fiscal year 1997 was the last year Congress appropriated funds for the Cooperative State Research, Education, and Extension Service (CSREES) Buildings and Facilities program. These earmarked funds provided grants to State and other eligible recipients for the acquisition of land, construction, repair, improvement, extension, alteration and purchase of fixed equipment or facilities to carry out agriculture research, extension, and teaching programs. Since these funds were appropriated on a no-year basis, funds were carried forward to fiscal year 1998 and awarded for specific congressionally earmarked projects. In fiscal year 1998 two grants were awarded to support this program.

The Extension 1890 Facilities Program supports the renovation of existing buildings and the construction of new facilities that permit faculty, students, and communities to benefit fully from the partnership between USDA and the historically Black land-grant universities. In fiscal year 1998, 16 grants were awarded to support this program.

Food Stamp Program

The Food Nutrition Service provides computer systems and equipment to States and local governments for the purpose of administering the Food Stamp Program.

STEWARDSHIP INVESTMENT IN HUMAN CAPITAL

(U.S. dollars in thousands)

<i>Program</i>	<i>Fiscal Year 1998 Expense</i>	<i>USDA Agency</i>
Higher Education and Extension Programs	16,220*	CSREES
Food Stamp Program	125,200	Food Nutrition Service (FNS)
Child Nutrition Program	3,524	FNS
Job Corps	91,273	Forest Service
Risk Management Education	5,402	Risk Management Agency (RMA)
Total USDA Expense	<u>241,619</u>	

**Obligations used as an estimate of expense.*

Cooperative State Research, Education, and Extension Service Programs

CSREES’ Higher Education programs include graduate fellowship grants, competitive challenge grants, Hispanic serving institutions education grants, a multi-cultural scholars program, a Native American institutions program, a Native American institutions endowment fund, and a capacity building program at the 1890 land-grant institutions. In fiscal year 1998, 163 Higher Education grants were awarded to more than 120 institutions of higher education. These programs enable universities to broaden their curricula, increase faculty development and student research projects, and increase the number of new scholars recruited in the food and agriculture sciences.

The Extension programs of CSREES combine the expertise and resources of the federal government, the State land-grant universities, and local governments to provide informal educational efforts that enable people to improve their lives. CSREES funding supports Extension activities at 103 land-grant universities, and reaches 3,150 county Extension Units.

Federal and nonfederal funding for Extension activities totals \$1.5 billion, with the federal government generating 26% of the total. In fiscal year 1998 Extension activities awarded 516 grants in support of these efforts.

Food Nutrition Service Programs

The Food Nutrition Service agency’s investment in human capital is primarily in two programs. Within the Food Stamp Program investment is made in the employment and training (E&T) program which requires recipients of food stamp benefits to participate in E&T as a condition to food stamp eligibility. Within the Child Nutrition Program FNS invests in nutrition education and training for school food service personnel in food service management, instructing teachers in nutrition education, and teaching children about the relationship of nutrition to health in order to assist them in making wise food choices.

Job Corps Program

The Forest Service, in partnership with the Department of Labor, operates 18 Job Corps civilian conservation centers of which 17 are co-educational. Job Corps is the only federal residential educational

and training program for the Nation’s disadvantaged youth between the ages of 16-24 years old. The purpose of the program is to provide the skills necessary to obtain and hold a good job at a living wage. The program is carried out in a structured residential environment which provides education, vocation, and social skills training, counseling, social development, medical care, placement assistance, and an allowance.

Job Corps enrollees learn trades such as basic forestry, urban forestry, heavy equipment operation and maintenance, cement and brick masonry, auto mechanics, carpentry, welding, culinary arts, plastering, painting, business occupation skills, health services, and being a dispensing optician or security guard.

Job Corp Program Outputs for Program Year 1998:

Participants	9,373
Placements	5,390

Job Corps is funded on a Program Year (PY) basis. PY 1998 ran from July 1, 1997 through June 30, 1998.

Risk Management Education

In response to the Secretary’s 1996 Risk Management Education (RME) initiative, and as mandated by the 1996 Act, the Risk Management Agency (RMA) has formed new partnerships with CSREES, the Commodity Futures Trading Commission, USDA National Office of Outreach, Economic Research Service (ERS), and private industry. The partnership efforts leverage the Government’s funding of its RME program by using both public and private organizations to help educate their members in agricultural risk management. The RME effort was launched in 1997 with a Risk Management Education Summit that raised awareness of the tools and resources needed by farmers and ranchers to manage their risks. The Summit was the first step in an aggressive nationwide effort to expand agricultural risk management education. RMA plans to further build on this foundation and has anticipated the following projects for future fiscal years: expand the use of existing State and regional education partners; encourage the development of information and technology decision aids; support the National Future Farmers of America (FAA) Foundation with an annual essay contest; coordinate/implement State, county and alliance meetings; and support Cooperative Agreements with educational or outreach organizations.

STEWARDSHIP INVESTMENT IN RESEARCH AND DEVELOPMENT*(U.S. dollars in thousands)***Agricultural Research Service**

<i>Program</i>	<i>Fiscal Year 1998 Expense</i>
Soil and Water Conservation	86,642*
Plant Sciences	260,250*
Animal Sciences	122,744*
Commodity Conservation and Delivery	151,624*
Human Nutrition	72,202*
Integration of Agricultural Systems	28,881*
Total ARS Research and Development Expenses	<u>722,343*</u>

Cooperative State Research, Education and Extension Service

<i>Program</i>	<i>Fiscal Year 1998 Expense</i>
Land Grant University System Research	14,601*

Economic Research Service

<i>Program</i>	<i>Fiscal Year 1998 Expense</i>
Economic and Social Science Research	76,801*

Forest Service

<i>Program</i>	<i>Fiscal Year 1998 Expense</i>
Forest Service Research and Development	182,654
Total USDA Expense	<u><u>996,399</u></u>

**Obligations used as an estimate of program expense.*

Agricultural Research Service Programs

ARS is the principal in-house research agency of the U.S. Department of Agriculture. Its mission is to conduct research to develop the following program activities.

Soil, Water, and Air Sciences - The research program is directed at managing and conserving the Nation's soil, water, and air resources for a stable and productive agriculture. The research focuses on developing technologies and systems to conserve water and protect its quality, enhance soil quality and reduce erosion, and improve air quality. The effects of global change are also researched.

Plant Sciences - The research emphasis is on increasing the productivity and quality of crop plants, and improving the competitiveness of agricultural products in domestic and world markets. The research involves developing improved production practices, and improved methods for reducing crop losses caused by weeds, diseases, insects, and other pests. The research also includes broadening the germplasm resources of plants and beneficial organisms to ensure genetic diversity for improved productivity.

Animal Sciences - The research program places primary emphasis on increasing the productivity of animals and the quality of animal products. The research involves increasing the genetic capacity of animals for production, improving the efficiency of reproduction, improving animal nutrition and feed efficiency, and controlling or preventing losses from pathogens, diseases, parasites, and insect pests. In addition, the research includes the development of systems and technologies to better manage and utilize animal wastes.

Commodity Conversion and Delivery - This research program focuses on maximizing the use of agricultural products for domestic and international markets. New agricultural products and processes are developed. Also, technologies for reducing or eliminating postharvest losses caused by pests, spoilage, and physical and environmental damage are developed. In addition, research is conducted on food safety to reduce pathogens, naturally-occurring toxicants, mycotoxins, and chemical residues in the food supply.

Human Nutrition - The research program emphasizes promoting optimum human health and well-being through improved nutrition. Research is directed at defining the nutrient requirements of humans at all stages in the life cycle. The research also focuses on determining the nutrient content of agricultural products and processed foods as eaten, and establishing the bioavailability of their nutrients.

Integration of Agricultural Systems - The research integrates scientific knowledge of agricultural production, processing, and marketing into systems that optimize resource management and facilitate the transfer of technology to users.

Cooperative State Research, Education, and Extension Service Program

CSREES participates in a nationwide land-grant university system of agriculture related research and program planning and coordination between State institutions and the U.S. Department of Agriculture. It assists in maintaining cooperation among the State institutions, and between the State institutions and their federal research partners. CSREES administers grants and formula payments to State institutions to supplement State and local funding for agriculture research. In fiscal year 1998 nearly 1,016 grants were awarded to further efforts in research and development.

Economic Research Service Programs

ERS provides economic and other social science research and analysis for public and private decisions on agriculture, food, natural resources, and rural America. Research results and economic indicators on these important issues are fully disseminated through published and electronic reports and articles; special staff analyses, briefings, presentations, and papers; databases; and individual contacts. ERS' objective information and analysis helps public and private decision makers attain the goals that promote agricultural competitiveness, food safety and security, a well-nourished population, environmental quality, and a sustainable rural economy.

Forest Service Programs

Forest Service research and development (R&D) is responsible for providing reliable science-based information and knowledge so that it can be incorporated into natural resource decisionmaking. Forest Service R&D efforts develop new technology and adapt and transfer this technology to facilitate more effective resource management. The major areas of emphasis in the research and development program are:

Vegetation Management and Protection - Vegetation is the foundation of complex forest and range land ecosystems. A significant research effort improves the science base to manage and protect vegetation to meet the Nation's expanding need for a wide array of forest products and demand for recreation use. An investment in understanding how to manipulate and protect forest and range land vegetation is essential to sustaining the health and productivity of public and private land and is essential to formulate wise natural resource policy and manage and conserve the Nation's forest and range land resources.

Wildlife, Fish, Watershed, and Air - Wildlife, fish, watershed, and air research expands our understanding of organisms, ecosystems, and ecological processes. Research is conducted in close harmony with resource managers to synthesize research results, transfer technology, and adapt management approaches.

Resource Valuation and Use - Increases in the size and diversity of the Nation's population require better understanding of social and economic tradeoffs of various resource management and policy options.

Forest Resources Inventory and Monitoring - Inventory and monitoring is comprised of three major components: forest inventory and analysis, forest health monitoring, and monitoring methods and applications research. These efforts provide long-term baseline resource data and a scientific basis to assess current conditions and trends in the Nation's forest resources.

Forest and Range Land Research Outputs during Fiscal Year 1998

<i>Description</i>	<i>Amount</i>
Interagency Agreements and Contracts	
New	91
Continuing	91
Publications	
Articles in Journals	1,192
All Other Publications	1,526
Patents	6
Rights to Inventions	8

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REQUIRED SUPPLEMENTARY INFORMATION**STATEMENT OF BUDGETARY RESOURCES**

REQUIRED SUPPLEMENTARY INFORMATION
 CONSOLIDATED STATEMENT OF BUDGETARY RESOURCES
 For the year ended September 30, 1998
 (U.S. dollars in thousands)

	Food, Nutrition, and Consumer Service	Farm and Foreign Agricultural Services	Natural Resources and Environment	Research, Education, and Economics
Budgetary Resources:				
Budget Authority (line 1)	37,228,214	18,866,745	4,446,235	1,904,899
Unobligated Balances - Beginning of Period (line 2)	17,118,664	4,261,406	1,522,579	256,486
Spending Authority from Offsetting Collections (line 3)	371,469	13,638,572	535,840	84,529
Adjustments (lines 4-6)	(3,364,375)	(4,840,296)	96,933	1,790
Total Budgetary Resources (line 7)	51,353,972	31,926,427	6,601,587	2,247,704
Status of Budgetary Resources:				
Obligations Incurred (line 8)	34,024,284	27,122,425	5,075,089	1,985,205
Unobligated Balances - Available (line 9)	4,435,574	3,437,885	1,439,325	206,413
Unobligated Balances - Not Available (line 10)	12,894,114	1,366,117	87,173	56,086
Total, Status of Budgetary Resources (line 11)	51,353,972	31,926,427	6,601,587	2,247,704
Outlays:				
Obligations Incurred (line 9)	34,024,284	27,122,425	5,075,089	1,985,205
Less: Actual Spending Authority from Offsetting Collections and Actual Adjustments (lines 3A, B, D, & 4A)	937,963	13,754,831	635,595	92,998
Obligated Balance, Net - Beginning of Period (line 12)	2,307,338	2,815,789	1,197,441	1,069,820
Less: Obligated Balance, Net - End of Period (line 14)	2,421,939	3,878,245	969,177	1,089,029
Total Outlays (line 15)	32,971,720	12,305,138	4,667,758	1,872,998

*Line numbers refer to lines on the SF-133, Report on Budget Execution.

Rural Development	Marketing and Regulatory Programs	Food Safety	Other-USDA Services	Eliminations & Adjustments	1998
10,471,352	1,204,571	593,852	300,987		75,016,855
1,428,273	536,645	18,126	41,346		25,183,525
6,776,457	140,014	85,429	290,274	(1,291,825)	20,630,759
(6,953,986)	14,860	(4,075)	(4,986)		(15,054,135)
<u>11,722,096</u>	<u>1,896,090</u>	<u>693,332</u>	<u>627,621</u>	<u>(1,291,825)</u>	<u>105,777,004</u>
10,505,528	1,495,283	677,099	534,458	(1,291,787)	80,127,584
89,068	239,670	1,730	95,000	(38)	9,944,627
1,127,500	161,137	14,503	(1,837)		15,704,793
<u>11,722,096</u>	<u>1,896,090</u>	<u>693,332</u>	<u>627,621</u>	<u>(1,291,825)</u>	<u>105,777,004</u>
10,505,528	1,495,283	677,099	534,458	(1,291,787)	80,127,584
7,655,756	160,160	85,467	290,822	(1,291,825)	22,321,767
13,403,937	22,706	37,891	78,976		20,933,898
12,733,101	112,822	40,473	(67,399)	115	21,177,502
<u>3,520,608</u>	<u>1,245,007</u>	<u>589,050</u>	<u>390,011</u>	<u>(77)</u>	<u>57,562,213</u>

SEGMENT INFORMATION**USDA Working Capital Fund**

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 1998 reporting period.

Condensed Information About Assets, Liabilities, and Net Position

<i>(U.S. dollars in thousands)</i>	<i>Amount</i>
Fund Balance	42,424
Accounts Receivable	40,977
Inventory	1,146
Property, Plant, and Equipment	42,964
Other Assets	4
Liabilities Due and Payable for Goods and Services Received	43,640
Deferred Revenues	(2)
Other Liabilities	9,468
Annual Leave	9,337
Cumulative Results of Operations	29,136

Services Provided by the Fund

Twenty one activity centers performed operations under WCF authority and provided the following services in FY 1998.

Office of the Executive Secretariat is responsible for providing referral and correspondence control services for mail addressed to the Secretary and the Department.

Office of Communications is responsible for managing the activities of two activity centers. Video production services, as well as video and audio teleconferencing services are provided through its Video and Teleconferencing Division. Visual materials, exhibits, art and graphic materials production services are provided by the Design Center.

Departmental Administration is responsible for managing 10 activity centers that provide a wide range of administrative services, including: acquisition, receipt, storage, issuance, packaging, and shipment of supplies; forms warehousing, 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 reproduction services; custom duplicating, binding, addressing, and mailing services; imprest fund management; procurement document preparation support; and processing services for incoming and outgoing shipments of parcels.

Office of the Chief Information Officer provides information technology processing, consulting, and telecommunications services that include: mainframe computer processing support, telecommunications services, applications design and programming services, maintenance and operation of telephone equipment, office automation and data processing support, and network support services.

Office of the Chief Financial Officer administers the National Finance Center, through which a wide range of financial management services are provided to USDA and non-USDA customers, including: central accounting, payroll processing, administrative and program billings and collections, travel, and property management. Also, the National Finance Center serves as record keeping office and loan operations center in support of the Thrift Savings Plan under the Thrift Investment Board/Federal Employees Retirement System.

Among the Department's most important system development initiatives is the Foundation Financial Information System (FFIS) project, administered at the National Finance Center. FFIS is the system application to implement the Financial Information Systems Vision and Strategy (FISVIS), which was commissioned in 1993. FFIS will serve as the application platform to integrate USDA financial management systems and financial portions of mixed systems.

The Office of the Chief Financial Officer, through its responsibilities for fund-wide management, is a party to reimbursable agreements with organizations implementing administrative system modernization initiatives. These initiatives (collectively reported as "Modernization" for management purposes and included as a single activity center among the 21 in the fund) are the product of administrative service modernization initiatives started under the "Modernization of Administrative Processes (MAP)" project. The MAP Project Office was closed in 1997, but ongoing modernization efforts continue to be administered by process owners. Projects are funded through the WCF under reimbursable agreements between process owners' offices and the WCF.

The WCF activity centers are located in Washington, D.C. (14 centers), Kansas City, MO (one center); Fort Collins, CO (two centers); Landover, MD (three centers); and New Orleans, LA (one center).

Major Customers

In 1998, the WCF had one major customer that comprised more than 15 percent of the fund's revenue. USDA's Forest Service provided revenue in the amount of \$46,726,000.

Summary of Costs and Revenue by WCF Activity Center

<i>(U.S. dollars in thousands)</i> Activity Center	<i>Related Exchange Revenue</i>	<i>Cost of Goods and Services Provided</i>	<i>Excess of Costs Over Revenue</i>
National Finance Center	144,024	143,564	(460)
Financial Information Systems Vision	7,224	7,224	0
Modernization of Administrative Processes	4,016	4,016	0
Office of the Chief Financial Officer	155,264	154,804	(460)
Video and Teleconferencing Center	2,196	2,370	174
Design Center	2,003	1,998	(5)
Office of Communications	4,199	4,368	169
National Information Technology Center Mainframe	35,984	35,279	(705)
NITC Network Management Services	5,353	5,353	0
NITC Applications Design Services	5,432	5,477	45
Telephone Services Operations	1,803	1,803	0
Local Area Network	3,915	3,915	0
Computer Services Unit	1,105	1,105	0
Office of the Chief Information Officer	53,592	52,931	(660)
Central Supply Stores	3,254	3,082	(172)
Central Supply Forms	4,328	4,328	0
Central Excess Property Operations	2,387	2,387	0
Central Shipping and Receiving	785	785	0
Central Imprest Fund	229	229	0
Mail Services	4,125	4,097	(28)
Duplicating Services	6,504	6,395	(109)
Office of Operations	21,612	21,303	(309)
Agriculture Contract Automation System	378	378	0
Office of Procurement and Property Management	378	378	0
Office of the Executive Secretariat	1,753	1,753	0
Working Capital Fund Default Code	(7)	169	176
TOTAL Working Capital Fund	236,791	235,706	(1,084)

Forest Service Working Capital Fund

The Forest Service WCF was established by the Department of Agriculture Organic Act of August 3, 1959, as amended by the Act of October 23, 1962 (15 U.S.C. 579b.). It is a self-sustaining revolving fund which provides service to National Forest, Experiment Stations, and federal agencies. Services include vehicles and aircraft leasing, photo reproductions, traffic and information signs, tree seeds, and nursery seedlings. The WCF also provides computer hardware and software support.

Below is a summary, as of September 30, 1998, of the costs of goods sold, related exchange revenues, and the excess of revenues over the costs.

Condensed Information About Assets, Liabilities, and Net Position

<i>(U.S. dollars in thousands)</i>	<i>Amount</i>
Fund Balance	173,278
Accounts Receivable, Net	83
Property, Plant, and Equipment, Net	439,608
Other Assets	25,561
Liabilities Due and Payable for Goods and Services Received	10,391
Cumulative Results of Operations	628,139

Summary of Costs and Revenue

<i>(U.S. dollars in thousands)</i>	<i>Related Exchange Revenue</i>	<i>Cost of Goods and Services Provided</i>	<i>Excess of Costs Over Revenue</i>
Activity Center			
Forest Service Working Capital Fund	147,146	116,934	(30,212)

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