U.S. Department of Agriculture

Office of Inspector General
Financial and IT Operations

Audit Report

U.S. Department of Agriculture's Consolidated Financial Statements for Fiscal Years 2003 and 2002

Report No. 50401-51-FM
January 2004

USDA

UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington, D.C. 20250

DATE: JAN 26 2004

REPLY TO
ATTN OF: 50401-51-FM

SUBJECT: U.S. Department of Agriculture's Consolidated Financial Statements for Fiscal Years 2003 and 2002

TO: Patricia E. Healy
Acting Chief Financial Officer
Office of the Chief Financial Officer

ATTN: Kathy Donaldson
Agency Liaison Officer
Office of the Chief Financial Officer

This report presents the results of our audit of the U.S. Department of Agriculture's consolidated financial statements for the fiscal years ending September 30, 2003 and 2002. The report contains an unqualified opinion 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 action taken or planned, including the timeframes, on our recommendations. Please note that the regulation requires a management decision to be reached on all findings and recommendations within a maximum of 6 months from report issuance.

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

Phyllis K. Fong

Phyllis K. Fong
Inspector General

Executive Summary

U.S. Department of Agriculture's Consolidated Financial Statements for Fiscal Years 2003 and 2002 (Report No. 50401-51-FM)

Purpose

Our audit objectives were to determine whether (1) the consolidated financial statements present fairly, in all material respects, in accordance with generally accepted accounting principles, 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 objectives were met, (3) the Department complied with laws and regulations for those transactions and events that could have a material effect on the consolidated financial statements, and (4) the information in the Performance and Accountability Report was materially consistent with the information in the consolidated financial statements.

We conducted our audit at the financial offices of various U.S. Department of Agriculture (USDA) agencies and the Office of the Chief Financial Officer (OCFO) located in Washington, D.C., and its National Finance Center located in New Orleans, Louisiana. We also performed site visits to selected agencies' field offices.

Results in Brief

In our opinion, the USDA consolidated financial statements for fiscal years 2003 and 2002, including the accompanying notes, present fairly in all material respects, the assets, liabilities, and net position of USDA, as of September 30, 2003 and 2002; and its net costs, changes in net position, budgetary resources, and reconciliations of net costs to budgetary obligations for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Notes 19 and 23 to the financial statements, USDA restated its fiscal year 2002 consolidated financial statements primarily because Forest Service needed to:

- Align budgetary and proprietary account relationships and correct posting errors in the Wildland Fire Management fund, the Knutson-Vandenberg fund and other funds;

- account for budgetary resources received by trust, special, deposit, and clearing funds that had previously been accounted for as General funds;

- record revenue from the National Reservation System and Map sales that had been recorded as a liability as of September 30, 2002; and

- record liabilities that had been incorrectly recognized as reductions of operating costs.

Correction of these errors increased the beginning balances of Cumulative Results of Operations by $883 and $1,027 million and decreased Unexpended Appropriations by $876 and $677 million for fiscal years 2003 and 2002, respectively.

In addition, Forest Service recorded $18 million to the Balance Sheet for Plant, Property and Equipment received but not recognized as of September 30, 2002; recorded a prior year $110 million expenditure transfer to the Wildland Fire Management fund and the subsequent payback during fiscal year 2002 on the Statement of Changes in Net Position; corrected $23 million of errors in recording obligations for the Wildland Fire Management fund and adjusted offsetting receipts by approximately $413 million to reflect only distributed offsetting receipts on the Statement of Budgetary Resources; and excluded certain funds received from the U. S. Department of Labor Job Corps that had previously been included in the Statement of Financing.

In our Report on Internal Control Over Financial Reporting, we reported that continued improvements are needed in financial management at the corporate level, including quality control, and continued improvements are needed in information technology (IT) security.

In our Report on Compliance with Laws and Regulations, we continued to note where further actions are necessary related to improving financial management systems and the reporting of material IT security weaknesses. We also noted a potential Anti-Deficiency Act violation.

Key Recommendations

The OCFO has immediate and long term plans to address substantially all of the weaknesses in its financial management systems. The recommendations in this report were limited to requiring further improvements in quality control and enhancing the reporting and tracking of weaknesses within financial management and information technology.

Agency Position

OCFO generally agreed with the findings and recommendations in this report.

Abbreviations Used in This Report

APHIS	Animal and Plant Health Inspection Service
CCC	Commodity Credit Corporation
CFO	Chief Financial Officers Act
DR	Departmental Regulation
FBWT	Fund Balance with Treasury
FCIC	Federal Crop Insurance Corporation
FFIS	Foundation Financial Information System
FFMIA	Federal Financial Management Improvement Act
FFMSR	Federal Financial Management Systems Requirements
FISMA	Federal Information Security Management Act
FMFIA	Federal Managers' Financial Integrity Act
FS	Forest Service
FSA	Farm Service Agency
GAO	General Accounting Office
GIPSA	Grain Inspection, Packers and Stockyards Administration
IT	Information Technology
NFC	National Finance Center
NITC	National Information Technology 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 and Budget
PAR	Performance and Accountability Report
PROP	Personal Property Management System
RD	Rural Development
RMA	Risk Management Agency
RSSI	Required Supplemental Stewardship Information
SGL	U.S. Government Standard General Ledger
SV	Standard Voucher
USDA	U.S. Department of Agriculture

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Report of the Office of Inspector General

To: Patricia E. Healy
Acting Chief Financial Officer
Office of the Chief Financial Officer

We have audited the accompanying consolidated balance sheets of the U.S. Department of Agriculture (USDA) as of September 30, 2003 and 2002, and the related consolidated statements of net cost, changes in net position, and financing, and the combined statements of budgetary resources (hereinafter referred to as the "consolidated financial statements") for the fiscal years then ended. The consolidated financial statements are the responsibility of the USDA's management. Our responsibility is to express an opinion on the consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 01-02, "Audit Requirements for Federal Financial Statements." Those standards and OMB Bulletin No. 01-02 require that we plan and perform the audits to obtain reasonable assurance that the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the USDA as of September 30, 2003 and 2002; and its net costs, changes in net position, reconciliation of net costs to budgetary obligations, and budgetary resources for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Notes 19 and 23 to the financial statements, USDA restated its fiscal year 2002 consolidated financial statements primarily because Forest Service needed to:

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The information in the Performance and Accountability Report (see exhibit B) is not a required part of the consolidated financial statements, but is supplemental information required by accounting principles generally accepted in the United States of America or by OMB Bulletin No. 01-09, "Form and Content of Agency Financial Statements." We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. We did not audit this information and, accordingly, we express no opinion on it. However, as a result of such limited procedures, we believe that the Required Supplemental Stewardship Information and the Required Supplementary Information related to deferred maintenance for the Forest Service is not in accordance with guidelines established by the Federal Accounting Standards Advisory Board because it is not presented as of September 30, 2003. .

We have also issued reports on our consideration of USDA's internal control over financial reporting and its compliance with certain provisions of laws and regulations. These reports are an integral part of an audit performed in accordance with Government Auditing Standards, and, in considering the results of the audit, these reports should be read in conjunction with this report.

This report is intended solely for the information of the management of USDA, OMB, and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

Phyllis K. Fong

Phyllis K. Fong
Inspector General

January 26, 2004

Report of the Office of Inspector General on Internal Control Over Financial Reporting

To: Patricia E. Healy
Acting Chief Financial Officer
Office of the Chief Financial Officer

We have audited the accompanying consolidated balance sheets of the U.S. Department of Agriculture (USDA) as of September 30, 2003 and 2002, and the related consolidated statements of net cost, changes in net position, and financing, and the combined statements of budgetary resources (hereinafter referred to as the "consolidated financial statements"), and have issued our report thereon dated January 26, 2004. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 01-02, "Audit Requirements for Federal Financial Statements."

In planning and performing our audits, we considered USDA's internal control over financial reporting by obtaining an understanding of the internal controls, determining whether the internal controls had been placed in operation, assessing control risk, and performing tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 01-02 and Government Auditing Standards. We did not test all internal controls as defined by the Federal Managers' Financial Integrity Act of 1982 (FMFIA). The objective of our audit was not to provide assurance on USDA's internal control. Consequently, we do not provide an opinion on internal control over financial reporting.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation that, in our judgment, could adversely affect the agency's ability to record, process, summarize, and report financial data consistent with the assertions by management in the consolidated financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more internal control components do not reduce to a relatively low level the risk that misstatements, in amounts that would be material in relation to the consolidated financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected.

We noted certain matters described in the "Findings and Recommendations," Sections 1 and 2 of this report involving the internal control over financial reporting and its operation that we consider to be reportable conditions. In addition, we believe that the reportable conditions in Section 1 are material weaknesses. These material weaknesses were not always identified and consequently reported in USDA's FMFIA report.

Additional Other Procedures

As required by OMB Bulletin No. 01-02, we considered USDA's internal control over Required Supplemental Stewardship Information (RSSI) by obtaining an understanding of the internal control, determining whether these internal controls had been placed in operation, assessing control risk, and performing tests of controls. Our procedures were not designed to provide assurance on internal control over such RSSI; accordingly, we do not provide an opinion on such controls.

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

This report is intended solely for the information and use of the management of USDA, OMB, and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

Phyllis K. Fong

Phyllis K. Fong
Inspector General

January 26, 2004

Report of the Office of Inspector General on Compliance with Laws and Regulations

To: Patricia E. Healy
Acting Chief Financial Officer
Office of the Chief Financial Officer

We have audited the consolidated balance sheets of the U.S. Department of Agriculture (USDA) as of September 30, 2003 and 2002, and the related consolidated statements of net cost, changes in net position, and financing, and the combined statements of budgetary resources (hereinafter referred to as the "consolidated financial statements"), and have issued our report thereon dated January 26, 2004. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 01-02, "Audit Requirements for Federal Financial Statements."

The management of USDA is responsible for complying with laws and regulations applicable to it. As part of obtaining reasonable assurance about whether the consolidated financial statements are free of material misstatement, we performed tests of USDA compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of the consolidated financial statement amounts, and certain provision of other laws and regulations specified in OMB Bulletin No. 01-02, including certain requirements referred to the Federal Financial Management Improvement Act of 1996 (FFMIA). We limited our tests of compliance to the provisions described in the preceding sentence and did not test compliance with all laws and regulations applicable to USDA. However, providing an opinion on compliance with laws and regulations was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests of compliance disclosed two instances of noncompliance with other laws and regulations discussed in the second paragraph of this report, exclusive of FFMIA, that are required to be reported under Government Auditing Standards and OMB Bulletin No. 01-02. (See "Findings and Recommendations," Section 3, "Compliance With Laws and Regulations.")

This report is intended solely for the information and use of the management of USDA, OMB, and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

Phyllis K. Fong
Inspector General

January 26, 2004

Findings and Recommendations

Section 1. Internal Control Over Financial Reporting – Material Weaknesses

Material weaknesses are reportable conditions in which the design or operation of one or more internal control components do not reduce to a relatively low level the risk that misstatements, in amounts that would be material in relation to the consolidated financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected. We believe that the findings discussed in this section are material internal control weaknesses.

Finding 1 — Continued Improvements are Needed in Financial Management at the Corporate Level

The USDA and its agencies operate at least 80 program and administrative financial management systems. The Office of Inspector General (OIG), General Accounting Office (GAO), and the Department itself, have reported that USDA's financial system of record presents a high risk to the Department. The longstanding and material problems were caused, primarily, by the absence of corporate level oversight and planning when these legacy systems were initially developed and upgraded. The Office of the Chief Financial Officer (OCFO) has taken action to address these problems and developed plans to review the legacy systems, and consolidate and update the systems, as appropriate, to meet present accounting standards and management needs. With assets totaling over $118 billion and program costs in excess of $83 billion, actions must continue to be taken to fully resolve these problems.

During fiscal year 2003, the Department continued to make significant improvements in its overall financial management. However, we noted areas where further improvements are needed. For example:

- We noted that certain relationships should exist when sound financial management is practiced. The activity of certain proprietary general ledger accounts should be equal to that of certain budgetary general ledger accounts. For example, accounts receivable between budgetary and proprietary balances should equal. Similar relationships between the Fund Balance With Treasury (FBWT) and other accounts should also exist. In addition, many accounts within a general ledger normally have a debit or credit balance. When accounting relationships do not exist or abnormal balances are noted, immediate research should be performed to identify the cause and correct the condition. While this research improved during fiscal year 2003, much of the corrective action did not occur until after fiscal year end. As a result, while we expected minimal adjustments to be made after the annual close of agency ledgers, there were over 5,500 period 13 (final closing) adjustments made that totaled over $12.6 billion. This yearend activity could prevent USDA from receiving an unqualified audit opinion for fiscal year 2004 because of the expedited reporting timeframes. It also distorts the correctness of balances and diminishes the utility of financial data to managers during the year when it is needed to administer programs and operations.

- We continue to find inconsistent implementation of accounting processes in Foundation Financial Information System (FFIS) between agency applications. Table settings are used to set edits, interest rates, penalty amounts, etc. We found that field settings were inconsistent between the 15 agency applications we tested. As a result, inconsistent accounting processes could materially effect the consolidated financial information.

- FFIS uses standard vouchers (SV) to process adjustments to the general ledgers. The SV uses predefined debits and credits based on business rules. We noted that 20 of 44 SVs reviewed were (1) not entered correctly, (2) not calculated/researched correctly, (3) required to correct a previous adjustment, and/or (4) caused by system weaknesses or errors. The types of problems that we found could have been avoided had the agencies effectively implemented the controls outlined in the FFIS Bulletin 02-06, "Internal Controls Over Standard Vouchers in the FFIS," which establishes overarching guidance for developing proper internal controls.

- Accountants need to improve their knowledge of financial system and process operations. Additional training is needed for personnel responsible for posting accounting entries in accordance with the U.S. Government Standard General Ledger (SGL). We noted where billions of dollars worth of accounting entries had to be researched, corrected, and/or reversed in order to produce reliable financial statements.

- We also noted the lack of financial management systems and processes that are capable of fully monitoring and controlling budgetary resources for all programs. This occurred, primarily, because the Commodity Credit Corporation (CCC) and the Forest Service (FS) do not yet have integrated financial systems to track and govern the status of obligations and administrative limitations established by legislation or agency policy and are dependent upon manual processes. This subjects overall funds control to significant risk. Funds control is a vital component of any Federal Government operation.

- In addition, improvements are needed in budgetary accounting and reporting policies and procedures. We noted that CCC and FS personnel do not fully understand the mechanics of budgetary accounting. This makes it difficult to track the status of budgeted resources and maintain funds control. It also increases the risk of inaccurate presentation and disclosure of budgetary resources and the status of budgetary resources in the financial statements. We also noted where budgetary transactions were not always recorded in a timely manner.

These conditions hinder the ability to make informed decisions, in a timely manner, when the need for such information is a crucial factor for sound financial management. We believe the Department must continue to move forward in developing plans to integrate its program and administrative financial management systems. OCFO's objective is for USDA financial systems to produce annual financial statements and other information needed to manage day-to-day operations dependably and routinely. Achieving the reforms required by financial management legislation is essential because the Department needs accurate financial information and appropriate internal controls to effectively manage its vast resources.

The OCFO has immediate and long-term plans to address the weaknesses in its and the agencies' financial management systems. These actions include working with the business process owners to address the problems with the legacy feeder systems, with the objective to provide an improved integration of the financial management architecture within the Department.

We are making no additional recommendations in this report for prior recommendations that have not yet been management decided and/or are still open.

Finding 2 — Quality Control Review Process Needs Improvement

We noted that the OCFO had implemented a quality control review process on most of its deliverables prior to submitting the information for the consolidated audit. The information requested by OIG was generally reviewed by the OCFO for accuracy and thoroughness. As a result, there were minimal followup questions and requests for additional documentation. Without this process, we would not have been able to complete the audit. However, this process was not always in place at some of the component agencies. Additionally, the process was not sustained on the deliverable of the draft USDA Performance and Accountability Report (PAR). While agencies attempted to perform quality control reviews, there was not always enough time to provide for this important internal control and still meet the established deadlines. As a result, a significant amount of audit coverage needed to be performed and reperformed after material errors were identified and subsequently corrected. In effect, in some instances, the auditors performed the quality control reviews. Given the accelerated timeframes imposed by the Office of Management and Budget (OMB), there will not be an opportunity in future years for the auditors to detect these material errors and provide the agency with time to make necessary corrections. As a result, unless the Department-wide quality control process is improved, there is a high-risk that the Department's opinion on its financial statements could deteriorate.

Some examples where quality control needs to be improved and/or established follow:

- We found significant errors made in credit reform reestimates at the Farm Service Agency (FSA). These errors occurred because (1) documented agency and OMB guidance for completing the reestimates was not followed; and (2) the quality control review performed was inadequate. As a result adjustments in excess of $400 million were needed to the Balance Sheet.[1]

- Yearend accruals need to be accurately calculated and posted prior to providing the financial statements for audit;

- needed subsidiary detail supporting material line-items on the financial statements did not always exist;

- additional supporting documentation needed to be provided in numerous instances in order to support the financial statements; and

- errors and inconsistencies existed in the draft USDA PAR submitted to us for audit. For example, we noted a reclassification error that exceeded $44 billion.

[1] These adjustments would also impact the Statement of Net Cost, Statement of Changes in Net Position, Statement of Financing and the Credit Reform Footnote.

These conditions occurred primarily because agencies lacked adequate lead-time to perform an effective quality review of the statements prior to submitting them to the OIG.

Recommendation No. 1

OCFO should continue to improve implementation of quality control processes Department-wide.

Finding 3

Improvements are Needed in Information Technology (IT) Security and Controls

Historically, USDA agencies and departmental staff offices have independently addressed their respective IT security and infrastructure needs. This resulted in a broad array of technical and physical solutions that do not provide assurance that Department-wide security is obtained. The efforts of the Office of the Chief Information Officer (OCIO) and OIG in the past few years have heightened program management's awareness of the need to plan and implement effective IT security. However, based on our reviews, USDA management must remain involved and committed toward implementing an effective security program within the Department. Agency managers are ultimately responsible and should be held accountable for committing the appropriate resources to ensure compliance (see Finding 6).

The Department and most of its agencies' security staffs have taken significant actions in the past few years to improve the security over their IT resources; however, significant progress is still needed toward establishing an effective security program within the Department. Specifically, we continue to find that the Department and its agencies are not in compliance with the OMB Circular A-130, Appendix III, "Security of Federal Automated Information Resources," and Presidential Decision Directive 63, including the preparation of security plans for all major systems, conducting risk assessments, establishing executable disaster recovery plans, and implementing a system certification and accreditation process.

Additionally, we continue to identify numerous vulnerabilities in agencies' systems despite the purchase of a Department-wide license of a commercially available vulnerability scanner product. Using this software program, we identified over 750 potentially high and 2,100 potentially medium-risk[2] vulnerabilities in over 1,400 network components in 9[3] of the 10 agencies scanned during our audits. Agencies need to incorporate the regular use of this tool in their security program. The lack of effective use of this tool leaves the Department's systems vulnerable to both internal and external threats, including Internet hackers, jeopardizing the integrity and confidentiality of the Department's critical program, financial, and economic data.

Further, our audits continue to disclose that most agencies do not have adequate physical and logical access controls in place over their IT resources. Agencies have not ensured that critical network components are located in secured areas, that only properly authorized users have access to network resources, and that users' access authority is related to the performance of their job functions. In today's increasingly interconnected computing environment, inadequate access controls can expose an agency's information and operations to attacks from remote locations by individuals with minimal computer or telecommunications resources and expertise. As a result, confidential systems are vulnerable to potential fraud and misuse, inappropriate disclosure, and potential disruption.

Finally, our reviews identified weaknesses in agencies' ability to properly manage the development of their applications. This occurred because agencies did not have formal change control procedures in place; or, in some cases, agency controls were not operating as intended. As a result, agencies cannot be assured that their applications are processing data as intended or that the data residing on and extracted from those systems are reliable.

USDA's OCIO has initiatives in process or planned to address many of these weaknesses. During the current fiscal year, OCIO has issued 16 policies and guidance documents, awarded contracts for agencies to obtain security planning and risk advisory services, and begun processes to implement disaster recovery planning and certification and accreditation programs. However, only after agency management involvement is obtained and agencies have adopted and implemented OCIO's leadership direction can the Department be assured that all necessary controls are in place and that its mission-critical and sensitive systems are properly secured.

We also performed IT general control reviews at two major USDA computing centers that provide services to all USDA agencies and staff

[2] High-risk vulnerabilities are those that provide access to the computer, and possibly the network of computers. Medium-risk vulnerabilities are those that provide access to sensitive network data that may lead to the exploitation of higher-risk vulnerabilities. Low-risk vulnerabilities are those that provide access to sensitive, but less significant, network data.
[3] We did not perform our own scans at one agency because we concluded that the agency had established effective controls over its own scanning process.

offices. The reviews adhered to the GAO Federal Information Systems Control Audit Manual. Specifically, we noted the following.

OCIO/National Information Technology Center (NITC)

OCIO/NITC continues to take actions toward complying with Federally-mandated security requirements. However, the necessary corrective actions are long-term in nature and continued actions are needed. OCIO/NITC has made a concerted effort toward completion of risk assessments, which is an important step toward improving security. We found that OCIO/NITC needs to prepare security plans and contingency plans for its general support systems and complete the system certification and accreditation process for its critical systems. Corrective action is scheduled to be completed in early calendar year 2004.

OCIO/NITC has improved its controls over logical access to its systems, but additional actions are needed to ensure the confidentiality and integrity of its resources. Specifically, we noted instances where OCIO/NITC had not removed separated employees' remote access accounts, completed documentation of users with special access privileges, completed its review and documentation of security software parameters, implemented policies and procedures outlining monitoring of security logs, and completed its implementation of secure Internet access. OCIO/NITC is implementing corrective actions.

Finally, OCIO/NITC has strengthened and continues to improve its system change management process. However, since not all of its improved controls were in place throughout the fiscal year, we continued to find that approval, testing, and implementation documentation was not always maintained. Without proper change management controls, OCIO/NITC's systems are at risk of processing irregularities that could occur or security features that could be inadvertently or deliberately omitted or rendered inoperable. OCIO/NITC plans to correct the change management process by July 2004.

OCFO/National Finance Center (NFC)

We identified weaknesses in the control structure of the OCFO/NFC that could jeopardize the confidentiality, integrity, and availability of the data it processes. Specifically, OCFO/NFC was not always protecting information from improper access on its mainframe and network systems. While OCFO/NFC had implemented a program to promptly detect attempts by outside individuals to gain unauthorized access, the center was not consistently reviewing access activity on its mainframe or network systems to identify and investigate unusual or suspicious activity once access was obtained. These access control weaknesses existed mainly because certain OCFO/NFC procedures were not adequately designed and/or operating effectively. As a result, OCFO/NFC systems are at an increased risk of inadvertent or deliberate misuse without detection.

Our audit also disclosed that OCFO/NFC had not fully complied with the security management requirements included in the Federal Information Security Management Act (FISMA) and further described in OMB Circular A-130, Appendix III, "Security of Federal Automated Information Resources." Specifically, OCFO/NFC had not:

- Finalized security plans or the underlying risk assessments for its general support systems and major applications, or

- certified and accredited its general support systems.

Finally, we found that system software change controls required improvement. OCFO/NFC had not always adequately tested system software changes or evaluated the security impact resulting from system software changes. We also found that OCFO/NFC had not established adequate controls over the configuration of its mainframe operating system. Until OCFO/NFC addresses these issues, it faces increased risk that system software will not be configured and maintained in a manner that affords proper protection to its systems and the sensitive financial and personnel data that is maintained on those systems.

OCFO/NFC concurred with the findings and recommendations and has either implemented or is in process of implementing corrective actions.

The recommendations we made to correct the deficiencies identified in this evaluation are made in agency reports. Therefore, we are not making additional recommendations related to those conditions in this report.

Reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation that, in our judgment, could adversely affect the agency's ability to record, process, summarize, and report financial data consistent with the assertions by management in the consolidated financial statements.

Finding 4

USDA Has Made Significant Improvements In Financial Management

Fund Balance With Treasury (FBWT)

We noted that significant progress was made in reconciling the FBWT. As of September 2003 over 80 percent of all FBWT activity processed for the Department through June 30, 2003, was reconciled between Treasury and the general ledger at the transaction level. However, our review disclosed that additional efforts are needed to fully reconcile some FBWT transactions. For example:

- Our review disclosed that differences still exist between departmental and Treasury records for FBWT activity that occurred prior to fiscal year 2002. For 6 of 35 Treasury Symbols reviewed, old differences between departmental and Treasury records had not been resolved at the transaction level. For example, we identified one Treasury Symbol with over $18 million of letter of credit activity processed for the Department prior to fiscal year 2002, but not reflected in its general ledger.

- We continued to note that the reconciliation of FBWT activity for shared Treasury Symbols (i.e., more than one agency has authority to spend from the Treasury Symbol) did not occur for the total amount of funds allocated. This occurred because one agency is not always assigned an overall responsibility for ensuring that all differences are resolved. Rather, pieces of the reconciliation are performed by multiple agencies.

- We identified net differences of about $23 million in the July 2003 reconciliations of cash adjustments not supported by transaction level detail. Roughly $14 million was attributable to prior year adjustments that had not been reversed in a timely manner and $9 million was associated with unidentified differences.

The Department is committed to enhancing cash reconciliation processes. It also has automated an additional key reconciliation process. Additionally, officials indicated that the Department plans to complete research and make appropriate adjustments as needed for pre-fiscal year 2002 differences.

Budget Clearing Suspense Activity

We noted, despite significant efforts to reconcile suspense activity, that corrective action on all outstanding balances could not be totally effected to the fiscal year 2003 account balances. An action plan has been developed to address this activity. Specifically, we noted that until fiscal year 2003, Treasury symbol 12F3875, "Budget Clearing Suspense," was used without specific procedures for reconciling transactions posted to this Treasury symbol or ensuring that the transactions clear from the account.[4] Until suspense account transactions are posted to the proper appropriation account within the Department, there is the potential for incorrect accounting records, which could lead to anti-deficiency violations and other problems. Moreover, the reported balances in suspense accounts represent the netting of collections and disbursements, thus understating the magnitude of the unrecorded amounts in suspense accounts. During fiscal year 2003, standardized reports were developed to identify and age the detailed transactions supporting the FFIS balances in this Treasury symbol. However, the balances remaining in the legacy accounting system are not supportable and will need to be adjusted and/or written off.

Personal Property System

During the fiscal year 2003 audit, we noted that the Property Reconciliation team had implemented a sustained process for reconciling the subsidiary property accounts with the general ledger in a timely manner. However, the corresponding depreciation accounts were not reconciled. Other minor issues noted during the audit were:

- The reconciliation contains unreconciled categories that were not continuously reviewed and decreased, and

- other categories that contain "unidentified" items force numbers to reconcile.

[4] Treasury budget clearing accounts are to be used as temporary holding accounts pending clearance to the applicable receipt or expenditure account in the budget. According to Treasury yearend closing procedures, budget clearing accounts along with Statements of Differences should be reconciled by the end of the fiscal year. In order to ensure that transactions are properly reconciled and cleared, transaction level detail must be maintained.

Based on the progress made, we believe these conditions, while reportable, are no longer material.

Recommendation No. 2

Pursue making any necessary adjustments/write offs to eliminate all unsupported activity in the legacy accounting system.

Recommendation No. 3

Ensure that the temporary adjustments made to accounts for yearend reconciling items between departmental and Treasury records are appropriately recorded and then reversed in a timely manner.

Recommendation No. 4

Assign a designated agency representative responsible for the review of reconciliations in total to ensure that all differences, including those in shared Treasury Symbols, are appropriately identified and resolved.

Recommendation No. 5

Reconcile the depreciation accounts. Identify and implement solutions to the systemic problems noted on the reconciliations and eliminate the unreconciled amounts. Discontinue the use of "unidentified" categories that force the numbers to reconcile.

The management of USDA is responsible for complying with laws and regulations applicable to it. As part of obtaining reasonable assurance about whether the consolidated financial statements are free of material misstatement, we performed tests of USDA compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of the consolidated financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 01-02, including certain requirements referred to in the Federal Financial Management Improvement Act of 1996 (FFMIA).

Finding 5

Substantial Noncompliance with FFMIA Requirements

The FFMIA and other financial management reform legislation have emphasized the importance of improving financial management across the Government. The primary purpose of the FFMIA is to ensure that agencies' financial management systems routinely generate timely, accurate, and useful information. With such information, Government leaders will be better positioned to invest resources, reduce costs, oversee programs and hold agency managers accountable for the way they run Government programs. For fiscal year 2003, we found USDA's core financial management system, FFIS, to be substantially compliant with the FFMIA. However, overarching security weaknesses identified outside of the FFIS could impact the integrity of financial information flowing into the system. The security weaknesses are discussed in Finding 6. We concluded that USDA's financial management systems, as a whole, do not yet substantially comply with the requirements of FFMIA.

FFMIA does not establish financial system requirements. However, it does establish a statutory requirement for agency-heads to assess, on an annual basis, whether their financial management systems comply substantially with (1) Federal financial management system requirements (FFMSR), (2) applicable Federal accounting standards, and (3) the SGL at the transaction level. The recently enacted FISMA adds a fourth category requiring each agency to report significant information security deficiencies, relating to financial management systems, as a lack of substantial compliance under the FFMIA.[5]

[5] The FISMA (Title III, U.S.C. 3544(c)(3)), dated December 17, 2002, requires agencies to report any significant deficiency in a policy, procedure, or practice identified [in Agency reporting] – (A) as a material weakness in reporting under section 3512 of title 31; and (B) if relating to financial management systems, as an instance of a lack of substantial compliance under the FFMIA (31 U.S.C. 3512(a)(2)(E)).

OMB's Revised Implementation Guidance for the FFMIA, dated January 4, 2001 also recognizes OMB Circular A-127, "Financial Management Systems," as a reference document for Government-wide financial management systems. OMB Circular A-127 provides that agency financial management systems shall conform to existing applicable functional requirements as defined in the FFMSR series issued by the Joint Financial Management Improvement Program. OMB Circular A-127 also incorporates by reference compliance with OMB Circular A-123, "Management Accountability and Control," and OMB Circular A-130, "Management of Federal Information Resources."

Agencies whose systems do not comply with one or all of the FFMIA requirements are considered in substantial non-compliance and must develop a remediation plan that describes the findings or analysis of noncompliance and identifies the resources, remedies, and milestones for achieving substantial compliance. Agencies are also required to include their remediation plans in their annual budget submissions to OMB. Agency heads are responsible for agency progress towards resolving identified deficiencies and such progress should be discussed in the agency's remediation plan; however, progress towards resolving the deficiencies should not be construed as compliance with FFMIA.

USDA's component agencies' FFMIA Remediation Plan submissions to OCFO, dated September 30, 2003, reported that their financial management systems continued to be out of substantial compliance with two of the three requirements of the FFMIA during fiscal year 2003. Agencies reported at least five instances relating to nonconformance with FFMSR and two instances relating to nonconformance with the SGL at the transaction level. Specifically, USDA's financial management systems did not meet the OMB Circular A-127 requirement that each agency establish and maintain a single, integrated financial management system, and all financial management systems have not been certified to ensure compliance with the requirements of OMB Circular A-130 and the FFMSR. Additionally, USDA systems needed updates to improve controls over general ledger postings and general ledger reconciliations to its feeder systems. We believe these deficiencies and the corresponding remediation plans should be included in the Department's budget submissions to OMB.

In addition to the noncompliance reported by the component agencies, we noted other instances during our fiscal year 2003 financial statement audit where agencies' financial management systems did not comply with the requirements of the FFMIA (as enhanced by the FISMA). See exhibit A for a listing of these audits. The recommendations to correct the deficiencies at the component agencies are made in stand-alone agency reports; therefore, we are making no additional recommendations related to those conditions in this report. These deficiencies include the following:

- OIG noted significant deficiencies in information system security at OCFO/NFC requiring strengthening access controls, finalizing security plans and risk assessments and certifying its general support systems, performing background investigations and improving controls over system software changes and configuration of the mainframe operating system.

- Risk Management Agency/Federal Crop Insurance Corporation (RMA/FCIC) auditors reported (1) ineffective, inappropriate, and excessive user access controls and inadequate control of physical security to the data center; (2) deficient application program change controls involving inappropriate access capabilities and inadequate test environments, segregation of duties and version controls; and (3) that RMA/FCIC management has not implemented a continuous monitoring effort to ensure its financial management systems comply with the FFMSR and has not completed a financial management systems five-year plan, as required by OMB Circular A-127.

- Aside from Rural Development's (RD) lack of compliance with OMB Circular A-130, already acknowledged by RD, we reported material weaknesses involving (1) ineffective logical access controls, (2) ineffective controls to ensure vulnerabilities are timely identified and corrected, (3) inadequate and ineffective policies regarding change controls and segregation of duties, and (4) inadequate oversight of IT security controls at RD's remote State and county offices.

- Farm Service Agency/Commodity Credit Corporation (FSA/CCC) financial auditors reported the lack of a complete information security management program that can be applied to its general support and financial systems, along with the need for establishing and maintaining sustainable and repeatable information security and contingency planning controls. Auditors also continue to find FSA/CCC needs to improve its financial system functionality and related processes, including financial and budgetary accounting and reporting policies and procedures.

- Additionally, Forest Service (FS) auditors have reported that the FS financial management system does not substantially comply with the requirements of FFMIA and FISMA. Forest Service did not comply with the FFMIA because it did not (1) perform certifications and accreditations on its selected computer applications; (2) recognize certain revenues, (3) account for its budgetary resources received by its special and non-revolving trust funds in accordance with SGL requirements; (4) ensure that its proprietary and budgetary general ledger accounts were continuously synchronized; and (5) ensure that its posting models and manual accounting entries complied with SGL requirements.

The Department continues its effort to achieve compliance with the FFMIA requirements. It has been working with the component agencies to accelerate completion of corrective actions previously estimated to extend into fiscal year 2006. Currently, all completion dates are targeted for fiscal year 2004. Issues regarding modernization of systems continue to be and will remain significant challenges in fiscal year 2004. These are complex areas and significant efforts will be needed to accomplish the target dates without extending timeframes. Modern financial systems are needed to produce reliable data for competitive sourcing and congressional decisions on the budget, as well as managing day-to-day operations. Financial management systems' compliance with FFMSR, applicable accounting standards, and the SGL are building blocks to help achieve these goals.

Recommendation No. 6

Continue to work with component Agencies to resolve the existing and newly-identified instances of FFMIA noncompliance reported during the fiscal year 2003 financial statement audits, and fully disclose these deficiencies, along with the agencies' corrective action plans, in the Department's annual budget submissions to OMB.

Finding 6

Improvements Needed in Oversight of Agencies' Procedures for Reporting Material Information Security Weaknesses

While the Department and most of its agencies' security staffs have taken considerable actions in the past few years to improve the security over their IT resources, significant progress is still needed toward establishing an effective security program. During our fiscal year 2003 audit, we found that Department management needs to strengthen its oversight of component agencies' procedures for reporting material information security weaknesses in accordance with the requirements of the FMFIA, the FFMIA, and the more recent FISMA. Specifically, we found that despite the extensive number of security weaknesses we have continued to report over the past several years, USDA component agencies' fiscal year 2003 FMFIA Statements of Assurance and FFMIA Remediation Plan submissions to the OCFO do not include the wide-range of information security weaknesses identified in USDA's financial management systems.

USDA Departmental Regulation (DR) 1110-2, "Management Accountability and Control", dated February 23, 1999, requires that the OCFO, on behalf of the Secretary, provide oversight to component agencies to ensure that material deficiencies are identified and reported, and evaluate deficiencies reported by USDA agencies to determine materiality from a departmental perspective. Appendix A, states that all material weaknesses identified in audit reports are to be considered for inclusion in the agency's FMFIA Statements of Assurance reports. It also identifies deficiencies that "significantly weaken safeguards against waste, loss, unauthorized use or misappropriation of funds, property or other assets" as a material weakness under Section 2 of the FMFIA. The "USDA Management Control Manual" (Departmental Manual 1110-002), dated November 29, 2002, further states that these weaknesses should be reported to OMB and Congress.

Also, the recently enacted FISMA provides additional detail regarding the reporting of significant deficiencies under the FFMIA. While the FFMIA did not explicitly require weaknesses in information security to be reported as a separate finding, in the past, such weaknesses were to have been taken into account in the overall analysis of financial systems and determination of compliance under the Act. The FISMA, however, now specifically requires each agency to report "any significant deficiency in an information security policy, procedure, or practice, if relating to financial management systems, as an instance of a lack of substantial compliance under FFMIA." Accordingly, agency heads must now consider such significant deficiencies when providing assurance on controls, both, under the FMFIA and when determining compliance with the FFMIA.

The component agencies were not reporting these weaknesses under the FFMIA because it was not a requirement in the past, but they were also not reporting them under FMFIA because the OCIO reports a Department-wide material information security weakness. In its fiscal year 2003 FMFIA Assurance Statement, the OCIO reports an overarching information security deficiency in the Department's ability to protect its assets from fraud, misuse, disclosure, and disruption. The OCIO states that "extensive and wide-ranging weaknesses" within USDA information security programs are present, and while much progress has been achieved, many problems remain. The remedies provided in the FMFIA Assurance Statement are high-level management actions and are not agency specific, identifying only the OCIO, instead of each agency head that is responsible for that specific agency's progress towards resolving their information security weaknesses.

We believe that improving the overall management and security of IT resources should be a top priority in the Department. However, we believe that agency managers are ultimately responsible and should also be held accountable for committing the appropriate resources to implement an effective security program within their agencies.

Recommendation No. 7

Ensure that component agency managers report material information security weaknesses identified in audit reports and internal reviews in the agencies' FMFIA Statements of Assurance and FFMIA Remediation Plans submitted to the OCFO, along with detailed and agency-specific corrective action plans that can be tracked and monitored for timely resolution.

Finding 7 Potential Anti-Deficiency Violation

We noted a potential Anti-Deficiency Act [6] violation where an obligation and payment were made in excess of the funding available. Our accounting adjustment samples included a transaction that was processed to move a purchase order for $957,245 from budget fiscal year 2002 to budget fiscal year 2003. Upon our request, agency officials investigated why the purchase order was moved and discovered a potential Anti-Deficiency Act violation.

Agency officials told us that in September 2002, the Animal and Plant Health Inspection Service (APHIS), on behalf of the Grain Inspection, Packers and Stockyards Administration (GIPSA), issued a purchase order to purchase computers. At the time the purchase order was issued by the APHIS contracting officer, GIPSA records indicated that GIPSA had sufficient funds to purchase the computers using fiscal year 2002 funds. Later, APHIS reported that GIPSA did not have sufficient fiscal year 2002 funds to make the purchase. Consequently, APHIS advised and GIPSA accepted the decision to purchase the computers using fiscal year 2003 funds. APHIS and GIPSA officials were operating under the assumption that the fiscal year 2002 purchase was cancelled and a new fiscal year 2003 purchase order was issued. However, this did not occur. When investigating our questions about an accounting adjustment related to this purchase, APHIS and GIPSA officials discovered that the fiscal year 2002 purchase order was not cancelled and a fiscal year 2003 purchase order was not issued. As a result, funds were both obligated and disbursed in excess of the amount available.

[6] 31 U.S.C. 1341, 1349-1351, 1501-1557

Recommendation No. 8

Request an Office of General Counsel opinion about whether an Anti Deficiency Act violation occurred, and if so the head of the agency should report immediately to the President and Congress all relevant facts and provide a statement of corrective actions taken.

Exhibit A – Audit Reports Issued During Fiscal Year 2003

AUDIT NUMBER	AUDIT TITLE	RELEASE DATE
50099-52-FM	Fiscal Year 2003 Federal Information Security Management Act Report	September 2003
88099-5-FM	National Information Technology Center General Controls Review-Fiscal Year 2003	October 2003
05401-12-FM	Federal Crop Insurance Corporation/Risk Management Agency's Financial Statements for Fiscal Years 2003 and 2002	November 2003
06401-16-FM	Commodity Credit Corporation's Financial Statements for Fiscal Years 2003 and 2002	November 2003
08401-3-FM	Forest Service's Financial Statement Audit for Fiscal Year 2003 and 2002	January 2004
11401-15-FM	Fiscal Year 2003 National Finance Center Review of Internal Controls	November 2003
15401-4-FM	Rural Telephone Bank's Financial Statements for Fiscal Years 2003 and 2002	November 2003
85401-9-FM	U.S. Department of Agriculture Rural Development's Financial Statements for Fiscal Years 2003 & 2002	November 2003

USDA Performance and Accountability Report for Fiscal Year 2003

(Prepared by USDA)

USDA

United States
Department of
Agriculture

January 2004

Annual Report for Fiscal Year 2003

Report on Performance and Accountability

Additional copies of this Performance and Accountability Report (P&AR) may be downloaded at www.usda.gov/ocfo/usdarpt/usdarpt.htm.

To request paper copies of this report or other reports referenced herein, e-mail your specific request to pm@usda.gov.

If you have comments or questions, e-mail them to pm@usda.gov.

CONTENTS

MESSAGE FROM THE SECRETARY

The United States Department of Agriculture (USDA) is pleased to present the *Performance and Accountability Report for FY 2003*, which provides the results of our performance and financial management.

The report describes how USDA:

- Implemented the key provisions of the Farm Security and Rural Investment Act of 2002;
- Assisted farmers and ranchers affected by severe weather conditions;
- Improved agricultural trade;
- Protected public safety, homes and resources during another severe wildland fire season;
- Supported the increased use of such renewable fuels as ethanol and biodiesel through research and incentives to spur production;
- Improved and expanded conservation programs;
- Spurred economic growth and created jobs in rural communities;
- Invested in electronic access to serve our customers better and be more efficient;
- Supported the creation of better community infrastructure, such as new water systems, hospitals, schools, housing projects and processing facilities;
- Provided food-program assistance to improve the health and nutrition of low-income people and children; and
- Protected the food and agriculture sector against intentional and accidental threats.

USDA managers have reviewed the quality of performance data included in the Annual Performance Report section of this document. Except for data limitations explicitly discussed, I hereby provide reasonable assurance that the data herein are valid and reliable.

This report satisfies reporting requirements of the Federal Managers' Financial Integrity Act (FMFIA). FMFIA ensures that Federal programs are operated efficiently, effectively and in compliance with relevant laws. Therefore, except for those areas for improvement identified in this document, USDA is providing reasonable assurance that our systems of internal control comply with FMFIA's objectives. FMFIA also requires financial systems to conform to certain standards, principles and other specifications to ensure timely, relevant and consistent financial information. Based on the work performed during FY 2003 and prior years, the Department's integrated financial-management system complies substantially with the objectives of FMFIA, with the exception of those financial system nonconformances identified in this report.

USDA, "the people's department," is improving the quality of life for all Americans. I am proud of our accomplishments and the employees responsible for these accomplishments.

Ann M. Veneman
Secretary of Agriculture

MESSAGE FROM THE CHIEF FINANCIAL OFFICER

I am pleased to report that numerous valuable results were achieved in financial management in Fiscal Year 2003 at the United States Department of Agriculture (USDA).

Through the individual excellence and collective successes of USDA's associates, business partners and customers, we created value together by accomplishing break-through results, such as:

- Sustaining a clean financial audit opinion in FY 2003 for the USDA, as was done for the first time ever in FY 2002, evidencing the Department's improved accountability, internal control and data integrity;
- Making substantial progress in reducing USDA's material deficiencies that now number 8, a 58% reduction from 19 at the start of FY 2003 and a 75% reduction from 32 just 24 months ago at the start of FY 2002. Our goal is to eliminate all material weaknesses in FY 2004;
- Improving the productivity of cash used in USDA's lending programs by as much as $300 million annually through more effective collection of delinquent debt;
- Developing a useful strategic plan for USDA leading the way for the Department to align strategic direction, transform operating budgets and integrate more effective performance measures into its management processes throughout the enterprise;
- Implementing information technology solutions relating to major corporate financial management and administrative systems financed by resourceful use of funds;
- Expanding the customer base and effectiveness of the National Finance Center in Government-wide payroll operations and Federal employee services, retirement plan record-keeping and accounting operations;
- Reforming the management of travel cards within USDA by establishing a "zero tolerance" policy for travel card misuse, removing more than $1 billion of excess credit exposure by lowering credit and cash advance limits on more than 90% of cards, and reinforcing proper behavior through training and employee communications; and
- Adding depth and breadth to USDA's financial management leadership, managerial, supervisory and first-line personnel through career development, training and recruiting.

USDA is focused on providing sound management of the resources under our stewardship. The extraordinarily valuable results in financial management at USDA in the past two years have been achieved with existing taxpayer funding by skilled career Government executives and dedicated associates.

We are honored to serve America.

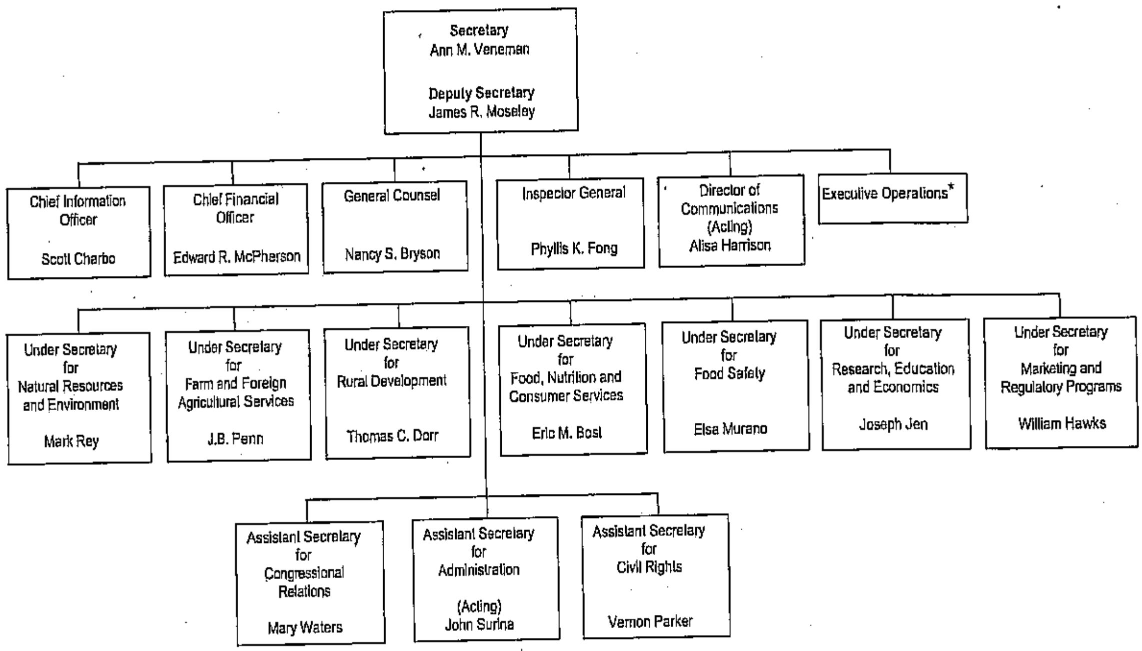
Edward R. McPherson

Edward R. (Ted) McPherson
Chief Financial Officer

I. MANAGEMENT DISCUSSION AND ANALYSIS

AN OVERVIEW OF THE UNITED STATES DEPARTMENT OF AGRICULTURE

Exhibit 1: Organization Chart



* Includes the Office of the Executive Secretariat, Office of Budget and Program Analysis, Office of the Chief Economist and the National Appeals Division.

Mission Statement: USDA provides leadership on food, agriculture, natural resources and related issues based on sound public policy, the best-available science and efficient management.

Founded by President Abraham Lincoln in 1862, when more than half of the nation's population lived and worked on farms, the United States Department of Agriculture's (USDA) role has evolved as the United States (U.S.) economy has changed. USDA improves the quality of life for the American people by:

- Enhancing economic opportunities and improving the quality of life for farmers and ranchers;
- Ensuring a safe, affordable, nutritious and accessible food supply;
- Caring for public lands and helping people care for private lands;
- Supporting the sound, sustainable development of rural communities;
- Expanding global markets for agricultural and forest products and services; and
- Working to improve Americans' nutrition and reduce hunger.

As noted by Secretary Veneman in *Food and Agriculture: Taking Stock for a New Century*, published in September 2001, America's food and fiber producers now operate in a global, technologically advanced, rapidly diversifying, highly competitive business environment that is driven by sophisticated consumers.

This report provides information on USDA's core performance measures as described in its revised *FY 2003 Annual Performance Plan*. There are five goals:
- Goal 1 is to enhance economic opportunities for agricultural producers.
- Goal 2 is to support increased economic opportunities and improved quality of life in rural America.
- Goal 3 is to enhance the protection and safety of the Nation's agriculture and food supply.
- Goal 4 is to improve the Nation's nutrition and health.
- Goal 5 is to protect and enhance the Nation's natural resource base and environment.

To address the President's Management Agenda (PMA), USDA has focused its management direction to:
- Improve human-capital management, including competitive sourcing;
- Enhance financial-management efforts;
- Provide better electronic access to programs; and
- Integrate budget formulation and accountability for performance.

The Farm Security and Rural Investment Act of 2002 (FSRIA) governs Federal farm programs for the six years following its May 13, 2002, enactment. FSRIA's provisions support the production of a reliable, safe and affordable food and fiber supply; promote stewardship of agricultural land and water resources; facilitate access to American farm products at home and abroad; encourage continued economic and infrastructure development in rural America; and ensure continued research to maintain an efficient and innovative agricultural and food sector.

Highlights of FSRIA:
- Alters the farm-payment program and introduces counter-cyclical farm income support;
- Expands conservation programs and emphasizes farm environmental practices;
- Modifies rules to make more borrowers eligible for Federal farm credit assistance;
- Restores food-stamp eligibility for legal immigrants;
- Adds several commodities to those requiring country-of-origin labeling;
- Introduces animal welfare provisions; and
- Introduces new biobased-product/bioenergy programs and restores existing programs.

As USDA moves into the second year of FSRIA, its accomplishments include:
- Implemented all key commodity program provisions quickly and efficiently;
- Provided more than $10 billion in program payments for agricultural producers;
- Released more than $1.8 billion for conservation assistance on working lands, including funding for Farm Bill and appropriated programs;
- Implemented revisions to the Conservation Reserve Program with general sign-up, May 5-30, 2003;
- Provided an additional $10 million for the Market Access Program and other additional funds for market-development activities;
- Completed implementing the Technical Assistance for Specialty Crops Program, allocating $2 million in funding;
- Launched the McGovern-Dole International Food for Education and Child Nutrition Program, allocating $100 million of funding to support school feeding and nutrition programs in developing countries;
- Provided access to Food Stamp Program benefits for newly qualified legal immigrants;
- Awarded substantial funds for rural-development assistance, including value-added grants, and water and waste-disposal funds;

- Published final regulations and solicitation of applications for an anticipated $1.4 billion in rural broadband loans and loan guarantees;
- Awarded $22 million in grants to 114 renewable-energy systems and energy-efficiency improvement projects under the Renewable Energy Systems and Energy Efficiency Improvement Program;
- Awarded $16 million in grants (the Department of Energy awarded an additional $7 million) to 15 biomass research and development projects under the Biomass Research and Development Program;
- Held 11 customer-outreach sessions across the country and in Puerto Rico; and
- Installed Vernon Parker as the first USDA Assistant Secretary for Civil Rights.

Mission Areas

The mission areas are a collection of agencies that work together to support USDA's goals. Some of the mission areas below may support more than one of the Department's aforementioned strategic goals.

Natural Resources and Environment Mission Area

The Natural Resources and Environment (NRE) mission area consists of the Forest Service (FS) and the Natural Resources Conservation Service (NRCS). These agencies work to ensure the land's health through sustainable management. FS manages the 192-million acres of National Forests and Grasslands for the American people. NRCS assists farmers, ranchers and others to manage private lands for environmental and economic sustainability. Both NRE agencies work in partnership with Tribal, State and local governments, communities, related groups and Federal agencies to protect the Nation's soils, watersheds and ecosystems.

Farm and Foreign Agricultural Services Mission Area

The Farm and Foreign Agricultural Services (FFAS) mission area is comprised of the Farm Service Agency (FSA), the Foreign Agricultural Service (FAS) and the Risk Management Agency (RMA). The FFAS mission area improves the livelihood of American farmers and ranchers through numerous programs and activities. FFAS programs strengthen American agricultural markets by stabilizing farm incomes, conserving the country's natural resources, providing credit and risk-management products and services, and developing and expanding international markets. Working together, these programs contribute to making the American agricultural sector more productive and sustainable for the future.

The Commodity Credit Corporation (CCC) is a Government-owned organization created to stabilize, support and protect farm income and prices; help maintain balanced and adequate supplies of agricultural commodities, including food products, feeds and fibers; and help distribute these commodities efficiently. CCC delivers commodity, credit, export, conservation, disaster and emergency-assistance programs that help improve and strengthen the agricultural economy.

Rural Development Mission Area

The Rural Development mission area provides economic opportunities and improves the quality of life in rural America. This mission area addresses rural America's need for basic utility services, single- and multi-family housing, and health and other community facilities while supporting new job opportunities.

Food, Nutrition and Consumer Services Mission Area

The Food, Nutrition and Consumer Services mission area operates through the Food and Nutrition Service (FNS) and the Center for Nutrition Policy and Promotion (CNPP). FNS administers Federal nutrition-assistance programs, including the Food Stamp Program, the Child Nutrition Programs and the Special Supplemental Nutrition Program for Women, Infants and Children. These programs provide access to nutritious food and support for better dietary habits for one in five Americans each year. CNPP links scientific research to the nutritional needs of consumers through science-based dietary guidance.

Food Safety Mission Area

The Food Safety and Inspection Service (FSIS) ensures the safety, wholesomeness and correct labeling and packaging of meat, poultry and egg products. FSIS sets public health performance standards for food safety, and inspects and regulates these products in interstate and international commerce, including imported products. This mission area has significant responsibilities coordinating efforts among various Federal agencies, including the Department of Health and Human Services and the Environmental Protection Agency.

Research, Education and Economics Mission Area

The Research, Education and Economics (REE) mission area is dedicated to creating a safe, sustainable and competitive U.S. food and fiber system. REE also strives to build strong and healthy communities, families and youth through integrated research, analysis and education. REE is composed of the Agricultural Research Service; the Cooperative State Research, Education and Extension Service; the Economic Research Service (ERS); and the National Agricultural Statistics Service, which support all USDA Agencies and constituents.

Marketing and Regulatory Programs Mission Area

The Marketing and Regulatory Programs (MRP) mission area is made up of the Agricultural Marketing Service; the Animal and Plant Health Inspection Service; and the Grain Inspection, Packers and Stockyards Administration.

MRP facilitates the domestic and international marketing of U.S. agricultural products. It also helps protect the agricultural sector from plant and animal health-related threats while improving competitiveness and the economy. The mission area also helps protect U.S. borders from agricultural pests and diseases. Its agencies actively participate in setting national and international standards via Federal-State cooperation and international organizations. MRP also helps ensure the humane care and treatment of animals.

Departmental Offices

Department-level offices provide centralized leadership, coordination and support for USDA's policy and administrative functions. They support agencies in the delivery of services to all USDA customers and stakeholders.

RESOURCES

Congressional appropriations are the primary funding source for USDA operations. FY 2003 program obligations totaled $118,850 million, an increase of $16,025 million compared to FY 2002. Staff-year resources totaled 113,759, rising 1,426 compared to FY 2002. The following charts illustrate total program obligations and staff years for FY 2003.

Exhibit 2: FY 2003 USDA Program Obligations Dedicated to Strategic Goals

USDA Program Obligations Dedicated to Strategic Goals	FY 2003 Actual
Program Obligations ($ Mil)	$118,850

Program Obligations

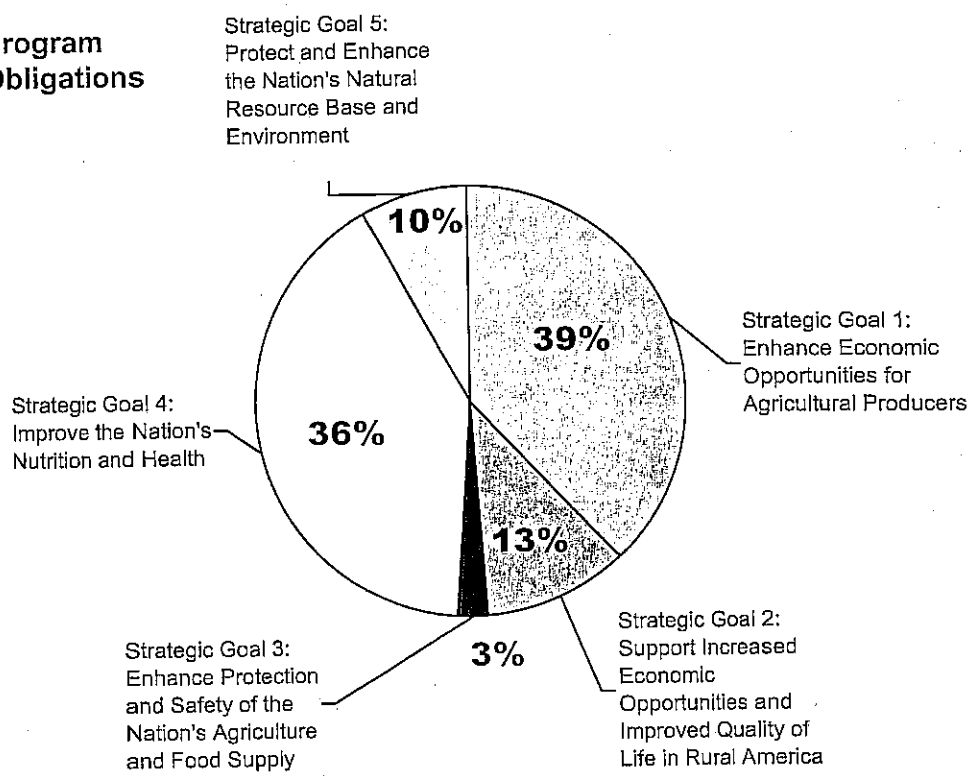
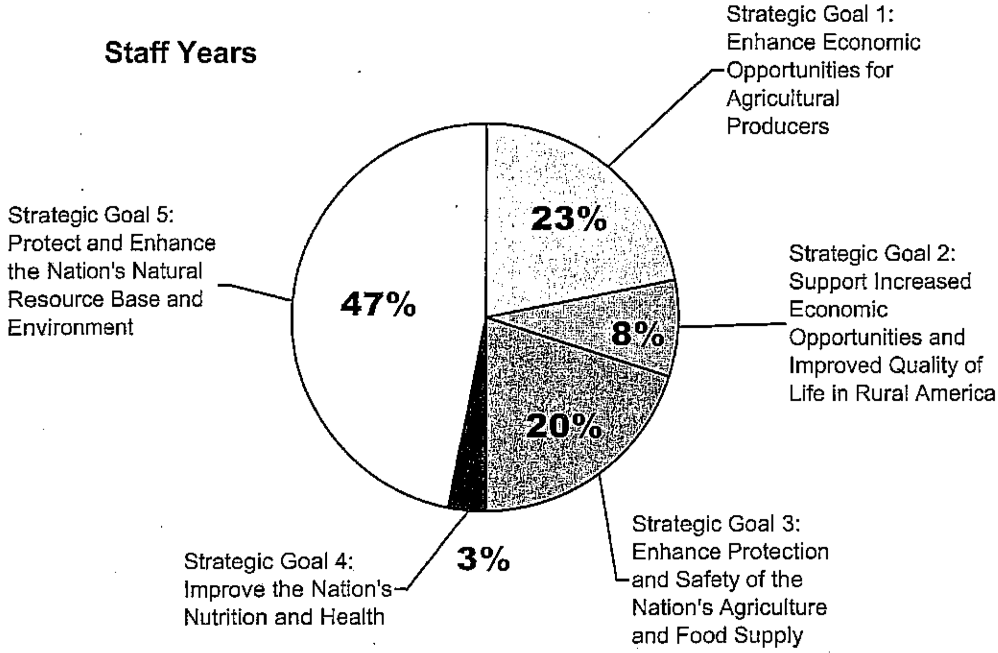


Exhibit 3: FY 2003 USDA Staff Years Dedicated to Strategic Goals

USDA Staff Years Dedicated to Strategic Goals	FY 2003 Actual
Staff Years	113,759



PERFORMANCE GOALS AND RESULTS

Of the 40 performance goals contained in USDA's FY 2003 Annual Performance Plan, 33 were met or exceeded, 4 were reported as deferred (unable to report progress until a specified date) and 3 were unmet. The Performance Section of this report provides analyses of these results. Information supporting the data's quality and reliability is contained in the Data Assessment of Performance Measures section. The following Performance Scorecard table, organized by USDA's strategic goals and objectives, provides a summary of the Department's performance results.

Performance Scorecard for FY 2003		
Objectives	Annual Performance Goals	Result
Strategic Goal 1: Enhance Economic Opportunities for Agricultural Producers		
1.1 Expand International Market Opportunities	1.1.1: Estimated annual trade opportunities preserved through WTO trade negotiations and notification process	Exceeded
	1.1.2: Estimated gross trade value of markets expanded/retained by market access activities other than WTO notification process	Met
	1.1.3: Average tariff rate on agricultural products worldwide	Met
	1.1.4: Increase the new export protocols that facilitate access to foreign markets	Exceeded
	1.1.5: Increase the international animal and plant health standards adopted	Exceeded
1.2 Support International Economic Development and Trade Capacity Building	1.2.1: Increase the activities/projects completed in support of international economic development and trade capacity building in developing and transition countries	Met
	1.2.2: Share of countries' food-import needs met through food-aid programs	Met
	1.2.3: Improve food security and nutrition through the McGovern-Dole Food for Education Program by the number of daily meals and take-home rations for mothers, infants and schoolchildren	Met
	1.2.4: Improve literacy and primary education through McGovern-Dole Food for Education Program	Met
1.3 Develop Alternative Markets for Agricultural Products and Activities	1.3.1: Increase the use of bioenergy and biobased products	Met
1.4 Provide Risk-Management Financial Tools to Farmers and Ranchers	1.4.1: Expand USDA risk-management tools available for agricultural producers to use in managing production and price risks	Deferred
	1.4.2: Improve customer service by increasing the efficiency of loan processing	Met
	1.4.3: Improve fiscal soundness of the direct-loan portfolio	Met
	1.4.4: Eligible commodity production placed under marketing assistance loan or loan deficiency payment	Unmet[1]
	1.4.5: Increase farm commodity and loan programs that can be accessed, completed and accepted electronically	Exceeded
Strategic Goal 2: Support Increased Economic Opportunities and Improved Quality of Life in Rural America		
2.1 Expand Economic Opportunities Through USDA Financing of Businesses	2.1.1: Create or save additional jobs through USDA financing of businesses	Exceeded
	2.1.2: Reduce the Business and Industry Portfolio delinquency rate, excluding bankruptcy cases	Exceeded
	2.1.3: Improve the ability of small, rural towns to enjoy economic growth through provision of financing to support high-speed telecommunications services (broadband)	Unmet
2.2 Improve the Quality of Life Through USDA Financing of Quality Housing, Modern Utilities and Needed Community Facilities	2.2.1: Improve the quality of life in rural America	Met
Strategic Goal 3: Enhance Protection and Safety of the Nation's Agriculture and Food Supply		
3.1 Enhance the Protection of Meat, Poultry and Egg Products from Foodborne Hazards in the U.S.	3.1.1: Conduct risk assessments of microbial, chemical and physical hazards to meat, poultry and egg products	Met
	3.1.2: Enhance industry compliance with regulatory requirements (*Salmonella*)	Met
	3.1.3: Enhance industry compliance with regulatory requirements (*Listeria monocytogenes*)	Met
	3.1.4: Develop new systems for detecting foodborne hazards	Exceeded

[1]This performance goal will be revised to better reflect program intent. The program is working as intended.

Performance Scorecard for FY 2003		
Objectives	Annual Performance Goals	Result
3.2 Reduce the Number and Severity of Agricultural Pest and Disease Outbreaks	3.2.1: Increase the percent of known, significant introductions of plant pests or diseases that are detected before they spread from the original area of colonization and cause severe economic or environmental damage	Deferred
	3.2.2: Number of significant introductions of foreign animal pests or diseases that spread beyond the original area of introduction and cause severe economic or environmental damage, or damage to the health of animals or humans	Met
	3.2.3: Increase the number of States and territories, which meet the standards for preventing, detecting and responding to animal health emergencies	Deferred
	3.2.4: Increase the number of States that can provide necessary Federal animal diagnostic services	Exceeded
	3.2.5: Improve the capabilities of plant diagnostic laboratories	Met
	3.2.6: Release a series of new or improved varieties of germplasm that exhibit enhanced disease resistance to each of the following plant diseases: Sclerotinia, downy mildew, rusts and exotic viral diseases	Met
Strategic Goal 4: Improve the Nation's Nutrition and Health		
4.1 Improve Access to Nutritious Food	4.1.1: Improve Access to Nutritious Food	Met
4.2 Promote Healthier Eating Habits and Lifestyles	4.2.1: Promote Healthier Eating Habits and Lifestyles	Exceeded
4.3 Improve Food Program Management and Customer Service	4.3.1: Improve Food Program Management and Customer Service	Deferred
Strategic Goal 5: Protect and Enhance the Nation's Natural Resource Base and Environment		
5.1 Implement the President's Healthy Forests Initiative and Other Actions to Improve Management of Public Lands	5.1.1: Continue to restore, rehabilitate and maintain fire-adapted ecosystems by treating hazardous fuels in both the Wildland Urban Interface (WUI) and non-WUI areas	Unmet
	5.1.2: Ensure Federal fire management plans are in compliance with Federal Wildland Fire Policy	Met
	5.1.3: Control unplanned and unwanted fires during initial attack	Met
	5.1.4: Allotment acres administered to 100% of standard	Exceeded
	5.1.5: Cleanup CERCLA sites on USDA-managed lands and facilities	Exceeded
5.2 Improve Management of Private Lands	5.2.1: Protect the productive capacity of agricultural and forestland	Met
	5.2.2: Manage watersheds to provide clean and abundant water supplies	Met
	5.2.3: Ensure diverse wildlife habitats	Met

Actions on Unmet Goals

USDA continuously works to improve its performance on unmet goals. The Annual Performance Report section of this report offers further discussion of the Department's actions on these goals. They include:

- **Performance goal 1.4.4** (Eligible commodity production placed under marketing-assistance loan or loan-deficiency payment): Market prices were higher than the established loan rate for most of the eligible loan commodities throughout the crop year. Thus, the loan-deficiency payment option had limited availability. As market prices increase, the amount of government assistance needed to stabilize the farm economy is reduced. This performance goal is being discontinued because improved measures are needed to show program progress.
- **Performance goal 2.1.3** (Improve the ability of small, rural towns to enjoy economic growth through provision of financing to support high-speed telecommunications services, or broadband): Delays in promulgating regulations caused the Department to not meet its goal of increased broadband telecommunication access in rural areas. USDA accepted applications through July 31, 2003, for funding

such projects in FY 2003. Many of these applications remain under review for funding in FY 2004. Additional applications also are being accepted.

- **Performance goal 5.1.1** (Continue to restore, rehabilitate and maintain fire-adapted ecosystems by treating hazardous fuels in both Wildlife Urban Interface (WUI) and non-WUI): USDA is seeking ways to improve its results given its resource constraints. The Department recognizes that meeting the performance goal depends on factors external to USDA's control, such as drought and the severity of the fire season.

FUTURE DEMANDS, RISKS, UNCERTAINTIES, EVENTS, CONDITIONS AND TRENDS

USDA is influenced by many of the same forces that shape the American economy—globalization of markets and culture, technical advances in information, biology and other technologies, and fundamental changes in the Nation's family structure and workforce. U.S. farmers and food companies operate in highly competitive markets with constantly changing demand for high-quality food with a variety of characteristics, including convenience, taste and nutrition.

The events of September 11, 2001, make homeland security a continuing priority for USDA. The Department is working with the Department of Homeland Security to ensure that its programs help protect agriculture from intentional and accidental acts that might affect America's food supply or natural resources.

External factors that will challenge USDA's ability to achieve its desired outcomes include:

- Weather and other growing conditions at home and abroad;
- Domestic and international macroeconomic factors, including consumer-purchasing power, the strength of the U.S. dollar and competing currencies, and political changes in other countries that can impact domestic and global markets greatly in any year;
- The availability of funds for financial assistance provided by Congress and the local and national economies. Sharp fluctuations in farm prices, interest rates and unemployment also impact the ability of farmers, other rural residents, communities and businesses to qualify for credit and manage their debts;
- The impact of future economic conditions and actions by a variety of Federal, State and local governments that will influence the sustainability of rural infrastructure;
- The increased movement of people and goods, which provides the opportunity for crop and animal pests and diseases to move quickly across national and international boundaries;
- Potential exposure to hazardous substances, which may pose a threat to human health and to the environment. Collaboration between the public and private sectors plays a large role in food safety and security and emergency preparedness; and
- Efforts to reduce hunger and improve dietary habits, which depend on coordination between USDA and its Federal, State and local partners, and effective compliance by partners with program standards and rules.

IMPLEMENTATION OF PRESIDENT'S MANAGEMENT AGENDA

USDA has taken steps leading to improvements in all five President's Management Agenda initiatives, which include human capital, competitive sourcing, financial performance, electronic government (eGovernment), and budget and performance integration. The Department's management initiatives mirror the President's Management Agenda.

Human Capital

USDA took significant action to improve this area:

- Focused on closing the talent gap;
- Systematically accessed current and future mission critical needs;
- Utilized automated systems to streamline the hiring process;
- Implemented a mentoring program;
- Selected "showcase" agencies for pilot implementation of USDA's Human Capital plan template;
- Launched the Senior Executive Service Candidate Development Program with 81 candidates;
- Collected Department-wide information to assess compliance with civil rights, Equal Employment Opportunity and related reporting;
- Conducted job fairs; and
- Linked human-capital needs with the strategic plan through a USDA-wide Human Capital Plan.

Competitive Sourcing

To improve its program, USDA has:

- Developed a long-range plan to conduct studies on a continuing basis; and
- Conducted competitions or converted more than 5,000 positions.

Financial Performance

USDA has made significant progress in this area:

- Obtained clean audit opinions for 2003 and 2002;
- Fully implemented the Foundation Financial Information System to provide accurate and timely financial information;
- Focused on data integrity and feeder-system improvement;
- Continued efforts to reduce erroneous payments;
- Achieved substantial reduction in the number of material weaknesses; and
- Enhanced the productivity of cash by increasing debt referrals to Treasury.

eGovernment

USDA has made significant progress in this area:

- Provided financial and/or in-kind support for 19 of the 24 Presidential eGovernment Initiatives. This includes eAuthentication, eLearning, ePayroll, Geospatial One-Stop, eTravel, Recreation One-Stop, Financial Management, Integrated Acquisition, Asset Management and Disaster Help;
- Developed collaborative USDA eGovernment Initiatives to transform the delivery of information and services to citizens, businesses, partners and employees;
- Published new USDA Enterprise Architecture to serve as the baseline for FY 2005 information technology (IT) investment decisions;
- Established new enterprise agreements for hardware, software and related IT services, resulting in an estimated cost avoidance of more than $115 million;

- Initiated IT Disaster Recovery and Business Resumption, and IT System Certification and Accreditation Programs to protect USDA's information assets; and
- Strengthened Department-wide IT business case development and project management.

Budget and Performance Integration

USDA has made significant strides in this area:

- Developed strategic and performance plans that align goals and objectives with improved performance measures;
- Integrated comprehensive performance information into the FY 2005 budget-decision process;
- Completed Program Assessment Rating Tool (PART) evaluations for a number of programs; and
- Began developing a quarterly financial and performance reporting process to facilitate the greater use of performance data, including the results of PART evaluations, in the management of programs.

FINANCIAL STATEMENT HIGHLIGHTS

Budgetary Resources and Outlays

Appropriations, combined with other budgetary resources made available, and adjustments totaled $143.8 billion in FY 2003, while outlays totaled $80 billion.

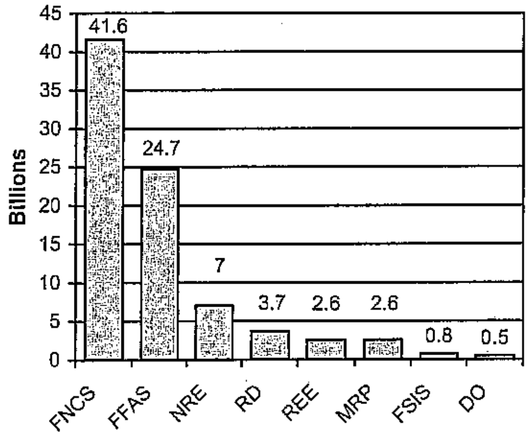
Assets and Liabilities

USDA's assets and liabilities as of September 30, 2003, totaled $118.1 billion and $115.7 billion, respectively. Loans receivable of $73.6 billion, or 62 percent of total assets, is the single largest USDA asset. Consequently, Intragovernmental Debt of $76.1 billion, or 66 percent of total liabilities, representing borrowings used to make loans, remained the single largest liability.

Net Cost of Operations

USDA's net cost of operations for FY 2003 totaled $83.2 billion. Food Stamps, Income Support and Child Nutrition – $25.6 billion, $17 billion and $10.9 billion respectively – represent USDA's largest program costs.

Net Cost of Operations by Mission Area



Key:

FNCS – Food, Nutrition and Consumer Services
FFAS – Farm and Foreign Agricultural Services
NRE – Natural Resources and Environment
RD – Rural Development
REE – Research, Education and Economics
MRP – Marketing and Regulatory Programs
FSIS – Food Safety and Inspection Service
DO – Departmental Offices

Debt Management

USDA is the Federal Government's largest provider of direct credit. The Department's credit portfolio has totaled approximately $100 billion for the past three fiscal years. This portfolio represents about 32 percent of the non-tax debt owed to the Federal Government. As of June 30, 2003, USDA's current $6.7 billion in delinquent receivables represent a 20-percent decrease from the $8.8 billion in delinquencies reported for FY 1996. During FY 1996, Congress passed the Debt Collection Improvement Act (DCIA). The $6.7 billion in delinquent debt represents an exposure risk of $14.4 billion of principal associated with the delinquency. Of this $6.7 billion, only $1.7 billion is eligible for collection using DCIA tools. The use of these tools is precluded for the remaining delinquent debt due to such statutory or administrative requirements as bankruptcy, litigation or debt owed by international/sovereign entities (approximately $3.6 billion of delinquent debt is international debt). Through concentrated management attention in the past year, USDA's referral rate to the Treasury Cross-Servicing Program was 94 percent.

Erroneous Payments

USDA has developed comprehensive internal control and quality-assurance processes and systems to ensure that program payments made are accurate and complete. In FY 2003, the Office of the Chief Financial Officer issued a policy memorandum to all USDA agencies. The memorandum directed the implementation of program reviews to identify erroneous payments as required by the Improper Payments Information Act of 2002. In FY 2004, USDA agencies will develop statistically valid estimates for all programs identified as susceptible to significant erroneous payments. The agencies then will implement an action plan to reduce those payments. Agencies also will report erroneous-payment estimates and reduction goals to the President and Congress in USDA's *Performance and Accountability Report.*

USDA's focus in this area has been on four programs:

- The Food and Nutrition Service's (FNS) Food Stamp Program;
- FNS' National School Lunch Program/School Breakfast Program;
- FNS' Women, Infants and Children Program; and
- The Commodity Credit Corporation's Commodity Loan Program.

For a detailed report on these programs, see Appendix B.

MANAGEMENT ACCOUNTABILITY AND CONTROL

USDA continues to assure compliance with the objectives of the Federal Managers' Financial Integrity Act (FMFIA), except for the material weaknesses described in this report. USDA's management controls program resulted in compliance with FMFIA requirements and OMB Circulars A–123, "Management Accountability and Control," and A–127, "Financial Management Systems," except for the weaknesses described later in this report.

Within USDA, Subcabinet Officials and Agency and Staff Office Heads are responsible for the efficient operation of their programs and their programs' compliance with relevant laws. These executives also ensure that their financial-management systems conform to applicable laws, standards, principles and related requirements. USDA's goal is to eliminate material deficiencies by the end of FY 2004.

USDA made substantial progress in reducing the number of material deficiencies to 8, down from 19 at the start of FY 2003 and 32 at the start of FY 2002.

Summary of Material Deficiencies

Federal Managers' Financial Integrity Act Material Deficiencies				
Responsible Agency	Material Deficiency Description	Corrective Actions Remaining To Be Taken	Reason for Change in Estimated Completion Date	Estimated Completion
FNS	94-01: Some organizations have received excessive Federal funding.	Publish revised regulations. Conduct evaluations, reassess, revise and implement training on final regulations.	No Change	FY 2004
	99-01: Need better determination of household eligibility for school food programs.	Develop and implement legislative provisions requiring State agencies to collect and report on data verification.	No Change	FY 2004
	01-01: Improper procurement of goods and services occurred in some programs.	Revise procurement guidance and evaluate its effectiveness against improper procurement of goods and services.	No Change	FY 2004
FS	03-01: Financial management controls not adequate.	Issue new policy to require supervisory review of property transactions and to improve capitalization controls. Finalize the process used to certify payroll.	No Change	FY 2004
FSA	00-01: International credit subsidiary and credit reform systems are not fully automated and integrated.	Implement new system to interface with the general ledger.	No Change	FY 2004
OCIO	00-01: Department's inability to protect fully its information and assets from fraud, misuse, inappropriate disclosure and disruption.	Improve controls in risk assessment and mitigation, logical and physical access, disaster recovery and contingency planning, intrusion detection and response, certification and accreditation and security awareness.	Extensive and wide-ranging weaknesses within USDA information security program have delayed the process.	FY 2004
RD	96-02: The Multi-Family Housing (MFH) Program lacks adequate oversight and internal controls.	Publish final rule for the MFH Loan Programs.	Publication of the final rule has been delayed.	FY 2004
	94-01: Direct Loan Servicing and Reporting system not in compliance with OMB policy.	Complete incremental implementation of the Rural Utilities Loan Servicing System to replace legacy loan systems.	Implementation of system has been delayed.	FY 2004

II. ANNUAL PERFORMANCE REPORT

USDA's mission is to provide leadership on food, agriculture, natural resources and related issues based on sound public policy, the best-available science and efficient management. The Department carried out this mission in 2003 through such activities as:

- Providing farmers and ranchers with risk-management and financial tools;
- Meeting with experts from around the globe to discuss current and new economic opportunities;
- Ensuring the safety and protection of the Nation's food supply;
- Completing new Free Trade Agreements and opening new international markets;
- Fighting potential pests and disease outbreaks;
- Working to ensure the health and protection of the environment; and
- Providing aid to those impacted by severe weather.

USDA's public performance management reporting process includes the following key components:

- A strategic plan that depicts the Department's long-term goals and strategies;
- An annual performance plan that outlines year-to-year strategies and targets for achieving USDA's long-term goals; and
- A performance and accountability report that shows Congress and the American people how well the Department did in reaching the goals established in the previous fiscal year.

Most of the Department's programs and activities are represented in specific performance goals and targets. USDA also conducts and supports a broad range of research, educational and statistical activities that contribute to the achievement of each of its overall goals. The creation of knowledge at the frontiers of biological, physical and social sciences, and the application of that knowledge to agriculture, forestry, consumers and rural America are core processes for USDA. Accordingly, selected accomplishments in research are presented throughout this section.

Only Federal employees participated in the preparation of the performance information contained in this section.

Upon USDA's creation, it was President Abraham Lincoln's hope "that by the best cultivation in the physical world, beneath and around us, and the intellectual and moral world within us, we shall secure an individual, social and political prosperity and happiness, whose course shall be onward and upward, and which, while the earth endures, will not pass away." These next chapters of the *USDA Performance and Accountability Report* show how the Department committed itself to keeping President Lincoln's dream alive during 2003.

STRATEGIC GOAL 1: ENHANCE ECONOMIC OPPORTUNITIES FOR AGRICULTURAL PRODUCERS

Exhibit 4: Resources Dedicated to Enhancing Economic Opportunities

USDA Resources Dedicated to Strategic Goal 1	FY 2003	
	Actual	Percent of Total USDA
Program Obligations ($ Mil)	$46,031	39%
Staff Years	25,612	23%

Recognizing the importance of agricultural exports to the U.S. economy, USDA worked hard to resolve many outstanding trade issues in 2003. Major milestones of the Department's work to ensure markets are kept open to U.S. agricultural products include: resolving a dispute with Russia involving U.S. poultry; negotiating an agreement with China to allow the export of U.S. biotech soy-beans; and stemming a number of trade actions against the U.S. by Mexico to allow for the continued flow of domestic products into that important market.

The Department also worked to create more international opportunities for agricultural producers. In FY 2003, USDA opened the export market for live cattle to Cuba for the first time in more than 40 years. USDA also successfully negotiated equivalent mitigation measures for the bluetongue and bovine leucosis viruses for live cattle being exported to the European Union. Working in international locations and scientific forums, USDA diplomats and scientists have been removing barriers to international trade, creating opportunities for U.S. agricultural producers.

Objective 1.1: Expand International Marketing Opportunities

Exhibit 5: Resources Dedicated to Expanding International Marketing Opportunities

USDA Resources Dedicated to Objective 1.1	FY 2003	
	Actual	Percent of Goal 1
Program Obligations ($ Mil)	$6,169	13%
Staff Years	6,064	24%

Overview

The Department worked to ensure that agricultural producers had access to international markets. USDA assisted in completing two Free Trade Agreements (FTAs) and continues to work on the current or "Doha Round" of multilateral trade negotiations within the World Trade Organization (WTO) Framework. The WTO is hosting the trade negotiations to develop a comprehensive liberalization package for agriculture. USDA achieved major successes in resolving trade issues and monitoring existing agreements. This effort protected $2 billion worth of U.S. agricultural exports through the WTO notification process. Additionally, the U.S. successfully challenged Japan's restrictions on U.S. apples at the WTO.

Serving the Public

On June 6, 2003, the U.S. and Chile signed a historic and cutting-edge FTA that, when fully implemented, eliminates bilateral tariffs, lowers trade barriers, promotes economic integration and expands opportunities for Americans and Chileans. This agreement typifies the benefit derived from the Department's work in international trade policy. Within four years, U.S. farmers will gain duty-free access to the Chilean market for such important U.S. products as pork, beef, soybeans, durum wheat, feed grains, potatoes and many processed food products. USDA also completed an FTA with Singapore in FY 2003 and worked toward completing the Doha Round of multilateral trade negotiations.

To capitalize on the market openings that trade agreements create, it clearly is in the best interest of the agricultural community that the U.S. Government works with industry groups to introduce domestic products to international markets. Through its market-development programs (e.g., Market Access Program and Foreign Market Development Program), USDA works with trade groups through cost-sharing cooperative agreements to take full advantage of market opportunities. USDA also offers political and commercial risk insurance through its General Sales Manager Programs to help exporters enter markets in countries lacking adequate financial liquidity to meet all their food import needs through commercial channels.

An equally important function is trade education and outreach to increase domestic awareness of global opportunities, USDA export programs and the importance of trade and trade agreements. Important partnerships have been forged with universities, export-assistance centers, farm groups, State departments of agriculture, other State and Federal Government agencies, the media, and agricultural youth groups. USDA effectively uses this network of "partners" to convey to customers and stakeholders the message of export opportunities, Department programs and the importance of agricultural trade.

Agriculture is one of the most export-dependent industries in the U.S. According to USDA research, about 96 percent of the world's food consumers live outside U.S. borders. Sales of exported agricultural products are growing at two to three times the rate of the domestic market. This dynamic dramatically highlights the need to make the agricultural community aware of the export market. USDA data also show that, in FY 2002, agricultural exports:

- Supported 800,000 jobs of which 60 percent are in urban communities;
- Boosted farm cash receipts by 25 percent;
- Increased export-related job wages by 18 percent;
- Created another $1.47 in related economic activity for each export dollar; and
- Benefited small businesses as 97 percent of all exporters are companies that employ three to four workers.

In relation to imports, USDA programs protect the U.S. livestock, poultry and wildlife populations from incursions of exotic diseases and parasites, including those transmissible from animals to humans. These programs also ensure that the myriad of agricultural and natural plant resources—commercial grains, native floriculture, commercial nursery stock, forests, grasslands, wetlands and deserts—are protected from exotic pests or diseases. By using sound science to evaluate the potential risks associated with the movement of international products *into* the U.S., USDA becomes a model for other nations to emulate. This attribute increases the likelihood that fairer trading agreements, based on scientifically supported sanitary (animal health) and phytosanitary (plant health) standards, will be used by international trading partners when they consider allowing U.S. plant and animal imports. This element also facilitates the development of international animal and plant health standards. The adoption of international standards and the reduction of unfair trade barriers benefit U.S. agriculture.

Challenges for the Future

The next few years present exciting challenges for USDA, particularly in the trade policy arena. At the top of the Department's list is a successful conclusion to the Doha Round. The outcome of these negotiations could provide valuable new opportunities for sales of U.S. agricultural products overseas. It also could require changes in USDA's export credit-guarantee programs, food aid and domestic support programs.

The Department also is negotiating several regional and bilateral agreements. The largest would include 34 democracies in the Western Hemisphere—a Free Trade Area of the Americas (FTAA). FTAA could expand U.S. agricultural exports by more than $1.5 billion annually. Other negotiations underway or planned include agreements with Australia, Morocco, five Central American countries and the Southern African Customs Union. USDA also is participating in the Asia Pacific Economic Cooperation forum and working with countries that want to join the WTO, such as Russia and Saudi Arabia.

Another priority is confronting the issues surrounding products developed through biotechnology. The increasing number of countries issuing regulations related to these products presents a particular challenge, both for the Nation's infrastructure and its food and agricultural exports. USDA is using all available avenues to ensure that countries adopt science-based policies in this area.

Inherent in USDA's objective to expand international market opportunities is the need to anticipate and prevent disruptions to trade caused by new market barriers. It is a measure of its success that many issues are resolved quickly with little public awareness. Virtually every day, USDA works with other Government agencies and private-sector representatives to try to prevent or resolve issues.

During 2003, the Department implemented the Trade Adjustment Assistance for Farmers Program. This new program, established by the Trade Act of 2002, authorizes USDA to pay eligible producer groups when a Secretary determines that imports have contributed significantly to commodity price declines.

The job of ensuring that animal and plant health issues are not used unfairly as barriers to trade becomes more complicated as trade increases. As a greater variety of plant and animal material enters this country, the risk rises that a new pest or disease will enter the Nation's borders and cause significant damage to its valuable plant and animal resources. Technical experts must be prepared to respond to this growing array of potential risks and any emergencies which may arise.

Additionally, there is an increased demand for information about pests and diseases from all parts of the world. There also is a demand for the technology to store, retrieve and analyze this data. Without the necessary data, pest-risk analyses cannot be developed, and protocols cannot be negotiated.

Improve International Marketing Opportunities

USDA works with the Office of the United States Trade Representative (USTR) to pursue new trade agreements and enforce provisions of existing agreements. In the trade policy arena, USDA works with industry partners to promote trade and outreach activities to educate producers, processors and exporters on emerging market opportunities in the increasingly competitive global marketplace.

New market opportunities are created for agriculture producers when: (1) export markets are opened or reopened; and (2) better requirements are negotiated for certifying or testing the health of animals and plants with international destinations. USDA seeks to lessen the financial burdens on U.S. exporters and adhere more closely to international science-based standards. The U.S. agricultural sector and export businesses benefit from fewer barriers when moving products overseas. Businesses become more profitable, and the international community experiences less conflict.

The most effective means of expanding international market opportunities is to make trade agreements with other countries covering the conditions applied to imports. A predictable system with basic sanitary and phytosanitary norms for fair and safe trade assures trading partners that products will ensure human health and safety and not harm their agricultural resources. U.S. Government agricultural attachés, located in more than 26 countries, help retain, expand and open international markets for U.S. food and agricultural products. They accomplish this task by negotiating with host government regulatory officials. These officials discuss pest and disease issues affecting food and agricultural commodities. They routinely intercede with host government officials when U.S. agricultural shipments do not meet the importing country's requirements (e.g., certification errors, pest or disease detections, or other shipment irregularities).

In cooperation with its stakeholders, USDA's National Center for Import and Export (NCIE) develops scientifically based protocols and health-certification procedures for exporting U.S. livestock, wild or exotic zoological animals, poultry, other birds, germplasm and animal-derived products and byproducts. NCIE reviews import requirements and, where it finds unjustified requirements or restrictions, proposes changes to that country's requirements reflecting advances in scientific knowledge and incorporate technically sound risk-management procedures.

Exhibit 6: Increasing U.S. Marketing Opportunities

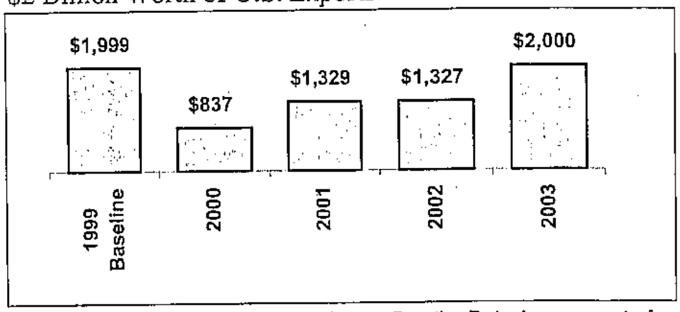
Annual Performance Goals and Indicators	Fiscal Year 2003		
	Target	Actual	Result
1.1.1 Estimated annual trade opportunities preserved through WTO trade negotiations and notification process ($ Mil)	$1,400	$2,000[1]	Exceeded
1.1.2 Estimated gross trade value of markets expanded/retained by market access activities other than WTO notification process ($ Mil)	$3,900	$3,900[1]	Met
1.1.3 Average tariff rate on agricultural imports worldwide (Percentage)	65%	65%[1]	Met
1.1.4 Increase the new export protocols that facilitate access to foreign markets (cumulative)[2]	46	60	Exceeded
1.1.5 Increase the international animal and plant health standards adopted	6	15[3]	Exceeded

[1]Result based on projected estimate. See the Data Assessment of Performance Measures section for more information.
[2]Includes only protocols for live animals, poultry, hatching eggs, embryos and semen, not animal products or plants.
[3]In addition to 4 new plant health standards, 11 animal health standards were modified.

Analysis of Results.

USDA exceeded its performance goal of $1.4 billion in trade opportunities preserved through the WTO trade negotiations and notifications process by $600 million, or 42 percent. Major contributing factors to this year's impressive performance were: 1) changes in Mexico's certification requirements for a number of U.S. livestock products and by-products, 2) an indefinite delay in implementation of China's new standards for imported cotton, and 3) Japan's agreement to review its tolerance level for a citrus pesticide used by U.S. exporters.

Exhibit 7: Trade Policy Successes In FY 2003 Preserve $2 Billion Worth of U.S. Exports



2003 result based on projected estimate. See the Data Assessment of Performance Measures section for more information.

Exhibit 8: Expand and Retain Market Access

Trends	Fiscal Year Actual				
	1999	2000	2001	2002	2003
Estimated gross trade value of markets expanded/retained by market access activities other than WTO notification process ($Mil) Baseline: 1989 = $1,948	$2,525	$4,349	$2,684	$3,818	$3,900[1]

[1]Result based on projected estimate. See the Data Assessment of Performance Measures section for more information.

The impressive showing in FY 2003 compares with FY 1999's baseline of $1.99 billion. USDA projected only $1.4 billion in trade opportunities preserved in FY 2003. This projection was due to Department estimates of what other countries had in the notification process and what USDA thought could be resolved during the fiscal year. The Department's performance also demonstrates the critical role of the WTO trade negotiations and notification process in preserving and expanding international market opportunities for American agriculture. As the U.S. Government continues to negotiate new bilateral, regional and multilateral trade agreements, the challenge will be to monitor enforcement effectively. This monitoring will assure that U.S. agriculture receives full benefits from negotiated reductions in tariff and non-tariff barriers.

USDA met its performance goal for non-WTO, market-access activities. Through diligent monitoring and resolution of trade disputes with countries' notification processes, USDA has made remarkable progress in retaining sales of U.S. agricultural products that likely would have been lost without active market intervention. Sales retained in FY 2003 are estimated at $3.9 billion, $2 billion above the baseline. The hard work of USDA's domestic and overseas field offices and its working with other Federal and State agencies, and industry and international Government officials made this achievement possible. Major examples of market interventions include:

- China: USDA obtained interim certificates to allow U.S. biotech soybean sales to China continue. China is a $1 billion-plus market for U.S. soybeans annually, with sales registrations already totaling $1.14 billion.
- The European Union (EU): The U.S. won a countervailing duty case in the WTO with the EU, allowing shipments of U.S. wheat to continue with a market value of approximately $400 million.
- Russia: Through focused negotiations, the Department resolved trade disputes involving U.S. poultry. The Russian market for U.S. poultry is estimated at $600 million.
- Mexico: The January 1, 2003, elimination of import duties there and a worsening of the country's agricultural and political situation have resulted in an increased number of trade actions against U.S. agricultural products. These products include poultry, pork, beef, dry beans, stone fruit and apples. The Foreign Agricultural Service, the Animal and Plant Health Inspection Service, the Food Safety Inspection Service and USTR worked together to remove a number of these barriers and prevent other actions from impacting U.S. agricultural exports to Mexico. Through these efforts, America's $7.3 billion market for agricultural products in Mexico, its third-largest export market, grew.

Future challenges include successful completion of the Doha Round multilateral trade agreements, and regional and bilateral agreements under negotiation or planned. Additional challenges include monitoring and enforcing the agreements.

The performance goal on average tariff rate on agricultural imports worldwide was met. The measure has been discontinued because the 65-percent annual rate will be used indefinitely. While negotiating worldwide reductions in average tariff rates is an important and laudable goal of international trade negotiations, it likely will take several years to achieve success in this arena.

Exhibit 9: Increasing U.S. Market Opportunity

Trends	Fiscal Year Actual				
	1999	2000	2001	2002	2003
Increase the new or modified export protocols that facilitate access to foreign markets (Cumulative)	N/A	N/A	N/A	46 Baseline	60
Increase the international animal and plant health standards adopted	N/A	N/A	N/A	7 Baseline	15

N/A = Not Applicable

USDA also exceeded its target of a cumulative total of 46 new export protocols for animals and animal semen and embryos that facilitate access to international markets. Fourteen new market protocols produced in FY 2003 plus the 46 markets from previous years produced a total of 60. These moves helped USDA open international markets for U.S. producers. USDA addressed export issues by meeting with many U.S. trading partners, including Argentina, Australia, Brazil, Canada, Chile, Colombia, EU, Honduras, Hungary, Mexico, Morocco, New Zealand, Peru, Poland and Russia.

USDA worked with these countries, China, Japan, Korea and Taiwan on export issues involving U.S. plant commodities.

Events that may impact future successful negotiations for the export of U.S. animals include: (1) the diagnosis of *bovine spongiform encephalopathy* in Canada; (2) amendments to international animal health standards; and (3) any future outbreaks of animal diseases in the U.S.

One of the most difficult challenges USDA faces is to negotiate the continuation of export markets when there is an outbreak of a contagious animal disease. In 2002, *Low Pathogenic Avian Influenza* struck U.S. poultry flocks. *Exotic Newcastle Disease* did the same in 2003.

Another challenge has been brought by recent Free Trade Agreements, which have increased the numbers of requests for imports into this country substantially. This increase requires USDA to continue ensuring scientific rigor in its assessment of potential health threats while, at the same time, not impeding trade. As the Department develops import regulations, U.S. agricultural stakeholders ask it to ensure that agricultural exports are unimpeded by the sanitary and phytosanitary regulations of international trading partners. This element has resulted in USDA trade personnel becoming increasingly involved in negotiations with other countries and in international arenas where sanitary and phytosanitary standards are being developed and applied. It also has resulted in USDA renewing its efforts to conduct trade-capacity building in underdeveloped nations that might be markets for U.S. exports. These nations also would like to export to the U.S.

USDA also exceeded its target for leading the adoption of six international animal and plant health standards. The international community adopted 4 new plant-health standards and modified 11 animal-health standards, making a total of 15 additions or changes. The Interim Commission on Phytosanitary Measures, established by the International Plant Protection Convention (IPPC) at its April 2003 annual meeting, adopted the phytosanitary standards. The standards cover evaluating the environmental risk and impact of quarantine pests, using irradiation for quarantine treatments and developing and using pest lists. This action brought the cumulative total of international plant health standards approved under the IPPC to 19.

On the animal-health side, the Organization of International Epizootics (OIE), in its 71st General Session in May 2003, voted to adopt 11 changes to existing standards into the 2003 International Animal Health Code. USDA played a lead role in developing and implementing a strategy for resolving technical issues related to a new EU regulation that threatens more than $400 million in U.S. animal product exports.

Through complex negotiations with the Europeans, USDA secured clarifications and changes to the EU regulation that will help protect most of this trade.

WTO, IPPC and OIE have obligations and objectives related to providing technical assistance to less-developed members. Developing countries may delay further trade reform and cooperation in the development of international standards — priority activities to the U.S. — until these countries address their capacity-building needs in a meaningful way.

Finally, USDA faces an increasing number of situations where its intervention is necessary. The Department is working to assure national and international stakeholders and the global public that biotechnology-derived agricultural products are safe for release into the environment. This task is a new, growing and complex area of work, especially for the Department's Animal and Plant Health Inspection Service's overseas personnel.

Program Evaluation.

The compliance-review staff completed export-promotion and market-development program evaluations for performance reporting requirements. The evaluations are available within the Foreign Agricultural Service. Copies may be obtained by calling the compliance-review staff at (202) 720-6713. No evaluations on export protocols or international standards were performed during FY 2003.

Selected Results in Research, Extension and Statistics for Objective 1.1

USDA provided the scientific basis for the U.S. Government's successful lawsuit against Japan. The lawsuit concerned import restrictions on U.S. apples grown in the Pacific Northwest. The Japanese government claimed that these apples might introduce the plant disease fire blight to its vegetation. In response, the country imposed trade barriers closing the market to U.S.-grown apples. While USDA found that mature, symptomless apples could not introduce fire blight into Japan, the Japanese Government continued the ban. The U.S. Government filed a lawsuit at the WTO. The Department presented its research, which helped USTR lawyers convert the scientific data into legal briefs. The WTO ruled in favor of the United States. This ruling should remove all or most of the restrictions limiting access to the Japanese market for U.S. apple growers.

Japan is one of the leading markets for U.S. agriculture, purchasing more than $8 billion in 2002 despite barriers that constrain certain imports. In the context of WTO agricultural negotiations, USDA is reviewing Japan's government policies that support or protect that country's key commodity markets, and thereby bar imports. The studies find that Japan's border barriers impede imports and help keep domestic prices high. This research and analysis will benefit U.S. negotiators, exporters and others interested in Japan's agricultural markets.

USDA's Engineering Research Unit (ERU) also developed an automated low-cost, near-infrared system for detecting such attributes as internal insects and protein in single-grain kernels. ERU established a Cooperative Research and Development Agreement with Perten Instruments to develop a commercial version of the Department's prototype. The Unit received the first commercial prototype this spring. Commercial production should begin late this fall.

Additionally, ERU developed a signal-processing algorithm and software to detect live and dead internal insect infestations in wheat using the Single-Kernel Characterization System 4100. Customers impacted are wheat millers and handlers. This software is a no-cost addition to existing instrumentation already in use by the wheat industry. The software's creation addresses a high-priority industry need. This detection technology will benefit producers by helping ensure the purity and identity of grains. It also will determine end quality and ensure the safety and marketability of the U.S. grain supply.

Special marketing initiatives through the Extension Service helped farmers earn extra income. The extra income was made up of $350 to $525 each for selected heifers in Missouri; $1,780 per farmer in West Virginia; $1,250 per producer annually through South Carolina State University efforts; and $300,000 for 20,000 cattle in an Oklahoma State University program.

Objective 1.2: Support International Economic Development and Trade Capacity Building

Exhibit 10: Resources Dedicated to Support International Economic Development and Trade Capacity Building

USDA Resources Dedicated to Objective 1.2	FY 2003	
	Actual	Percent of Goal 1
Program Obligations ($ Mil)	$4,600	10%
Staff Years	722	3%

Overview

To enhance economic development and trade-capacity building in developing and transitioning economies, USDA focuses on:

- Trade and investment liberalization;
- Research and education;
- Development of market information and mapping systems and processes; and
- Institution building to support sustainable agricultural development.

USDA also is working to strengthen linkages between U.S. agricultural communities and multilateral-development banks that will assist developing nations while also serving domestic agricultural interests.

Serving the Public

USDA launched the McGovern-Dole International Food for Education and Child Nutrition Program that was authorized by the Farm Security & Rural Investment Act of 2002. The program provides for the donation of U.S. agricultural commodities and associated financial and technical assistance to carry out preschool- and school-feeding programs in developing countries. The program also authorizes maternal-, infant- and child-nutrition programs. Its purpose is to improve food security, reduce the incidence of hunger and malnutrition, and improve literacy and primary education.

USDA published the final rule for the program in June and immediately solicited program proposals. McGovern-Dole marked the first U.S. Government food-aid program to comply with the Government Paperwork Elimination Act. USDA offered a Web-based application process to receive proposals. The Department received more than 50 funding applications from private voluntary organizations. Internet submissions accounted for 31 of the proposals.

Challenges for the Future

USDA is helping developing countries participate more fully in the trade arena. The Department's trade capacity-building efforts are aimed at helping countries participate in negotiations, implement agreements and connect trade liberalization to a program for reform and growth. Helping these countries achieve sustainable economic development and capacity to trade is a step in building future growth markets for the U.S.

Unfortunately, significant food needs continue to hurt many in the world. USDA will be working closely with the World Food Program and private voluntary-relief organization partners. Their goal will be to ensure that the U.S. commitment to alleviating global hunger and malnutrition remains strong.

Support International Economic Development and Trade Capacity Building

Many developing and transition countries receive U.S. funds and technical assistance for agricultural development and trade to help spur economic growth. USDA, working with the United States Agency for International Development (USAID), the U.S. Food and Drug Administration and other Federal agencies, supplies technical assistance in a number of different fields to improve and expand capacity to produce and trade agricultural products.

Exhibit 11: Promoting Assistance on International Economic Development

Annual Performance Goals and Indicators	Fiscal Year 2003		
	Target	Actual	Result
1.2.1 Increase the activities/projects completed in support of international economic development and trade capacity building in developing and transition countries (Cumulative)	1,020	1,020[1]	Met

[1]Result based on projected estimate. See the Data Assessment of Performance Measures section for more information.

Analysis of Results.

The performance goal was met. USDA's efforts were focused on providing technical assistance to developing and transitioning economies in:

- Bringing sanitary standards up to par with those of major import markets;
- Developing credible statistical systems needed to monitor agriculture sector performance; and
- Formulating agricultural policies and programs to achieve more trade avenues and ensure that the benefits are equitably realized.

Exhibit 12: Steadily Increasing Efforts To Assist Developing Countries Expand Economic Development and Trade Capacity

Trends	Fiscal Year Actual				
	1999	2000	2001	2002	2003
Increase the activities/projects completed in support of international economic development and trade capacity building in developing and transition countries (Cumulative)	789 Baseline	967	1,005	1,005[1]	1,020[2]

[1]Revised to reflect final data.

[2]Result based on projected estimate. See the Data Assessment of Performance Measures section for more information.

Technical assistance helping countries improve their sanitary standards results in improved food safety and health. Developing credible statistical systems to monitor agriculture sector performance is important because most of the countries assisted are agrarian-based. Formulating agricultural policies and programs to achieve freer trade are critical to sustainable economic development.

The number of technical-assistance projects has increased 29 percent during the past 5 years. Adding to the challenge of these efforts is USDA's involvement in reconstruction efforts in Iraq and Afghanistan.

USDA anticipates technical-assistance work will continue to be needed in transitioning economies of the Newly Independent States and developing countries in Asia, Latin America and Sub-Saharan Africa.

Program Evaluation.

No program evaluations were performed during FY 2003.

Support Foreign Food Assistance

More than 800 million people worldwide suffer from hunger and malnutrition—most of them children. The U.S is the world's leader in international food aid, providing more than 50 percent of total worldwide food assistance to combat this challenge. Working with the USAID, non-profit organizations and American universities, USDA works continuously to meet immediate food-aid needs while seeking long-term solutions to alleviate global food insecurity. These activities foster economic growth and development. Development, in turn, increases the recipient countries' ability to reduce their dependence on food aid, boosts domestic production and increases their reliance on commercial imports. The principle programs supporting these efforts are concessional food aid sales under Title I of P.L. 83-480, the Food for Progress Program and McGovern-Dole.

Exhibit 13: Increase Foreign Food Assistance

Annual Performance Goals and Indicators	Fiscal Year 2003		
	Target	Actual	Result
1.2.2 Share of countries' food import needs met through food aid programs (Percentage)	1.40%	1.40%[1]	Met
1.2.3 Improve food security and nutrition through the McGovern-Dole Food for Education Program by the number of daily meals and take-home rations for mothers, infants and schoolchildren (Mil.)	1.75	1.75[1]	Met
1.2.4 Improve literacy and primary education through McGovern-Dole Food for Education Program:			Met
• Percent increase in enrollment for Girls/Boys	5%	5%[1]	
• Percent increase in the proportion of children who are promoted	10%	10%[1]	

[1]Result based on projected estimate. See the Data Assessment of Performance Measures section for more information.

Analysis of Results.

The performance goals were met. An important overall goal of USDA's economic development and trade capacity-building objective is to help other countries reduce their dependence on food aid. This reduction helps these countries meet domestic consumption needs, increase the amount of basic staple food-commodity needs met through domestic production, and shift their abilities to meet food-import needs through commercial sources.

Exhibit 14: Food For Education Program

Trends	Fiscal Year Actual				
	1999	2000	2001	2002	2003
Share of countries' food import needs met through food aid programs (Percentage)	1.99% Baseline	1.06%	1.70%	1.50%	1.40%[1]
Improve food security and nutrition through McGovern-Dole Food for Education Program by the number of daily meals and take-home rations for mothers, infants and schoolchildren (Mil.)	N/A	N/A	N/A	N/A	1.75[1] Baseline
Percent increase in enrollment for Girls/Boys	N/A	N/A	N/A	N/A	5[1] Baseline
Percent increase in the proportion of children who are promoted	N/A	N/A	N/A	N/A	10[1] Baseline

[1]Result based on projected estimate. See the Data Assessment of Performance Measures section for more information.
N/A = Not Applicable

During 1999-2002, the share of countries' food-import needs met through food-aid programs ranged from 1-2 percent. While the target and projected estimate for the ratio is 1.4 percent in 2003, it may be difficult to reach because the large number of emergencies and relatively slow economic growth in many markets. Despite these challenges, USDA is expected to meet the long-term target of 0.8 percent by FY 2007. Because FY 2003 is McGovern-Dole's first year of operation, baselines currently are being established. USDA expects to meet its targeted performance measures in each of the three measures cited in exhibit above.

Program Evaluation.

The Office of Management and Budget's (OMB) Program Assessment Rating Tool (PART) recommended that new measures be developed for USDA's Food Aid Programs' (P.L. 480, Title I, Section 416(b) and Food for Progress). The new measures would link long-term outcome goals of food security. The Foreign Agricultural Service (FAS) is working to develop annual performance measures that link to long-term strategic goals and measurements. Additionally, FAS will determine if new performance measures are consistent with measures used by USAID and such other organizations as the World Food Program. A full copy of the assessment may be found at www.whitehouse.gov/omb/budget/fy2004/pma/foodaid.xls.

Selected Results in Research, Extension and Statistics for Objective 1.2

To enhance and provide strategic impact to its long, productive history of cooperative research with Mexico, USDA met with that country's research and funding institutions. The two groups identified five areas for joint research and cooperation: 1) water and environmental impact; 2) phytosanitary issues; 3) biotechnology and biosafety; 4) animal health; and 5) food safety. These areas impact trade or address environmental concerns required by the North American Free Trade Agreement and are priorities in the U.S.-Mexico Binational Commission's Committee on Agriculture. These workshops identified almost 100 new or ongoing research activities to pursue cooperatively as part of a strategic approach under the five areas.

Specialty plant-based natural products are a basis for U.S. industrial development in areas such as biopharmaceuticals, bioveterinary products, food additives and biological control products. The plant sources can be developed agronomically as novel crops for U.S. agriculture. Through a carefully designed network of international research collaborations involving USDA scientists and those from EU member States in the Mediterranean region, USDA has succeeded in gaining access to natural products. This access will supplement U.S. technology developments and eventually provide expanded product portfolios for U.S. agriculture.

Purdue University agricultural faculty, supported in part by USDA funds, is redeveloping agricultural education at Kabul University in Afghanistan. Faculty members also are establishing a distance-learning pilot program. These outreach efforts promote greater stability in the region. They also open new avenues of economic opportunity for people in Afghanistan.

Dominican Republic farmers lost their entire tomato crop to disease. A Wisconsin scientist, supported in part by USDA funds, examined deoxyribonucleic acid (DNA) and identified *Tomato Yellow Leaf Curl Virus* from the eastern Mediterranean. The virus is spread by whiteflies. DNA is a group of complex compounds that controls cellular function and heredity. USDA worked with Dominican officials and the tomato industry to develop an integrated pest-management plan. The plan virtually eradicated the number of virus-carrying whiteflies. Researchers identified early-maturing hybrid tomatoes that produced good yields before the virus could grow again.

Objective 1.3: Develop Alternative Markets for Agricultural Products and Activities

Exhibit 15: Resources Dedicated to Develop Alternative Markets for Agriculture Products and Activities

USDA Resources Dedicated to Objective 1.3	FY 2003	
	Actual	Percent of Goal 1
Program Obligations ($ Mil)	$499	1%
Staff Years	1,238	5%

Overview

USDA's programs are designed to develop alternative markets for agricultural products; stimulate new sources of domestic and international demand that will benefit farmers; increase economic activity and job formation in rural America; create a portfolio of more environmentally friendly products, energy and power; and enhance the energy security of the U.S. by reducing dependence on imported energy.

Serving the Public

These programs serve the agricultural sector, rural communities and their residents, and the broader U.S. economy. Farmers and ranchers benefit from increased demand for their products and from new crops used as feedstocks in renewable energy and biobased product production. Rural communities and their residents benefit from the new investment in handling and processing facilities used in the production of these commodities. New jobs in rural communities related to biobased handling and processing create new economic vigor and bring opportunities to the families living there. Renewable power production using animal waste as a feedstock can help solve difficult environmental problems for farmers, ranchers and their rural communities.

Challenges for the Future

The challenges to future success are:

- The continued need for research and demonstration projects to develop and demonstrate more efficient technologies and processes to convert biobased feedstocks to biopower (electric power production from biomass) and other renewable power (solar, wind, geothermal), biofuels (ethanol and biodiesel), and biobased products (plastics, motor oils and lubricants, coatings, solvents, etc. made from biofeedstocks);
- The need for continued research into the science of carbon sequestration (storing of carbon in living matter, such as trees, grass, etc.) and technologies and systems to enhance this process' capacity and efficiency;
- The continued need for public policies supporting the development and use of renewable energy and biobased products;
- The need for public education about the environmental, performance and energy security benefits of using renewable energy and biobased products, and more effectively managing the carbon cycle;
- The development of an infrastructure to support the efficient and economically viable development of renewable energy and biobased products; and
- The development of sound measurement and accounting techniques for greenhouse gas (carbon dioxide, methane and nitrous oxide) activities and carbon sequestration.

In response, USDA is creating regulations and other operating procedures under which the programs will operate to increase the use of bioenergy and biobased products. These programs, if successful, will make an important contribution toward creating market-based opportunities to both produce and consume increased amounts of bioenergy and biobased products.

Increase the Use of Bioenergy and Biobased Products

Broader use of renewable energy and biobased products will enhance environmental sustainability wherever these products are produced and used. Increased use of renewable energy and biobased products will enhance U.S. energy security by reducing the Nation's dependence on imported energy.

These programs, mostly created by the Farm Security & Rural Investment Act of 2002 (FSRIA), currently are being implemented and should be fully operational before the end of FY 2004. FSRIA also extended the biofuels program operational prior to its passing. Additionally, a program to develop accounting rules for greenhouse gas activities will create methodologies (methods used to estimate emissions) necessary for greenhouse gas reduction and carbon sequestration programs. Development of accounting rules for greenhouse gas activities will make the accurate measurement of the effect of greenhouse gas sequestration efforts and programs possible.

These programs help the U.S. economy move toward increased leadership in renewable energy and biobased products technology. This feature creates profitable and environmentally friendly penetration of domestic and international markets for both these products and the technologies used in their production.

Exhibit 16: Increase the Use of Bioenergy and Biobased Products

Annual Performance Goals and Indicators	Fiscal Year 2003		
	Target	Actual	Result
1.3.1 Increase the use of bioenergy and biobased products[1]			Met
• Qualify the number of products in five or more categories of Biobased Products for preferred procurement by Federal agencies	N/A	N/A	
• Encourage a number of farmers to produce energy for their own use and sale (# farms, ranches, & businesses assisted)	140	148	
• Develop a research, development and demonstration program to increase production of bioenergy, bioproducts and renewable energy (# projects funded)	5	50	
• Develop accounting rules and guidelines for greenhouse gas offset activities in agriculture (Percentage)	50%	50%	

[1]FSA is developing measures to focus on the desired key outcomes of the CCC bioenergy program. The Agency is planning to provide new measures in time for the FY 2005 budget submission.
N/A = Not Applicable

Analysis of Results.

The performance goal was met. USDA is reviewing draft regulations to create the framework for designating categories of products within the Biobased Products Preferred Procurement Program. The *Federal Register* is expected to publish the draft regulations for comments by December 2003. The next step is the designation of generic product categories, which are subject to preferred procurement by Federal agencies.

Exhibit 17: Bioenergy and Biobased Products Performance

Trends	Fiscal Year Actual				
	1999	2000	2001	2002	2003
Qualify the number of products in five or more categories of Biobased Products for preferred procurement by Federal agencies	N/A	N/A	N/A	N/A	N/A
Encourage a number of farmers to produce energy for their own use and sale (# farms, ranches and businesses assisted)	N/A	N/A	N/A	N/A	148 Baseline
Develop a research, development and demonstration program to increase production of bioenergy, bioproducts and renewable energy (# projects funded)	N/A	N/A	N/A	2 Baseline	50
Develop accounting rules and guidelines for greenhouse gas offset activities in agriculture (Percentage)	N/A	N/A	N/A	N/A	50% Baseline

N/A = Not Applicable

USDA met its target by receiving, reviewing and acting on 148 proposals from farmers, ranchers and small rural businesses. The proposals were for Federal assistance in producing renewable energy for their own use or sale, and providing energy-efficiency improvements. This number was based on all of the proposals submitted to Rural Business – Cooperative Service State offices. The proposals came in response to a Notice of Funds Availability published in the *Federal Register* for a grant-only program this fiscal year. The solicitation was for the Renewable Energy Systems and Energy Efficiency Improvements Program authorized under Title IX of FSRIA. As part of the solicitation, a Rural Development energy coordinator was designated to assist potential applicants in the application process. After USDA reviewed all 148 applications for programmatic and technical eligibility, the Department awarded 114 recipients (farmers, ranchers and rural small businesses) a total of $21.7 million of grant funds to assist in the development of renewable energy systems and energy-efficiency improvements. Of the 114 awards, 90 were for renewable energy systems totaling $20.2 million. The rest were for energy efficiency programs totaling $1.5 million.

The development and demonstration program for researching the use of bioenergy, bioproducts and renewable energy combines two programs. One component is the funding for research, development and demonstration provided under the Biomass Research and Development Act of 2000 and funded under FSRIA. The other component is the Commodity Credit Corporation (CCC) Bioenergy Program extended under FSRIA. The Department intends to separate these two components in FY 2004.

USDA and the Department of Energy awarded $23 million in grants for 19 proposals under the Biomass Research and Development Program. USDA allocated $16 million for this activity to 15 proposals. The CCC Bioenergy Program component published a final rule implementing changes reflecting FSRIA provisions and conducted an enrollment for the program for FYs 2003 through 2006. CCC will approve and execute program agreements for 54 ethanol producers and 42 biodiesel producers this year. The 50 projects represent 10 grant projects awarded under the Biomass Research and Development component, 13 new ethanol producers and 27 new biodiesel producers submitting agreements to participate in the Bioenergy Program component. The future challenges for the farm-produced energy program are increased development of farm bioenergy and development of market opportunities for such energy. The project also pushes for increased investment in new research, development and demonstration projects to improve the efficiency and acceptance of bioenergy and biobased products on the part of consumers. The CCC Bioenergy Program looks to increase the number of firms producing ethanol and biodiesel for sale to vendors and consumers.

The above program also made way for the development of new accounting rules and guidelines for reporting greenhouse gas reduction and carbon sequestration activities.

Program Evaluation.

A joint evaluative effort that includes the Rural Business-Cooperative Service, the Department of Energy (DOE) and the DOE-affiliated National Renewable Energy Laboratory will be conducted in early FY 2004. The CCC Bioenergy Program currently monitors and evaluates critical aspects of its program. It matches increased production projections with year-end actual production of increased ethanol and biodiesel by program participants. Copies may be obtained from the Farm Service Agency's Warehouse Inventory Division at (202) 720-2121. USDA and DOE evaluate the Biomass Research and Development Act grant program. Additionally, a Federal Advisory Committee created by the Act provides an evaluation to the Secretaries of Agriculture and Energy. Copies may be obtained from the Under Secretary for Natural Resources and Environment at (202) 720-7173.

A Program Assessment Rating Tool (PART) assessment was initiated on the Bioenergy Program as part of the FY 2005 budget process. A full copy of the completed evaluation will be available February 2004 at www.whitehouse.gov/omb/part.

Selected Results in Research, Extension and Statistics for Objective 1.3

Until recently, starch-based disposable plates, cups and food wraps manufactured and sold to restaurants and food-packaging companies were made strictly from potato starch, in part, because of an objectionable odor when using less-expensive wheat starch. Using knowledge of the structure and properties relationship of wheat starch and associated proteins, USDA developed a wheat-based, starch-packaging composite. This composite had no odor and was less expensive than the original commercial formulation. This technology was transferred to an industrial partner that manufactures the starch-based packaging as part of a Cooperative Research and Development Agreement. It is being introduced to the market via development of wheat-starch based biodegradable plates. This innovation improves the economics of using agriculturally derived packaging material. It also creates new markets for wheat starch.

Many universities, supported in part by USDA funds, are identifying new plant varieties to expand cropping options. Kentucky's work with seedless watermelons led a group of farmers to plant 10 trial acres. The watermelons grossed $30,000. The growers expanded the planting in 2003. Florida A&M University is testing such alternative tropical crops as Habanero peppers. One hot-pepper grower who followed recommendations grossed more than $15,000 in his first year of production. Alaska is examining peony cultivars for the international cut-flower market.

Supported in part with USDA funds, University of Nebraska research on chickpeas (garbanzo beans) helped establish it as a new high-value crop with export potential. More than 10,000 acres are produced in the State. The chickpeas provide twice the gross return on investment than the region's traditional millet and wheat crops. Vermont researchers developed whey protein-based wood varnishes. Natural and safe for homes, kids and pets, these products can become a new market for dairies.

Expanding ethnic markets are increasing the demand for goat meat in many States. Florida A&M University research, with USDA support, identified strategies that increase carcass yields by 15 percent. These strategies also improve weaning weights by 12 percent.

Objective 1.4: Provide Risk Management and Financial Tools to Farmers and Ranchers

Exhibit 18: Resources Dedicated to Provide Risk Management and Financial Tools to Farmers and Ranchers

USDA Resources Dedicated to Objective 1.4	FY 2003	
	Actual	Percent of Goal 1
Program Obligations ($ Mil)	$34,763	76%
Staff Years	17,587	69%

Overview

USDA has reduced program costs including preventing payments on potential fraudulent insurance claims, and developed new technology including data-mining efforts, Geographic Information Systems, infrared, the Common Computing Environment for county offices, and other information technologies. New specialty crop and livestock pilot programs currently are underway. Education and outreach programs have been enhanced and expanded to help more producers learn how to better mitigate their risks.

The Department also continued to establish and implement the framework for farm and commodity programs under FSRIA and the Agricultural Risk Protection Act. The acts provided America's farmers and ranchers with a variety of risk-management and financial tools. These tools included crop insurance, direct and counter-cyclical payments, marketing-assistance loan benefits and farm operating and ownership loans to promote stability in the agricultural sector. Additionally, USDA continued its efforts to streamline and modernize its program delivery structure to provide more efficient service for its customers.

Serving the Public

USDA promotes, supports and regulates sound risk-management solutions to preserve and strengthen the economic stability of U.S. agricultural producers. This effort is conducted predominately through the Federal Crop Insurance Program. The program consists of many public and private risk-management alternatives designed to improve the economic stability of agriculture. The long-term agricultural producers' capability to supply U.S. and global food-related markets depends on their ability to manage financial and natural risks associated with production.

USDA also offers direct and guaranteed farm ownership and operating loans to farmers and ranchers who are temporarily unable to obtain private, commercial credit. These loans are particularly important to beginning and socially disadvantaged farmers and ranchers whose limited cash flow may preclude them from qualifying for a commercial loan.

Operating loans may be used to purchase or lease such items as livestock, equipment, feed or seed or to cover operating expenses. Farm ownership loans are used to purchase farmland and build or repair buildings. Together, the producer and the Agency outline goals and objectives to steer the operation towards profitability. The Youth Loan Program is designed for those between the ages of 10 and 20 to borrow up to $5,000 to establish and operate income-producing projects. The money can be used to purchase animals, equipment or supplies, and to pay operating expenses.

USDA's commodity, price and income-support programs continue to be a testament to the country's commitment to maintaining a balanced food and fiber industry for its consumers. Commodity, price and income support helps stabilize American farming and ranching operations. This assistance enables farmers and ranchers to reduce their risk of financial loss due to inclement weather or unfavorable global market conditions.

Direct and counter-cyclical payments reduce financial risks and help producers meet their cash flow needs. Marketing-assistance loans provide producers interim financing at harvest time to meet cash flow needs without having to sell their commodities when market prices are at harvest-time lows. Enabling producers to store production at harvest facilitates more effective marketing of commodities throughout the year.

Although society has become increasingly dependent on technological advancement, four very basic human needs remain constant: food, water, clothing and shelter. USDA will continue working with American farmers, ranchers and producers to satisfy those basic needs with abundant, safe and affordable supplies of food and fiber by promoting responsible land and natural resource management.

Challenges for the Future

Today, about 80 percent of the acreage planted to major corps is at least minimally insured. Additionally, coverage is expanding by encouraging producers to purchase higher coverage levels and the development of products for new crops, livestock and revenue. These programs, along with diversified production, marketing and use of futures and options, allow each producer to customize their risk management strategy. USDA's challenge is to continue to expand and improve these programs, and educate producers so that they can identify, quantify and manage their natural and economic risks.

USDA will be reviewing its farm-loan program activities to assess the effectiveness and impact of its programs. Ensuring an efficient delivery of services is not necessarily dependent on funding increases. It also depends on training, human-capital planning and organizational efficiencies. Farm-loan program challenges include ensuring a highly trained staff, assisting farmers during economic distress and natural disasters, and offering credit to eligible borrowers unable to obtain it from other sources.

Provide Risk-Management Tools to Farmers and Ranchers

USDA provides and supports cost-effective means of managing risk for agricultural producers to improve the economic stability of agriculture. Agricultural producers face severe economic losses each year due to such unavoidable causes as drought, excessive moisture, severe weather, insects, reduced prices, reduced yields or any combination of these factors. USDA develops a variety of risk-management tools for use by agricultural producers. The Department continues to assess producers' needs and private risk-management tools to ensure the availability of new and innovative risk-management alternatives. The increased percentages in insurance liability covered, participation and the number of commodities eligible indicate the acceptance of these products by producers, and a broadening of economic stability across the agricultural spectrum.

Exhibit 19: Expand Use of Risk Management Tools

Annual Performance Goals and Indicators	Fiscal Year 2003		
	Target	Actual	Result
1.4.1 Expand USDA risk-management tools available for agricultural producers to use in managing production and price risks[1]:			Deferred
• Increase crop insurance coverage as measured by potential liabilities covered by crop insurance ($ Bil)	40.6	Available Spring 2004	
• Increase crop insurance participation as measured by planted acres having crop insurance coverage (Percentage)	81.1%	Available Spring 2004	
• Increase the number of commodities eligible for crop insurance	366	362	

[1]For most crops, crop year is defined as the period within which the insured crop is grown and it is designated by the calendar year in which the insured crop is harvested.

Analysis of Results.

Exhibit 20: Trends in the Use of Risk Management Tools

Trends	Fiscal Year Actual				
	1999	2000	2001	2002	2003
Increase crop insurance coverage as measured by potential liabilities covered by crop insurance ($ Bil)	30.9 Baseline	34.5	36.7	37.3	Available Spring 2004
Increase crop insurance participation as measured by planted acres having crop insurance coverage (Percentage)	72.5% Baseline	76.9%	78.5%	81.1%[1]	Available Spring 2004
Increase the number of commodities eligible for crop insurance	328 Baseline	343	343	358	362

[1]Revised to reflect final data.

This performance goal is deferred. Actual performance data pertaining to crop-year liability and acres covered are gathered from information USDA receives from insurance companies. These companies, in turn, receive data from the producers. The actual 2003 data will become available at the end of the second quarter of FY 2004. The data will be published in next year's report. While the measures may be revised later, based on prior history, this performance goal is expected to be met.

The Department measured the number of commodities eligible for crop insurance and participation in the Federal Crop Insurance Program. Expanding the number of eligible commodities is one way to provide economic opportunities for agricultural producers who have not had access to risk-management tools.

Since 1999, an additional 34 commodities have become eligible for crop insurance. While USDA had projected that this number would increase by eight rather than four for the 2003 Crop Year, the Federal Crop Insurance Act requires that submissions of insurance policies and plans and related materials be developed by third parties and approved by the Federal Crop Insurance Corporation (FCIC) Board of Directors. These submissions, including all new and substantial product modifications, are subject to review by not less than five independent expert actuarial and underwriting reviewers. While several dozen of these comprehensive reviews are considered by the FCIC Board each year, not all are approved for implementation. These new FCIC product-development procedures, while causing some program development and implementation delays, will improve program integrity and reliability.

USDA also announced pilot programs for fed and feeder cattle to protect producers from declining cattle prices. The Department also entered its second pilot year for two products for slaughter hogs in Iowa, subsequently approved expansion of the pilot in additional States and continued to test several specialty crops and pasture and forage products. These moves were designed to fulfill the requirements of the Agricultural Risk Protection Act of 2000. The act requires USDA to establish a competitive-grants program to educate agricultural producers about the full range of risk-management activities. Additionally, USDA announced an effort to better serve and increase crop-insurance participation in the 15 historically under-served States (CT, DE, MA, MD, ME, NH, NJ, NV, NY, PA, RI, UT, VT, WV and WY) targeted under the Agricultural Management Assistance Program. USDA provided additional subsidy for higher levels of insurance coverage to producers in these States for the 2003 Crop Year through the Targeted States Financial Assistance Program.

Program Evaluation.

A team of expert actuarial and underwriting reviewers from academia and the private sector conducted an inventory and analysis of the FCIC portfolio of crop insurance and risk-management products. The analysis, which currently is underway, is designed to provide background and guidance to the FCIC Board of Directors in its product-development strategy for the next several years.

Another team conducted an inventory and analysis of existing FCIC policies, procedures, handbooks and other related material. The team's work focused on the analysis of overlapping documentation and guidance, and procedural gaps. Team members submitted the evaluation to the FCIC Board. The board then directed the Risk Management Agency to take action on the findings. A review of the findings currently is underway.

USDA also conducted program evaluations on the Quality Adjustment Program and the Use of Pack Factors in Stored Grains. Pack factors may be used in the loss-adjustment process to estimate the amount of settling or "packing" that occurs in stored grain. The Department used both internal staff and contractors to complete the evaluations. An additional eight evaluations currently are underway.

USDA completed Pilot Program evaluations for pecans, blueberries and millet. Seventeen additional pilot crop evaluations currently are underway. As these evaluations are completed, the FCIC Board uses them during the approval process for new insurance plans. Copies of the completed evaluations are available at www.rma.usda.gov.

OMB's PART showed the Crop Insurance Program to be clear and its management relatively good. The PART stated that additional planning and performance measurement is needed because the program has yet to demonstrate the extent of its impact on farm income or reducing dependence on other government-support programs. The Risk Management Agency will identify improvements in the program that will move it closer to becoming a complete risk-management tool for the agriculture sector. A full copy of the PART may be found at www.whitehouse.gov/omb/budget/fy2004/pma/cropinsurance.pdf.

Provide Credit to Agricultural Producers

Farmers and ranchers who temporarily are unable to obtain sufficient credit may obtain credit assistance through USDA. They can use the assistance to finance their needs at reasonable rates and terms. Some are beginning or socially disadvantaged farmers who have suffered financial setbacks from natural disasters. These farmers also have limited resources with which to establish and maintain a profitable farm operation. Thus, the farm-loan program provides support to family farmers and ranchers who otherwise would be unable to contribute to the farm sector.

To help ensure the effectiveness of these programs, it is important to provide timely financial resources and other assistance to borrowers when a need arises. Thus, USDA will continue to reduce processing times for loan requests each year. Borrower ability to pay installment debt on time is obviously a key indicator of financial strength and viability. Reduced losses in the program indicate that borrowers are experiencing greater success in meeting their financial obligations. The Department will continue to monitor the delinquency and loss rates of the direct loan portfolio closely.

Exhibit 21: Improve Loan Processing Efficiency and Fiscal Soundness of the Direct Loan Portfolio

Annual Performance Goals and Indicators	Fiscal Year 2003		
	Target	Actual	Result
1.4.2 Improve customer service by increasing the efficiency of loan processing:			Met
• Reduce the average direct loan processing time (Days)	40	40[1]	
• Reduce the average guaranteed loan processing time (Days)	15	14[1]	
1.4.3 Improve fiscal soundness of the direct loan portfolio:			Met
• Maintain the direct loan delinquency rate at or below 15 percent (Percentage)	15%	12.5%[1]	
• Maintain the direct loan loss rate at or below 5 percent (Percentage)	5%	4.5%[1]	

[1]Result based on projected estimate. See the Data Assessment of Performance Measures section for more information.

Analysis of Results.

These performance goals were met. The average processing time for direct loans has decreased from 46 days in FY 2000 to 40 days. This 13-percent decrease can be attributed to the ongoing streamlining process, improved monitoring through automation and a renewed focus on customer service through personnel hiring and training. USDA completed and implemented the direct emergency loan portion of the streamlining project during FY 2002.

Exhibit 22: Farm Loan Trends

Trends	Fiscal Year Actual				
	1999	2000	2001	2002	2003
Reduce the average direct loan processing time (Days)	N/A	46 Baseline	44	42	40[1]
Reduce the average guaranteed loan processing time (Days)	N/A	20 Baseline	17	16	14[1]
Maintain the direct loan delinquency rate at or below 15 percent (Percentage)	14.2%	12.4% Baseline	11.3%	10.4%	12.5%[1]
Maintain the direct loan loss rate at or below 5 percent (Percentage)	3.5%	4.2% Baseline	3.3%	7.3%	4.5%[1]

N/A = Not Applicable
[1]Result based on projected estimate. See the Data Assessment of Performance Measures section for more information.

Similar results have been achieved for guaranteed loan processing. USDA revised its guaranteed loan regulations in FY 1999 to streamline all loan processes, including application processing. As a result, USDA's guaranteed loan-processing time continued to decline during the 2003 loan season. The average guaranteed loan-processing time has dropped 30 percent, from 20 days in FY 2000 to 14 days.

USDA's direct operating and ownership loan programs target farm borrowers with less wealth, higher indebtedness, less capacity for further debt and lower income levels. Thus, USDA's farm-loan programs carry a high degree of risk. Despite the risk, the Department surpassed its performance targets for both delinquencies and losses. Delinquency and loss rates in FY 2003 essentially are unchanged from the FY 2000 baseline. They also remain well below the average loss (5.9 percent) and delinquency (17.6 percent) rates for the period 1993-2002. These performance measures help USDA assess the economic viability of borrowers. A low delinquency rate means more producers are on schedule with their loan payments and less likely to cease farming. Loss rates are an indicator of prior-year loan decisions and the overall farm economy. Additionally, low rates translate into reduced program costs. Government program payments, improved monitoring and loan officer training contributed to meeting the performance goal. State Office and Service Center staff also prioritized resolving a number of older delinquency cases.

USDA intends to continue using prudent underwriting practices, borrower supervision and training classes to maintain the direct-loan delinquency and loan-loss rates at or below target levels. A recently purchased Web-based, farm-planning tool will enhance the underwriting process and loan decision-making. This information system will allow USDA to manage the farm-loan programs more efficiently. Additionally, data gathered in the system will enable USDA to evaluate alternative performance measures for the farm-loan programs that are more outcome-oriented. These measures would indicate whether or not programs are in fact improving the economic viability of the Department's customers. The challenge of maintaining low delinquency rates and targeted levels in FY 2004 will be influenced by commodity prices and weather-related disasters.

Program Evaluation.

A PART assessment was initiated on the Guaranteed Loans Program as part of the FY 2005 budget process. A full copy of the completed evaluation will be available February 2004 at www.whitehouse.gov/omb/part.

Provide Income Support to Agricultural Producers

Economic stability is provided to producers through multiple farm income-support programs. These programs include the marketing assistance loan and loan deficiency payment (LDP) program. Marketing-assistance loans are provided to producers on a nine-month basis on their eligible crop stored either on the farm or in approved storage space. The heaviest loan activity is usually at harvest time when commodity prices generally are lower. To market their commodity effectively, producers obtain the loan and store the crop in anticipation of commodity prices increasing later after harvest time. Producers who choose not to obtain a marketing-assistance loan can obtain a loan-deficiency payment by agreeing to forgo the marketing-assistance loan. The LDP is a direct payment to the producer in an amount equal to the difference between the established loan rate for the eligible commodity and the announced alternative repayment rate.

Eligible commodities for marketing-assistance loan and LDPs are wheat, corn, grain sorghum, barley, oats, soybeans, minor oilseeds, upland cotton, peanuts, wool, mohair, pelts, pulse crops, honey and rice. It is anticipated that the level of marketing-assistance loans and LDPs will remain about the same for 2004 as for 2003.

Exhibit 23: Provide Income Assistance

Annual Performance Goals and Indicators	Fiscal Year 2003		
	Target	Actual	Result
1.4.4 Eligible commodity production placed under marketing assistance loan or loan deficiency payment (Percentage)[1]:			Unmet
• Wheat, corn, grain sorghum, barley, oats, soybeans, minor oilseeds, peanuts, wool, mohair, pulse crops and rice	82%	13%	
• Upland cotton	97%	99%	

[1]Performance data for marketing-assistance loans and LDPs are reported on crop year rather than fiscal-year basis. A crop year is defined as the year in which a crop is harvested. The final loan and LDP availability date for CY 2002 was May 30, 2003.

Analysis of Results.

USDA's performance goal for the amount of eligible commodity production placed under marketing-assistance loan or LDP was not met. While government payments continued to be an important factor in stabilizing farm income, USDA issued significantly fewer LDPs in 2003 than it had in recent years. The Department made approximately 220,000 LDPs valued at nearly $550 million in 2003. This figure is a significant drop from the nearly three million LDPs ($6.25 billion) issued in 2001 (baseline). Demand for marketing-assistance loans increased in 2003, continuing the trend of recent years. USDA issued 193,000 marketing-assistance loans worth more than $10 billion. This number compares with 160,000 loans ($6.5 billion) issued in 2001 (baseline). In 2003, 13 percent of the eligible production of major commodities received an LDP or marketing-assistance loan. Ninety-nine percent of the eligible production of upland cotton received an LDP or marketing-assistance loan.

While the performance goal was not met, the program worked as intended. Eligible producers may choose to receive marketing loan-gain benefits by receiving an LDP when the alternative repayment rate, which is based on terminal market rates, is lower than the established commodity-loan rate. Because market prices remained higher than the established loan rate for most of the eligible loan commodities (cotton and rice market prices were below the established loan rate the entire crop year) throughout the crop year, the LDP option had limited availability. Lower market gain activity and LDP program activity indicates that the market is getting stronger. As market prices increase, the amount of government assistance needed to stabilize the farm economy is reduced.

Description of Actions and Schedules.

No specific actions are planned to reach the unmet goal because the program is working as designed. USDA, in consultation with OMB, is developing new outcome-oriented performance indicators for its income-support programs. The current performance goal and indicators for marketing-assistance loans and LDPs will be discontinued. New indicators will be included in the FY 2005 performance budget.

Program Evaluation.

The Direct Payment Program PART assessment completed for the FY 2004 budget may be obtained at www.whitehouse.gov/omb/budget/fy2004/pma/directcrop.pdf. The FY 2004 PART stated that the Direct Payment Program is well managed and has a clear purpose. The PART also stated that its design could be improved and performance measures are needed to address program goals and delivery. As indicated above, the Farm Service Agency will be developing more outcome-oriented performance measures in FY 2004 that will address this deficiency. A reassessment of this program was initiated as part of the FY 2005 budget process. A full copy of the completed evaluation will be available February 2004 at www.whitehouse.gov/omb/part.

A PART assessment was initiated on the Marketing Assistance Loan Program as part of the FY 2005 budget process. A full copy of the completed evaluation will be available February 2004 at www.whitehouse.gov/omb/part.

Improve Electronic Delivery of Information and Services

Producers receive farm loans, commodity loans, direct payments and emergency assistance, and participate in conservation programs to help ensure their economic viability. These programs help farmers and ranchers produce an adequate food supply, maintain viable operations, compete for export sales of commodities in the world marketplace and contribute to the year-round availability of a variety of low-cost, safe and nutritious foods.

To meet the needs of its customers more effectively, USDA is improving access to services and program information, and increasing the efficiency and ease of use of the number of farm commodity and farm-loan programs that can be accessed, completed and accepted electronically. Transaction needs of USDA's business and industry customers who purchase, export, warehouse and transport commodities are targeted for FY 2004.

Exhibit 24: Expand Customer Access to Services

Annual Performance Goals and Indicators	Fiscal Year 2003		
	Target	Actual	Result
1.4.5 Increase farm commodity and loan programs that can be accessed, completed and accepted electronically (Percentage)	68%	74%[1]	Exceeded

[1]Result based on projected estimate. See the Data Assessment of Performance Measures section for more information.

Analysis of Results.

The performance goal was exceeded. USDA increased the number of forms available electronically to USDA customers through the public eForms Web site from 143 to 208 forms. This action resulted in 74 percent of the accessible forms being transmitted electronically to USDA Service Centers for processing. This is a 17-percent increase from the 2002 baseline. To meet the future challenge of further improving the electronic delivery of information and services, USDA must enhance customer access to farm historical data for current and previous years. The Department also must enhance automatic data fill-in forms and calculations, and multiple-signature capabilities.

Exhibit 25: Trends in Customer Access to Services

Trends	Fiscal Year Actual				
	1999	2000	2001	2002	2003
Increase farm commodity and loan programs that can be accessed, completed and accepted electronically (Percentage)	N/A	N/A	N/A	63% Baseline	74%[1]

N/A = Not Applicable

[1]Result based on projected estimate. See the Data Assessment of Performance Measures section for more information.

Program Evaluation.

No evaluations were performed during FY 2003.

Selected Results in Research, Extension and Statistics for Objective 1.4

While the Federal Agriculture Improvement and Reform Act of 1996 and the Farm Security and Rural Investment Act of 2002 (FSRIA) introduced new programs that support farmers' incomes, some of which do not depend on current production, factor use or commodity prices. USDA analysis of these decoupled payments finds little evidence that they distort markets. Department analysis of the effects of FSRIA's provisions allowing base and yield updating and introducing counter-cyclical payments indicate that two-thirds of farmers decline to update their payment base and yields.

Recent USDA research has identified three broad demographic trends that will shape future U.S. food markets. These trends are more mature consumers, increased diversity and more people to feed. After further review, USDA translated these trends into projections of growth in food expenditures and demand for specific commodities between 2000 and 2020. This research examined whether the character of America's farmlands and farm businesses will change as much as the profile of the U.S. population 20 years from now.

USDA's Agricultural Resource Management Survey (ARMS) is the primary source of information on the financial condition, production practices, resource use and economic well-being of America's farm households. The survey data have provided the foundation for some of the most insightful research on farm households and farm business practices. In recent years, ARMS funding has lagged behind survey costs, affecting survey coverage and data quality adversely. With new funding, USDA is improving statistical accuracy and expanding the survey's coverage. The Department also plans to make the ARMS data more accessible and user-friendly through Web-based dissemination.

Developed in part with USDA funds, global-positioning systems, geographic-information systems and remote sensing are helping decision-makers map and manage a wide variety of crops and natural resources nationwide. This technology gives them clear, detailed information. New low-cost field-environmental sensors developed at the University of Kentucky, Ohio State University and the University of Tennessee help farmers maximize economic return and environmental stability.

STRATEGIC GOAL 2: SUPPORT INCREASED ECONOMIC OPPORTUNITIES AND IMPROVED QUALITY OF LIFE IN RURAL AMERICA

Exhibit 26: Resources Dedicated to Support and Improve Rural America

USDA Resources Dedicated to Strategic Goal 2	FY 2003	
	Actual	Percent of Total USDA
Program Obligations ($ Mil)	$15,920	13%
Staff Years	9,001	8%

USDA focuses on expanding economic opportunities in rural areas. Many rural communities lag behind Americans' expectations of what the U.S. standard of living should be because of their remoteness, overall lower educational levels and their tendency to depend on narrowly defined economies, among other reasons.

USDA's Business and Industry Guaranteed Loan Program (B&I) supports loans to individuals, partnerships, corporations, cooperatives and other legal entities. B&I is designed to improve, develop or finance business and industry, create employment opportunities and improve the economic and environmental climate in rural areas.

Biobased energy investments over the next few years will prevent tons of carbon dioxide from being released into the atmosphere. These investments also will save millions of kilowatt hours now wasted in low-efficiency energy production. Additionally, for rural communities to establish new economic gains, they must utilize such new and enabling technology as broadband.

Objective 2.1: Expand Economic Opportunities through USDA Financing of Businesses

Exhibit 27: Resources Dedicated to Expand Economic Opportunities through USDA Financing of Businesses

USDA Resources Dedicated to Objective 2.1	FY 2003	
	Actual	Percent of Goal 2
Program Obligations ($ Mil)	$6,984	44%
Staff Years	3,436	38%

Overview

USDA focuses on expanding economic opportunities in rural areas. Many rural communities are challenged by declining economies as they transition away from traditional economic bases, their distance from input or product markets, poor labor-force skills and rising international competition. The Department makes a variety of investments in rural communities, including:

- Guarantees of bank loans to businesses;
- Capitalizing local revolving loan funds that assist small businesses;
- Grants to develop business infrastructure such as incubators or to undertake feasibility studies;

- Business-planning grants;
- Technical assistance to help communities develop strategic plans for economic development;
- Loans and technical assistance to agricultural cooperatives;
- Grants to foster energy savings and alternative energy sources; and
- Grants to stimulate the development of new enterprises based on value-added products.

USDA also invests in critically needed infrastructure, such as broadband technology, that provides rural businesses access to emerging competitive opportunities. Today's advanced telecommunications networks allow rural communities to provide businesses with opportunities to compete locally, nationally and globally. These networks also will ensure that rural residents are equipped to compete in an increasingly information-oriented economy.

Serving the Public

B&I helps create and save jobs in rural America. This program guarantees up to 90 percent of a loan made by a commercial lender. Loan proceeds may be used for working capital, machinery and equipment, buildings and real estate, and certain types of debt refinancing. B&I expands the lending capacity of private lenders in rural communities. Participating lenders can make and service quality loans that provide lasting community benefits. B&I represents a true private-public partnership.

USDA's Broadband Telecommunications Program provides loans and loan guarantees for broadband services in rural communities. These loans facilitate deployment of new and innovative technologies to provide two-way data transmission of at least 200 kilobytes-per-second in communities with populations up to 20,000. These important investments in rural areas make high-speed data transmission available in low-density, remote areas that often have been ignored by the private sector. Since its inception in 2001, the program has grown quickly, reaching more than twice as many rural counties as in the initial year, or 6 percent of all rural counties in 2003 alone. These investments in critical telecommunications infrastructure are essential to enabling rural businesses and communities to keep pace with rapid developments in the rest of America and the world.

Challenges for the Future

The rural economy faces different challenges than urban and suburban areas. These challenges include historic dependence on natural resources subject to cyclical trends, large-scale changes in technology and resulting efficiency gains in these industries, and the remoteness and low-density settlement of rural communities. The private sector often avoids investments in high-cost developments because of lack of profitability potential or information on which to base decisions. While USDA can foster rural economic development, success depends on sufficient numbers of highly trained staff in local offices.

Because of a lack of biobased energy investments in technology and human capital, rural communities depend on low-efficiency energy production. This production releases tons of carbon dioxide into the atmosphere. It also wastes money and kilowatt hours.

The effectiveness of USDA's investments depends on its programs' successes and national economic trends. The Department is working to improve its ability to provide services.

Improve Rural Economic Opportunities

Typically, business amenities, physical conditions and credit terms are inferior to those in urban areas. For example, rural banks are smaller and have more restrictive lending limits and standards than large urban institutions. Availability of Internet and Web services is inconsistent in rural areas, a distinct disadvantage to business growth. The rare publicly financed rural industrial park is smaller and has fewer amenities than those in suburban and urban areas. Even during high-growth economic periods, rural communities' economic environments are less vigorous and infrastructures less developed than urban areas. Rural communities have neither the size nor depth of tax bases to publicly finance amenities that businesses need, such as transportation links, rehabilitated or expanded infrastructure and full-service industrial parks.

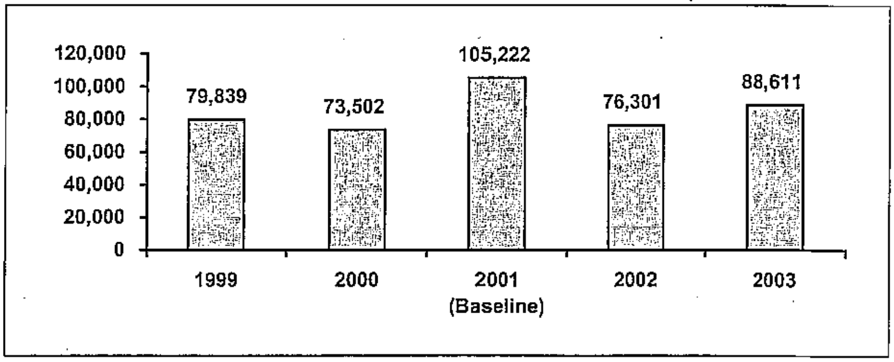
B&I can guarantee loans for satisfactory credit risks. This program allows lenders to offer competitive terms and make loans of up to $25 million[1] in eligible areas. USDA also provides technical assistance and modest grants (frequently as a catalyst for attracting local private funds) for communities to launch the infrastructure necessary for businesses. Funding of small revolving-loan funds can help new borrowers and emerging local entrepreneurs.

Exhibit 28: Strengthen Rural Businesses

Annual Performance Goals and Indicators	Fiscal Year 2003		
	Target	Actual	Result
2.1.1 Create or save additional jobs through USDA financing of businesses	73,944	88,611	Exceeded
2.1.2 Reduce the Business and Industry Portfolio delinquency rate, excluding bankruptcy cases (Percentage)	9.5%	8.5%	Exceeded

Analysis of Results.

Exhibit 29: Estimated Jobs Created or Saved



The performance goal was exceeded for the number of jobs computed to be created or saved. The figure was above 2002 achievements. The number of jobs created or saved is related to the funding levels for business programs and general conditions in regional and national economies. These factors are external to USDA's control.

The number of jobs resulting from the Rural Business – Cooperative Service (RBS) in FY 2003 exceeded the target level. This level is attributed to Rural Business Enterprise Grants receiving $5 million more in funding from prior-year deobligations than was provided by the President's budget. B&I also used carryover funds from FY 2002. Additionally, in FY 2003, Rural Development State offices substantially improved their ability to gather, record and report job information on all RBS programs consistently.

The delinquency-rate goal was exceeded. The improvement is the result of: 1) improved underwriting and monitoring policies implemented by USDA, 2) some delinquent borrowers reorganizing under bankruptcy

[1]Up to $40 million may be guaranteed for certain value-added cooperative enterprises.

law, 3) lower interest rates helping borrowers maintain adequate cash flows even with depressed revenues, and 4) USDA State staffs working closely with borrowers and lenders, encouraging lenders to be proactive in assisting borrowers to improve marketing and operations. These actions allow borrowers' gross revenues to support debt service and maintain employment.

Exhibit 30: Trends in Expanding Economic Opportunities

Trends	Fiscal Year Actual				
	1999	2000	2001	2002	2003
Reduce the Business and Industry Portfolio delinquency rate, excluding bankruptcy cases (Percentage)[1]	4.8%	4.2%	4%	10.3% Baseline	8.5%

[1]Delinquency data for years 2002 forward reflect reconciliation of delinquency accounts at the time of conversion to a new Rural Business – Cooperative Service reporting system.

Current levels have not been utilized fully mainly because of economic weakness and the continuing downward trend in commercial credit costs. Business credit costs rose slightly at the end of the year.

USDA's challenges to overcoming general economic conditions include increased programs and reporting responsibilities, and the retirement of numerous seasoned loan and grant officers. These conditions reverberate the hardest in rural areas. Intractable high-poverty areas also require a scope and depth of technical support beyond USDA's current financial and human resources.

Program Evaluation.

In a continuing effort to improve and track program results, USDA launched a mission-area-wide effort to review current performance measures and tracking systems, and develop new ones as needed. The Budget & Performance Integration team of USDA's Rural Development staff meets regularly to develop and refine measures and tools to plan and track progress.

It has been estimated that the economic benefit to the rural community, in addition to direct jobs created or saved, is $2.50 for every dollar in guaranteed loans closed. These investments make a continuing difference in rural communities, though only measured by the jobs computed in the initial year of the loan. The B&I delinquency rate represents myriad conditions. These conditions include national economic trends, local business events and the quality of Agency loan underwriting. While the Agency has no control over the first two external factors, it has begun strengthening loan underwriting. Additionally, the results have started to appear in the delinquency rates for the current year.

A Program Assessment Rating Tool (PART) assessment was initiated on B&I as part of the FY 2005 budget process. A full copy of the completed evaluation will be available February 2004 at www.whitehouse.gov/omb/part.

Improve Telecommunication for Rural Residents

USDA finances the deployment of a nationwide, rural broadband network. Since private capital for the deployment of broadband services in rural areas is insufficient, USDA incentives are that much more important. Providing rural residents and businesses with barrier-free access to today's technological benefits will bolster the economy and improve the quality of life for rural residents.

Building and delivering an advanced telecommunications network is affecting the Nation's economy, strength and growth significantly. Broadband networks in small, rural towns facilitate economic growth and provide the backbone for the delivery of increased educational opportunities over state-of-the-art telecommunications networks. While rural America can be defined by various statistics, the most important is that it is home to 65 million people. Just as the citizens in U.S. cities and suburbs benefit from access to broadband services, so should rural residents. In rural America, access to broadband plays a vital role in solving the problems created by time, distance, location and lack of resources. The promise of broadband is not just "faster access." It means:

- New educational opportunities through distance learning, enabling rural students to take virtual field trips around the world;
- Life-saving medical treatment via telemedicine networks, allowing specialists to guide surgeries hundreds of miles away; and
- Economic growth and new markets, where businesses prosper and grow locally, while competing nationally and globally via high-speed networks.

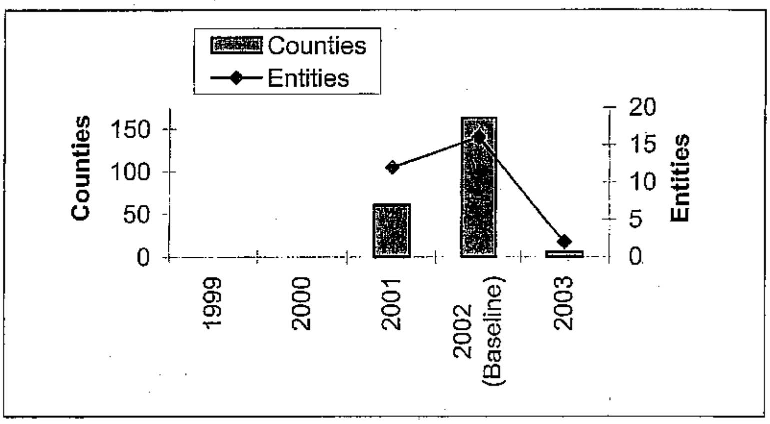
FSRIA established the new loan and loan-guarantee program "Access to Broadband Telecommunications Services in Rural Areas." This program is designed to provide funding for the cost of constructing, improving and acquiring facilities and equipment for broadband service in rural communities of 20,000 people or less. Direct loans are made from the Treasury for the life of the facilities financed. Loans may be made at 4 percent to rural communities, where broadband service currently does not exist. Loan guarantees bear an interest rate set by the private lender consistent with the current applicable market rate for a loan of comparable maturity. The guarantees are made for no more than 80 percent of the principal amount. The number of counties receiving new service will measure the extent to which the deployment of broadband service is achieved.

Exhibit 31: Improve Telecommunication Services in Rural America

Annual Performance Goals and Indicators	Fiscal Year 2003		
	Target	Actual	Result
2.1.3 Improve the ability of small, rural towns to enjoy economic growth through provision of financing to support high-speed telecommunications services (broadband):			Unmet
• Number of entities	23	2	
• Number of counties	184	6	

Analysis of Results.

Exhibit 32: Improving Broadband Communications



The performance goal was not met. The indicators assume an average of 8 counties per loan, an average loan size of $15 million per applicant and an annual lending level of approximately $350 million. Since this target's development, the available funding increased fourfold to approximately $1.5 billion. Additionally, USDA has refined the factors used to determine the number of entities to receive financing and the number of counties to be served. Using a larger base of historical data from its other programs, USDA now estimates the average loan size to be approximately $10 million per applicant and the average number of counties served to be 9 per loan. The program did not start accepting applications until January 30, 2003, since regulations had not been published until that time. Due to the delay in publishing regulations and inviting applications, only 2 applications for $5.5 million were approved. This resulted in six counties being served in FY 2003.

Description of Actions and Schedules.

The Broadband Program did not meet its goal because it did not start accepting applications until nearly the middle of the fiscal year. The delay is attributed to a longer-than-expected regulatory review process.

The Rural Broadband Access Loans and Loan Guarantees Program was implemented January 30, 2003. Because this is a new program with significantly different regulatory and statutory requirements from its predecessor "pilot program," eligible applicants need sufficient time to prepare and submit applications in accordance with the new rules and regulations. Initially, many of the applications received were declared incomplete because the applicants did not follow the new procedures. The application deadline for this year's funding was July 31, 2003. The majority of the applications were not received until late July, resulting in processing delays. The review of these applications is ongoing and expected to result in additional projects being funded.

Next year, the program will enter its first "full-year" of application processing. It will utilize the "State reserve" of funding allocations. These allocations could not be used this year due to regulations' publication date. Using the allocations will entail the quarterly prioritization and approval of applications until April 1, 2004. On that date, the remaining State allocation funds will be combined in a national pool. This plan creates a more uniform, year-long process.

Program Evaluation.

A PART assessment was initiated on the Telecommunications Program as part of the FY 2005 budget process. A full copy of the completed evaluation will be available February 2004 at www.whitehouse.gov/omb/part.

Selected Results in Research, Extension and Statistics for Objective 2.1

The economies of individual rural areas differ. So do their resources and the opportunities and challenges they face. An interactive, Web-based, geographic-information system and an analytical study tool launched by USDA's Economic Research Service (ERS) help users assess the causes and effects of diversity in rural America. The Web site provides a visualization of indicators for rural areas available from ERS and other Government agencies. These indicators include population change, the unemployment rate and median household income.

USDA's National Agricultural Statistics Service completed data collection for the 2002 Census of Agriculture with a response rate of 87.8 percent. This figure exceeds the previous census response of 86.2 percent. Data analysis and review are continuing. Publication is scheduled for FY 2004.

Missouri Cooperative Extension developed the *Missouri Business Development Network* to address small business owners' marketing and economic concerns. The network allowed small business owners to receive individual counseling in marketing. Thanks to the network, sales increased by $73.1 million and 369 jobs were created.

Objective 2.2: Improve the Quality of Life through USDA Financing of Quality Housing, Modern Utilities and Needed Community Facilities

Exhibit 33: Resources Dedicated to Improving the Quality of Life

USDA Resources Dedicated to Objective 2.2	FY 2003	
	Actual	Percent of Goal 2
Program Obligations ($ Mil)	$8,936	56%
Staff Years	5,565	62%

Overview

A major focus of USDA is improving the availability and affordability of good housing. The Department is doing this through loan and grant programs to help families achieve homeownership. These programs also are designed to develop multi-family housing and provide assistance to make homes affordable. Special emphasis is placed on improving home affordability for minorities. USDA also makes grants and loans to provide facilities that ensure safe drinking water and the proper treatment of wastewater and solid wastes. Other grants and loans are used to develop a broad range of other facilities, such as schools, libraries, fire and rescue equipment, and public buildings that enable communities to improve the quality and scope of community services. These services help rural residents achieve a quality of life more comparable with urbanites and suburbanites.

Serving the Public

USDA's assistance reaches large numbers of rural Americans with services crucial to achieving a satisfactory quality of life. The Department provides direct and guaranteed loans to help rural citizens achieve homeownership. These loans served 44,130 households in 2003. USDA has made a special effort to increase the number of minority homeowners, reaching 8,442 households. The percentage of all loans to minority households rose from 14 percent in 2001 to 19 percent in 2003. USDA's grants and loans to help rural communities obtain essential community facilities reached 10.3 million residents in 2003, a 53-percent increase over the 2001 level. Additionally, the rural water and waste programs provided access to safe drinking water or sanitary wastewater disposal to 650,000 subscribers. Taken together, these investments bring important benefits to a large number of rural communities and citizens by increasing the availability of essential services and raising the quality of life.

Challenges for the Future

Special challenges to this objective continue to be funding levels, the increased cost of housing and delays in a budget enactment. As housing costs continue to rise, fewer homes ultimately can be financed with available funding levels.

Improve the Standard of Living in Rural America

USDA implements a wide variety of housing programs. Through its single-family housing direct- and guaranteed-loan programs, USDA helps families achieve homeownership. Other programs focus on assisting dwellers in rental housing, farm-worker housing, home rehabilitation and self-help new home construction. Supplementing these programs is a series of grants and loans to finance the development of facilities that are essential to a modern standard of living in rural communities. A wide range of public services can be assisted by these programs, including education, health, justice and public safety. USDA's programs leverage federal funds with private capital to invest in rural infrastructure, technology and human-resource development.

Exhibit 34: Improving Rural Quality of Life

Annual Performance Goals and Indicators	Fiscal Year 2003		
	Target	Actual	Result
2.2.1 Improve the quality of life in rural America:			Met
• Increase financial assistance to rural households to buy a home	45,700	44,130	
• Increase the number of minority homeowners	8,400	8,442	
• Provide access for residents to new and/or improved essential community facilities (Mil. residents)	7.2	10.3	
• Number of subscribers receiving new and/or improved water and/or waste disposal service (Mil.)[1]	0.65	0.65[2]	

[1]Measure has been modified to reflect more accurately the program's impact by capturing the benefits of drinking water and sanitary waste disposal improvements. The original measure (i.e., provide access for residents to clean drinking water; $2.06 million target) was limited to drinking water and calculated using the average number of persons per subscriber. That number varies widely and is not as accurate.
[2]Result based on projected estimate. See the Data Assessment of Performance Measures section for more information.

Analysis of Results.

The performance goal was met. Overall, USDA demonstrated steady improvement in its performance level for improving the quality of life for rural citizens.

Exhibit 35: Trends in Homeownership and Community Facilities

Trends	Fiscal Year Actual				
	1999	2000	2001	2002	2003
Increase financial assistance to rural households to buy a home	55,941 Baseline	45,420	44,073	42,069	44,130
Provide access for residents to new and/or improved essential community facilities (Mil.)	N/A	N/A	N/A	6.8 Baseline	10.3
Number of subscribers receiving new and/or improved water and/or waste-disposal service (Mil.)	N/A	0.67 Baseline	1.01	0.79	0.65[1]

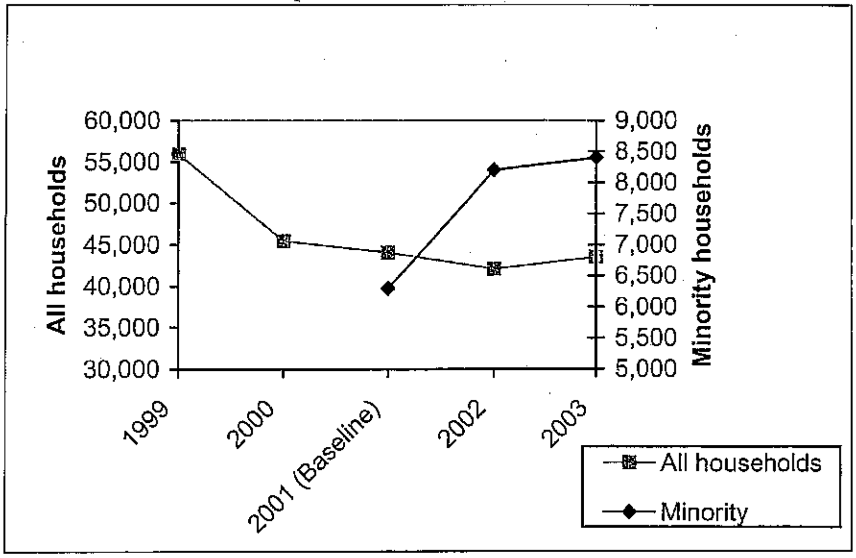
N/A = Not Applicable
[1]Result based on projected estimate. See the Data Assessment of Performance Measures section for more information.

USDA did not meet its homeownership target due to the increased cost of purchasing a home. With historically low interest rates, the housing industry represents the Nation's leading economic force during the past year. Unfortunately, the increased demand for housing, particularly for entry-level starter homes, increased costs substantially above projections. Despite increased success in leveraging non-Federal funds to reduce loan costs, the average loan still increased more than 8 percent in FY 2003 from FY 2002 levels. Because of this increase, USDA only could achieve 95 percent of its target despite all funds being utilized. The future challenge is promoting further leveraging to ensure that the maximum numbers of families are served within available resources.

The Department aggressively responded to the President's goal of increasing minority homeownership by 5.5 million families by the end of the decade. USDA's "5-Star Commitment" to increase minority homeownership includes:

- Lowering fees to reduce barriers to minority homeownership;
- Doubling the number of self-help participants by 2010;
- Increasing participation by minority lenders through outreach;
- Promoting credit counseling and homeownership education; and
- Monitoring lending activities to ensure a 10-percent increase in minority homeownership.

Exhibit 36: Homeownership Assistance



USDA immediately reduced the fees on its guaranteed single-family housing program from 2 percent (of the loan amount) to 1.5 percent for new loans and .5 percent for refinanced loans. These fees now are consistent with such other Federal lenders as the Department of Housing and Urban Development and the Veteran's Administration.

Additionally, each State was provided benchmarks and goals through 2010. The States also have developed their own plans to meet the Secretary's 5-Star Commitment. While 13 percent of rural America is comprised of minorities, more than 19 percent of USDA loans reached minorities. In FY 2003, USDA helped 8,442 minorities achieve their dreams of homeownership. One of the major contributors to this success is USDA's Mutual Self-Help Housing program, which serves more than 50 percent of minority families. Through this program, groups of 6 to 12 families mutually build each other's homes. This program has reduced the barriers experienced by many minorities in achieving homeownership significantly. Additionally, the default rate on loans made through this program generally is 400 basis points lower than other loans in the single-family housing portfolio. A basis point is an index that measures differences in yields on various financial instruments, such as mortgage default rates or rates of return on securities. A basis point equals one hundredth of a percentage point (0.01 percent).

USDA exceeded its target for increased access for residents to new or improved essential-community facilities. Many rural communities are facing increased financial stress due to agricultural conditions (including drought, flooding and forest fires), the slowed economy and other factors. Additionally, many sectors, such as health care, are experiencing increased financial pressures. Working with its partners, USDA has been able to help meet many of these vital needs.

Water and Waste Disposal loans and grants are provided to rural communities for the development, replacement or upgrading of such facilities. This effort includes poverty-stricken rural communities and those facing distress because of out-migration, natural disasters or economic distress due to Federal actions. Direct loans are repayable for a maximum term of 40 years. Since the program's inception in 1937, Water and Waste Disposal borrowers have received $28 billion in direct loans, loan guarantees and grants as of September 30, 2002. FY 2003 saw $727 million in direct loans approved, $12 million in loans guaranteed and $650 million in grants awarded.

Failing infrastructure is a common problem both in large cities and small rural systems. Additionally, investments in repairs and replacements usually do not generate more revenue. Smaller systems with a smaller user base cannot absorb these added expenses without significant rate increases.

Some of these issues can be mitigated through better asset management, full-cost pricing and technology advances. Proper care of assets can extend their useful life and improve their productivity. Keeping the public aware of the benefits of safe drinking water can improve its willingness to pay the cost of unsubsidized service. Additionally, technology advances can provide lower cost solutions.

A future challenge USDA faces is assisting rural communities most in need of the Department's financial and technical services. These communities usually have the least resources for such services. This condition is exacerbated by droughts, limited water resources and other environmental maladies. Since solutions to difficult conditions often are expensive and with limited grant funds, it is unlikely that feasible projects can be developed.

Program Evaluation.

The results from OMB's PART showed the Water and Waste Loan and Grant Program to be well-designed and managed. It also found that USDA succeeded in targeting assistance for water and wastewater infrastructure to poor rural areas. Additionally, the Department effectively collects and uses program data to manage the program. Accordingly, over the life of the program, fewer people in rural areas are experiencing barriers to accessing safe, affordable drinking water and wastewater disposal. The PART results produced an improved measure, which is included under performance goal 2.2.1. This PART may be found at www.whitehouse.gov/omb/budget/fy2004/pma/ruralwater.pdf.

In another study, OMB's Common Measures Assessment concluded that USDA's Rural Development Water and Environmental Programs compared favorably to similar programs in EPA, the Indian Health Service and Bureau of Reclamation. For more information, visit www.whitehouse.gov/omb/budintegration/common.html.

OMB's PART showed the Electric Program to be well-designed and effectively managed with a clear purpose. The PART awarded Rural Utilities Service (RUS) with a high management rating and found a disconnect between USDA's strategic goals and the RUS electric program's goals and measures. RUS targets its electric-hardship loans to high-poverty areas. To date, the RUS Electric Program has approved 21 hardship loans worth $230 million. These hardship loans were approved for applicants who met rate-disparity thresholds, and consumers who fell below average per capita and household-income thresholds. Additionally, RUS received an actual FY 2003 hardship loan budget of $120 million. These loans will be targeted to high-poverty rates. A full copy of the PART may be found at www.whitehouse.gov/omb/budget/fy2004/pma.html.

OMB's PART showed the Multifamily Housing Program to be managed effectively. The program centers on the Rural Housing Service's (RHS) Housing Act of 1949 Section 515 Rural Rental Housing and Section 521 Assistance. It makes loans to eligible entities to provide rental housing for low- or moderate-income families and the elderly in rural areas. The PART also found that while, over the life of the program, more decent and sanitary affordable rental housing has been provided in rural America, RHS cannot demonstrate whether this is related to its program or the economy. Rural Development has developed as part of USDA's *FY 2004 Annual Performance Plan* a new set of performance measures that quantify success and identify solutions to better serve rural residents. Meantime, Section 521 makes assistance payments available to section 515 housing occupants. A full copy of the PART may be found at www.whitehouse.gov/omb/budget/fy2004/pma/rentassistance.xls.

A PART assessment was initiated on the Community Facilities Direct Loan Program as part of the FY 2005 budget process. A full copy of the completed evaluation will be will be available February 2004 at www.whitehouse.gov/omb/part.

Selected Results in Research, Extension and Statistics for Objective 2.2

Arizona's Extension Connection program helps welfare recipients transition into the work force. More than 300 high-risk adults graduated from the program. More than half of those same adults have been employed for more than a year. Nebraska Cooperative Extension's *Building Nebraska Families* program helped former welfare recipients raise their average income from $452 to $786 a month.

As the number of Spanish-speaking people increases nationwide, Land-Grant universities bridge the language gap between farmers and employees with classes and publications. Ohio State Cooperative Extension produces an English/Spanish newsletter for Latinos working in horticulture. It also publishes *Spanish for Greenhouse Supervisors*, a collection of words used in floriculture. Idaho Extension arranged for-credit Spanish classes for Government employees and others. After the classes, 75 percent of the participants said that they were able to communicate better with Spanish-speaking clients. Purdue Cooperative Extension offered *Workplace Spanish*, a two-day course in language skills and cultural awareness. Attendees said that the course increased their understanding of Latino culture and their ability to serve their clients.

STRATEGIC GOAL 3: ENHANCE PROTECTION AND SAFETY OF THE NATION'S AGRICULTURE AND FOOD SUPPLY

Exhibit 37: Resources Dedicated to Protect and Secure the Nation's Food Supply

USDA Resources Dedicated to Strategic Goal 3	FY 2003	
	Actual	Percent of Total USDA
Program Obligations ($ Mil)	$3,350	3%
Staff Years	23,056	20%

USDA remains committed to ensuring that consumers in America have the safest possible food supply. The Department is using science-based practices to diminish the incidence of foodborne illness associated with meat, poultry and egg products. These practices include recruiting scientifically trained employees and educating its current employees on scientific and technical principles.

USDA continued to see results in its fight against *Exotic Newcastle Disease*, one of the world's most infectious poultry diseases. In September, the Department eliminated the last remaining areas quarantined for the disease in Arizona, California, Nevada and Texas. The actions removed restrictions on the movement of birds, poultry and certain other articles from those areas.

USDA also visited communities to deliver the message of safe food handling. The Department conducted a nationwide tour to educate and reinforce to consumers the importance of handling food safely. The USDA Food Safety Mobile traveled across the country. Mobile officials hosted almost 60 events in 40 cities. They also worked with the media to stage more than 60 million viewings of food-safety messages. The Mobile depicted BAC!® – the notorious foodborne bacterium character that provides consumers with a memorable message about the four critical steps they must take to keep their food safe: Clean, Separate, Cook and Chill.

Objective 3.1: Enhance the Protection of Meat, Poultry and Egg Products from Foodborne Hazards in the United States

Exhibit 38: Resources Dedicated to Reduce Pest and Disease Outbreaks

USDA Resources Dedicated to Objective 3.1	FY 2003	
	Actual	Percent of Goal 3
Program Obligations ($ Mil)	$1,142	34%
Staff Years	10,674	46%

Overview

Since 1998, USDA has used a science-based framework—the Pathogen Reduction/Hazard Analysis and Critical Control Points (PR/HACCP) system—to verify that plants identify and prevent food-safety problems. Under HACCP, meat and poultry plants must prove through operating under HACCP plans that they are addressing all biological, chemical and physical hazards most likely to occur. USDA verifies that plant practices are effective and result in the production of safe, unadulterated products.

Risk assessment provides the framework for developing the scientific basis for USDA's food-safety policies and programs. Through risk assessment, USDA identifies methods by which pathogens can be controlled by slaughter and/or processing plants. This information is used to enhance public health. For example, using information developed through risk assessment, the Department has identified methods to control such pathogens as *Listeria monocytogenes*. *Listeria* can cause severe illness and even death, particularly in at-risk populations.

Another key to enhancing public health is ensuring that employees executing USDA's food safety responsibilities are scientifically and technically skilled. USDA is addressing the training and education of its workforce aggressively. In order to ensure consistent and accurate inspection, the Department has made a strong commitment to recruiting scientifically-educated employees and retooling its entire training and education program for all employees. These employees will be better able to identify and focus on activities that enhance public health.

USDA also implemented policies and verified plants' compliance to control *E. coli* O157:H7 and effectuate more rapid recall procedures. USDA is strengthening its outreach programs and partnerships to educate food handlers and others about food safety and help enhance public health.

Additionally, USDA is identifying the *Enterococci* bacteria and testing its presence in retail food items. The Department's work allowed it to obtain EPA approval for a product to prevent aflatoxin, which occurs in cottonseed. Cottonseed is an important feed for dairy cattle. USDA also has developed a method for classifying *Listeria* and detecting pathogens in sprouted food products from contaminated water.

Serving the Public

Science-based risk assessments drive USDA food-safety policies and programs to enhance public health. Risk assessment provides the framework for developing the scientific basis for USDA meat, poultry and egg product policies and programs. HACCP is the system that plants use to address the hazards identified in risk assessments. Through risk assessment, USDA has been able to identify methods by which plants can control pathogens. USDA recognizes that enhancing the public's health in terms of safe meat, poultry and egg products is not a lone venture. It has formed many partnerships to provide food-safety information to the industry, the public and Federal, State and local agencies. The Department also works closely with academia to help provide guidance and assistance.

Another important part of USDA's responsibility is protecting meat, poultry and egg products from intentional contamination and bioterrorism. Information gained from risk assessments will help USDA continue its efforts to protect these products.

While the results of risk assessments shape inspection policy, they also help USDA design food-safety education programs to increase consumer knowledge, and change behaviors to prevent foodborne illness. The program targets the general public and at-risk groups for foodborne illness – the very young, the elderly, pregnant women and people with chronic diseases or compromised immune systems.

The Department also conducted 12 public meetings and scientific symposia to share information with and gather input from the public on food-safety topics that affect public health in FY 2003. Part of this initiative included the launch of a nationwide tour of the Food Safety Mobile. The Mobile offered food-safety demonstrations and discussions with consumers about the importance of safe food handling and steps they can take to reduce the risk of foodborne illness.

USDA scientists developed a cost-effective, rapid and accurate procedure to identify genus and species of *Enterococci* in food products. *Enterococci* can harbor antibiotic resistance genes and transfer them to harmful foodborne pathogens. The multiplex Polymerase Chain Reaction procedure detects the presence of the genes responsible for encoding antibiotic resistance. Results indicated that, although *Enterococci* are prevalent among food items, the chances of transmitting antibiotic resistance from animal food products to humans are very low. This procedure is useful to producers, regulatory agencies and researchers in tracing and preventing both pathogens and antimicrobial resistance in food products.

These accomplishments help ensure the continued safety of the U.S. food supply for both domestic and international consumers.

Challenges for the Future

USDA's greatest challenge in food safety is emerging and existing pathogens. The Department will continue to develop new science- and risk-based strategies to enhance the public health status as new pathogens are identified. Each year, USDA will examine organisms of concern and address these pathogens to raise industry awareness and the Department's preparedness to develop new programs and policies to address these challenges.

Reducing, controlling or eliminating pathogen and chemical contamination from food products requires a steady stream of new technologies and processes. The multifaceted food-safety research program produces the solutions to address specific problems confronting the U.S. agricultural/food industries.

Strengthen Food Safety

Over the past two years, USDA has been implementing a five-point strategy to reduce the incidences of foodborne illness further. The Department used HACCP as the foundation. This strategy includes improved management of inspectors, application of science in crafting regulations, better coordination with other agencies, an aggressive education campaign for food handlers and protection of the food supply against terrorist attack. USDA seeks to ensure that its food-safety policies and decisions are based on science. Scientific studies provide critical information to make the best decisions.

Risk assessments help provide a better picture of the nature and reason microorganisms occur in the Nation's supply of meat, poultry and egg products. Risk assessments are scientifically-based processes estimating the likelihood of exposure to a hazard and the resulting public health impact. Risk assessments provide a scientific framework for understanding the impact of a wide variety of variables by considering such key questions as:

- What processes contribute to risk?
- How much harm could occur?
- How much can that potential harm be reduced by various intervention strategies?

This ongoing scientific process has provided a growing body of knowledge that allows USDA to execute better methods for inspection and policy development based on food safety hazards.

USDA uses risk communication to inform the public of foodborne hazards and what can be done to prevent or control them.

During the last several years USDA has made significant improvements in its food-safety program. In May 2002, the Centers for Disease Control and Prevention reported a 21-percent decrease in all foodborne illnesses.

Exhibit 39: Conduct Risk Assessments

Annual Performance Goals and Indicators	Fiscal Year 2003		
	Target	Actual	Result
3.1.1 Conduct risk assessments of microbial, chemical and physical hazards to meat, poultry and egg products:			Met
• Number of risk assessments initiated	4	4	
• Number of risk assessments completed	N/A	5	

N/A = Not Applicable

Analysis of Results.

Exhibit 40: Number of Risk Assessments Initiated and Completed

Trends	Fiscal Year Actual				
	1999	2000	2001	2002	2003
Number of risk assessments initiated	0	1[1]	3[1] Baseline	3[1]	4
Number of risk assessments completed	2	0	2 Baseline	7	5

[1]Initiated assessments adjusted to match completed assessments.

The performance goal was met. The time between initiation and completion of a risk assessment can range from a few months to several years. Risk assessments vary greatly in complexity. The findings from one risk assessment may generate topics for additional ones. Such an occurrence could make it difficult to project targets for new studies in a given year. Or, as new pathogens emerge to pose a risk to public health, risk-assessment priorities may change.

In FY 2003, USDA initiated four risk assessments. The risk assessment for *Clostridium perfringens* in Ready-to-Eat (RTE) foods provided USDA with information to set a risk-based performance standard for cooling RTE foods by assessing the risk of human illness associated with different cooking-performance standards. *Clostridium perfringens* is a bacterium that can cause foodborne illness. The vulnerability assessment of bioterrorism on imports looked at deliberate contamination. The risk assessment for *Bovine spongiform encephalopathy* (BSE) – Mitigation Scenarios considers various steps to limit human exposure to this disease. BSE, or mad cow disease, is a degenerative disorder affecting the nervous system of cattle.

The baseline for risk assessments initiated was three. The baseline year of FY 2001 was chosen because it was the first year of full HACCP implementation. The number of risk assessments initiated may not increase each year. USDA determines when to initiate a new risk assessment. This decision normally is based on the emergence of a new pathogen or risk, outbreaks of foodborne illness or the development of new information or technologies. The results of a risk assessment can form the basis for policy, regulation and program development for a number of years.

In FY 2003, USDA completed five risk assessments. The baseline was two. Four of the five are vulnerability assessments of bioterrorism relating to the production, processing and distribution of various Food Safety and Inspection Service-regulated products. Also completed was the risk assessment for *Listeria monocytogenes* in RTE deli meats, which began in 2002. The results of this risk assessment are being used so that food-safety policies and programs are based on risk and science.

Future challenges include strengthening the application of risk assessment to regulatory and enforcement activities. Microbial risk assessment is a fairly new discipline that came into existence in the late 1980s. USDA is committed to improving the science of microbial risk assessments continuously. The Department also looks to enhance and expand the application of completed risk assessments to food-safety policy development.

Program Evaluation.

The results from the Office of Management and Budget's Program Assessment and Rating Tool (PART) on food safety showed the Food Safety and Inspection Service (FSIS) has a clear and significant role in protecting the Nation's food supply. However, FSIS received lower scores in management and accountability. FSIS does not have procedures in place to measure cost effectiveness. While FSIS has been reducing incidences of foodborne illness, the program is not optimally designed to address food safety. Implementation of a new risk-based inspection system should be evaluated further to determine whether it would help FSIS meet its strategic and performance goals, and improve efficiencies and cost effectiveness.

To address these findings, FSIS is evaluating the impact of implementing a risk-based inspection system. A full copy of the PART may be found at www.whitehouse.gov/omb/budget/fy2004/pma/foodsafety.xls.

Risk assessments that will form the basis for regulations are peer-reviewed. Additionally, USDA held public meetings and other open forums on public health issues. Public comments are significant inputs into decision making.

Interested parties may view pertinent documents or find a list of upcoming public meetings at www.fsis.usda.gov.

Enhance Protection from *Salmonella*

Recent initiatives to enhance protection from *Salmonella* include the adoption of a new system to screen for the bacterium in RTE meat, poultry and pasteurized egg products. While it is as sensitive as the previously used system in detecting *Salmonella*, the new system reduces reporting time for negative samples by one to two days. *Salmonella* can cause salmonellosis, one of the most-common bacterial foodborne illnesses. Salmonellosis can be life-threatening, especially for at-risk populations.

USDA inspectors continue to sample *Salmonella* in processing plants. These tests are used to trigger more intensive in-plant scrutiny and food-safety assessments.

The Department has reduced the incidence of *Salmonella* on products prior to release into commerce by using its existing regulatory authorities for regulating meat, poultry and egg products.

Exhibit 41: Enhance Industry Compliance for *Salmonella*

Annual Performance Goals and Indicators	Fiscal Year 2003		
	Target	Actual	Result
3.1.2 Enhance industry compliance with regulatory requirements:			Met
• Incidence of *Salmonella* on broiler chickens (Percentage)	11.6%	11.7%	
• Incidence of *Salmonella* on market hogs (Percentage)	4.3%	2.7%	
• Incidence of *Salmonella* on ground beef (Percentage)	2.8%	1.7%	

Analysis of Results.

The performance goal was met. USDA made substantial progress in enhancing *Salmonella* protection. Overall, the incidence of *Salmonella* on raw products fell dramatically since full implementation of the PR/HACCP rule in FY 2000. It also exceeded the performance standards set by USDA for plants.

While the incidence of *Salmonella* on broiler chickens was 11.7 percent for FY 2003, just slightly higher than the FY 2002 baseline of 11.6 percent, this figure still is well below the upper limit set by USDA performance standards.

Exhibit 42: Trends in Industry Compliance for *Salmonella*

Trends	Fiscal Year Actual				
	1999	2000	2001	2002	2003
Incidence of *Salmonella* on broiler chickens (Percentage)	11.3%	8.7%	11.9%	11.6% Baseline	11.7%
Incidence of *Salmonella* on market hogs (Percentage)	6.6%	7.6%	4.5%	4.3% Baseline	2.7%
Incidence of *Salmonella* on ground beef (Percentage)	4.4%	3.6%	2.6%	2.8% Baseline	1.7%

The incidence of *Salmonella* on market hogs was 2.7 percent for FY 2003. This figure is lower than the FY 2002 baseline of 4.3 percent and well below the upper limit set by USDA performance standards.

The incidence of *Salmonella* on ground beef was 1.7 percent for FY 2003. This figure is lower than the FY 2002 baseline of 2.8 percent and well below the upper limit set by USDA performance standards.

The benefits to the American public are raw meat and poultry products with lower incidences of microbiological hazards. This hazard reduction should lower the risk of foodborne illness.

USDA issued new procedures emphasizing the use of *Salmonella* testing results to trigger more intensive scrutiny and in-depth reviews of processing plants. The procedures focus on the need for a more scientific and systematic approach to food safety and enforcement of current regulations.

Future challenges will be to conduct risk assessments and scientific-baseline studies for other pathogens of interest and emerging pathogens. The Department also will have to develop regulatory-performance standards to gain industry compliance.

Program Evaluation.

USDA reviewed the *Salmonella* testing program policies and practices. The Department conducted an internal evaluation of the *Salmonella* testing program with recommendations for improving it. The evaluation was designed to synthesize disparate aspects of policy and practice to provide a systems view of program components and their relation to one another. Most of the recommendations either have been incorporated into Agency programs or are in the process of being incorporated into new procedures.

The Department is keeping the public and industry informed of these improvements at www.fsis.usda.gov and through other communications opportunities.

Enhance Protection from *Listeria monocytogenes*

When *Listeria monocytogenes* is found in RTE products, USDA takes action to prevent it from entering commerce. The Department also verifies the effectiveness of its recall procedures.

USDA made significant progress developing science-based policies to enhance public health through more-effective control of *Listeria monocytogenes*. USDA released a directive to inspection program personnel on methods to verify that processing plants producing RTE products are preventing *Listeria monocytogenes* contamination. USDA published an interim final rule requiring establishments producing certain RTE meat and poultry products to take steps to reduce further *Listeria monocytogenes* incidence. The rule is based on information gathered while developing the risk assessment. The interim final rule took effect October 2003. USDA is seeking comments through December 8, 2003. The Agency is acquainting industry with rule requirements by, among other ways, holding a series of workshops for smaller plants.

Exhibit 43: Enhance Industry Compliance for *Listeria Monocytogenes*

Annual Performance Goals and Indicators	Fiscal Year 2003		
	Target	Actual	Result
3.1.3 Enhance industry compliance with regulatory requirements on the incidence of *Listeria monocytogenes* on Ready-to-Eat meat and poultry products (Percentage)	1.03%[1]	.9%	Met

[1]In conducting an audit of *Listeria monocytogenes* data for the past three years, FSIS found a data-entry error for one sample.

Analysis of Results.

The performance goal was met. The incidence of *Listeria monocytogenes* was below the maximum target for FY 2003. There has been a consistent decline in *Listeria* incidence over the years. Although 1.03 percent in FY 2002 was the baseline, USDA's goal is to continue to reduce the incidence of *Listeria monocytogenes*. *Listeria* can cause severe illness and even death, particularly for at-risk populations. Any incidence of *Listeria monocytogenes* on RTE products constitutes adulteration under meat and poultry laws. Thus, USDA will stress the need to find new ways to improve the program and the oversight of meat and poultry plants' HACCP operations.

Exhibit 44: Trends in Industry Compliance for *Listeria Monocytogenes*

Trends	Fiscal Year Actual				
	1999	2000	2001	2002	2003
Enhance industry compliance with regulatory requirements on the incidence of *Listeria monocytogenes* on Ready-to-Eat meat and poultry products (Percentage)	1.91%	1.45%	1.26%	1.03%[1] Baseline	.9%

[1]In conducting an audit of *Listeria monocytogenes* data for the past three years, FSIS found a data-entry error for one sample.

Program Evaluation.

Following outbreaks of *listeriosis*, USDA reevaluated its policies and requirements for controlling *Listeria monocytogenes* on RTE meat and poultry products. This included hosting public meetings at which academia, industry, consumer and other constituencies provided scientific and anecdotal information about the pathogen. Based on this information and the risk assessment, USDA developed a directive and an interim final rule for *Listeria monocytogenes*. That information is available at www.fsis.usda.gov.

Improve Detection of Foodborne Hazards

With European Union financial support, USDA is partnering with the United Kingdom, Ireland, Denmark, Italy and South Africa to evaluate and develop "gold-standard" methods for the detection and enumeration of *Campylobacter* -- the world's leading cause of bacterial-associated foodborne illness. Having these internationally defined methods increases the acceptability of products, particularly poultry, between trading partners. This study on *Campylobacter* is the first in a number of projects to develop unified methods for the detection of foodborne pathogens. Other pathogens under consideration include *Listeria*, *Salmonella* and *E. coli 0157:H7*.

Exhibit 45: Develop Systems for Detecting Foodborne Pathogens and Chemical Contaminants

Annual Performance Goals and Indicators	Fiscal Year 2003		
	Target	Actual	Result
3.1.4 Develop new systems for detecting foodborne hazards	3	4	Exceeded

Analysis of Results.

Exhibit 46: Expand Approaches for Detecting Foodborne Pathogens and Chemical Contaminants

Trends	Fiscal Year Actual				
	1999	2000	2001	2002	2003
Develop new systems for detecting foodborne hazards	1 Baseline	2	3	2	4

The performance goal was exceeded. Food-safety research is an ongoing process that investigates many dangerous pathogens and contaminants simultaneously. This creates numerous approaches to detecting, controlling, reducing or eliminating each threat. USDA transferred these four significant new technologies to regulatory agencies and the private sector for use in ensuring the safety of the U.S. food supply. These new processes will identify the *Enterococci* bacteria in retail food items, prevent aflatoxin in cottonseed used to feed dairy cattle, classify *Listeria* and detect pathogens in sprouted food products. In FY 1999, the base year for this report, USDA identified one accomplishment. This year's report identifies four aforementioned new technologies, thereby exceeding the target.

The future challenge for food-safety research is to expand the core capacity (basic, applied and developmental) needed to address current threats to the food supply. Another challenge is ensuring USDA promptly and effectively responds to meet all future needs.

Program Evaluation.

The Office of Scientific Quality Review peer reviewed relevant projects in the Food Safety National Program. Summary information on these reviews may be obtained from USDA/ARS National Program Staff at (301) 504-4674.

A Program Assessment and Rating Tool assessment was initiated on the Food Safety Research Program as part of the FY 2005 budget process. A full copy of the completed evaluation will be available February 2004 at www.whitehouse.gov/omb/part.

Selected Results in Research, Extension and Statistics for Objective 3.1

Rapid, easy, cost-effective and correct classification of bacterial pathogens is critical for regulatory-action agencies and industry. USDA scientists at the Animal Disease Research Unit, in collaboration with scientists at Washington State University, developed a new tool for "subtyping" strains of *Listeria monocytogenes*. Subtyping determines the strain affiliation of *Listeria* specimens isolated in the lab. This new tool will help epidemiologists trace outbreaks back to their source. It also will enhance Government and industry efforts to safeguard food supplies through environmental monitoring, disinfection, sanitation and other measures.

Contaminated sprouts for human consumption are a critical concern for The Food and Drug Administration (FDA) and the sprout-growing industry. Irrigation water is the most critical control point in sprout growing since contaminated water may transfer pathogens to uncontaminated lots. USDA scientists have developed a method using immunomagnetic capture combined with time-resolved fluorescence. This method enables scientists to detect very low levels of pathogens within 6 to 8 hours. Although the technology was developed for spent irrigation water, it also can be used for whole growing sprouts. This new method will have a significant impact on industry and the FDA in allowing the high throughput, cost-effective screening of sprouted food products.

In 2003, USDA and collaborators from Washington State University completed the collection of nationally representative plant-level data. The data described the costs of implementing HACCP requirements and making investments in food-safety technologies for meat- and poultry-slaughter and processing plants. USDA research showed that sanitation and process controls raised the costs of producing meat and poultry by about 0.5 percent under food-safety standards prior to PR/HACCP. Estimates also suggest that, while PR/HACCP raised production costs by about 1 percent, its benefits still outweigh costs.

USDA also developed an interactive, Web-based data product called the foodborne illness calculator. The calculator is an interactive, Web-based data product released on USDA's Economic Research Service Web site in FY 2003. It is designed to assist public and private policymakers estimate the health-protection benefits of their control efforts. Policymakers can use the calculator to estimate the change in societal costs of foodborne illness under different public and private control options for pathogens. The calculator allows users to choose a pathogen of interest, the number and severity of illnesses, and from several alternative methodologies employed by economists for calculating societal costs.

Many universities, supported in part by USDA funds, are developing new knowledge technologies to enhance the Nation's food-safety system. Dangerous strains of *Campylobacter*, *Salmonella*, *E. coli* and *Listeria monocytogenes* are among the leading pathogens plaguing the food industry. Arkansas scientists developed a single test that can detect all four, eliminating the need for time-consuming, individual tests. Using the same four bacteria, Tennessee scientists developed a geographic-information system to analyze where these illness-causing organisms appear in animal and human populations at 16 locations nationwide. After a *listeriosis* outbreak in 2002 killed 50 goats, Cornell University researchers used genetic fingerprinting techniques to help eliminate the outbreak's source and control the disease. No deaths were reported during subsequent breeding cycles. A Georgia poultry scientist found the causes of fecal contamination in seven poultry plants. This discovery helped produce a safer product for consumers. It also saved the companies about $500,000 per day, the cost of shutting down each plant.

Georgia scientists, supported with USDA funds, discovered that electrolyzed water eliminates foodborne pathogens on lettuce, apples, eggs and poultry in less than 30 seconds. This element, which is produced by passing electricity through a diluted salt-water solution, replaces the use of harsh chemicals. Another Georgia innovation accurately detects aflatoxin in peanuts. This discovery reduced sampling costs from $5 to 50 cents. Iowa State University scientists developed a hand-held detection system that reveals invisible fecal contamination. It can be used before and after meat is trimmed. California researchers developed a test to confirm and quantify seven common antibiotics in milk samples. The test was designed to protect the quality of the milk supply and the health of people allergic to certain antibiotics. Nebraska food scientists devised a simple, fast and accurate test that uses light instead of chloroform to detect cooking-oil freshness.

As part of the Northern New England Seafood Alliance, the Maine Cooperative Extension Service offered courses certifying 600 seafood processors in Hazard Analysis of Critical Control Points (HACCP) principles. Post-training samples showed that implementing HACCP reduced *Listeria monocytogenes* contamination in Ready-to-Eat crabmeat from 18 percent to zero.

Objective 3.2: Reduce the Number and Severity of Agricultural Pest and Disease Outbreaks

Exhibit 47: Resources Dedicated to Reduce Pest and Disease Outbreaks

USDA Resources Dedicated to Objective 3.2	FY 2003	
	Actual	Percent of Goal 3
Program Obligations ($ Mil)	$2,208	66%
Staff Years	12,382	54%

Overview

USDA protects the Nation's animal and plant natural resources through such activities as:

- Conducting offshore threat assessment and risk-reduction activities;
- Regulating and monitoring conditions to reduce the risk of introduction of invasive species;
- Ensuring the safe research, release and movement of agricultural biotechnology events, veterinary biologics and other organisms;
- Managing issues related to the health of U.S. animal and plant resources and conflicts with wildlife;
- Surveying for and detecting exotic pests and diseases in the U.S.; and
- Preparing for emergencies with containment, management and eradication.

The Department's protection strategy has changed because of the transfer of 2,655 agricultural positions, made up of USDA inspectors and support personnel, to the Department of Homeland Security's (DHS) Bureau of Customs and Border Protection. The Homeland Security Act of 2002 authorized this move. Thus, the strategic emphasis has shifted away from safeguarding agriculture by excluding pests and diseases at ports of entry to safeguarding through surveillance activities both abroad and domestically. The measure of passenger compliance with agricultural quarantine inspection regulations, which appeared in this section formerly, was transferred to DHS. The strategy also has changed because of the increased risk associated with accelerating travel and trade. In the past, USDA regulated incoming passengers, vehicles and cargo to keep pest and disease carriers out of the U.S. by intercepting them at entry ports. Now, the Department is focusing more on intensive surveillance, early detection and containing and eradicating invasive organisms before they spread.

The Department also released five new germplasm lines or varieties with resistance to major fungal or viral diseases. Examples of these accomplishments include cowpea varieties with resistance to cucumber mosaic virus and Blackeye Cowpea Mosaic Virus, alfalfa germplasm with resistance to Summer Black Stem, a new fungal resistant rice cultivar and a strawberry variety with resistance to Angular Leaf Spot disease.

Additionally, USDA developed several other new crop varieties with resistance to parasites and pests. An example of these accomplishments includes sunflower germ plasm with resistance to Race-F of the parasitic organism *Orobanche.* This organism is devastating sunflower production in Eastern Europe and the Middle East.

Serving the Public

The public benefits from these activities through cost reductions in pest and disease control and eradication measures. Other benefits include:

- Facilitating the sale of U.S. agricultural products in other countries;
- Allowing farmers to make adequate incomes;
- Reducing Federal financial assistance;
- Providing U.S. consumers with a wide variety of low-priced food and fiber;
- Protecting public and private lands and property from environmental damage and loss of species; and
- Preventing the suffering of animals and, in some cases, humans from disease.

Enhancing the Nation's capacity to protect its agricultural, food and natural resource systems from threats arising from endemic conditions, natural disasters, accidents and intentional acts is important to food and fiber producers, consumers of these products and the Nation's public health.

The primary goal of any successful agricultural biosecurity program is to prevent entry of a pathogen or pest into a susceptible population of plants or animals. When preventive measures fail, it is imperative to have early detection, rapid and accurate assessment and immediate implementation of various interventions that prevent spread, control the infection and then begin the recovery phase. The early detection of pathogens, pests and other threats, rapid and accurate assessment, and immediate responses that reduce or prevent the damage and control the infection are an essential part of USDA partnerships with State agencies and universities.

USDA is expanding its capacity to use scientific knowledge and expertise to ensure biosecurity of U.S. agricultural and rural communities, and secure and safe food production. Since many pests or pathogens are potential weapons for use by terrorist groups, the Department needs to be prepared for emerging threats – either accidental or deliberate. The effort focuses on pests and diseases that are economically significant, easily spread or have high infectivity at low-infective dose levels.

Rapid, easy, cost-effective and correct detection operates on multiple levels. Intensive production systems, where the farmer or rancher has more direct contact with production units, require different detection systems than are needed in extensive production systems. There are different detection needs for small land area operations versus large land area operations. USDA, State and university diagnostic laboratory linkage helps trace outbreaks to their source. The linkage also allows the Department to safeguard food production and supplies through appropriate containment measures.

These accomplishments help ensure the continued safety of U.S. food production for both domestic and international consumers. They also advance and expand the capacity of U.S. agriculture to provide a front-line defense for plant pathogens that attack several agronomic species. These species constitute the foundation of U.S. agricultural crop production.

Challenges for the Future

Globalization, Free Trade Agreements (FTAs) and transportation technologies have increased the risk of exotic invasive species. A key protection strategy has been to regulate and inspect imports of agricultural products most likely to be carrying such species. Recent FTAs have increased the number of requests for imports into this country significantly. This increase has placed an added burden on USDA to scientifically assess a growing list of potential animal and plant health threats while, at the same time, not impeding trade.

The recent creation of the Department of Homeland Security included USDA's port-of-entry inspectors. While this reorganization will allow USDA to focus on strengthening other activities in the protection system, it also poses challenges in coordinating and communicating plans and policies between the two organizations.

To accomplish its mission, USDA coordinates with States, academic institutions and private industry in surveillance, detection and response to outbreaks. Organizations that have enjoyed autonomy and independence now must come together, communicate fully and work rapidly to contain outbreaks. With the heightened concerns about potential bioterrorism, the surveillance system needs to be expanded to include a range of other potential threats.

The protection and safety of the Nation's food production is a constant concern for producers and the industries that transport, store, process and deliver food products to the public. Reducing, controlling or eliminating agricultural pest and disease outbreaks requires a steady stream of new technologies and processes to detect, analyze and verify the emergence of pests and diseases before they become economic or health threats. The multiple-partner, diagnostic-laboratory partnership reduces the risks facing U.S.

agricultural producers by strengthening and increasing state linkages to the five National Plant Pest and Disease Diagnostic Centers.

Sclerotinia is a serious crop disease. USDA implemented the Sclerotinia Initiative in cooperation with stakeholders from seven participating commodity groups to reduce the disease's impact. Soybean rust, a devastating disease that is widespread in South America, may spread to the U.S. USDA plays an active role in collaborative efforts with stakeholders and non-Government organizations to develop a defensive strategy for the potential invasion of soybean rust. While USDA is developing molecular genetic tools and new sources of resistance to this serious pathogenic threat, research progress is impeded by a lack of adequate space in the Department's Biological Safety Level-3 (BSLC-3, the highest security level for research on plants to prevent the escape of disease into the environment)-containment facilities. Sclerotinia and soybean rust are only two of the hundreds of serious plant diseases that could pose a threat to the security of American agriculture in the future.

Reduce the Risk of Entry and Establishment of Pests and Diseases

In order to reduce the risk of entry and establishment of pests and diseases, USDA does a range of interconnected activities collectively known as the "safeguarding system." These activities include:

- Collecting information on pests and diseases in other countries and assisting the respective countries' governments with them;
- Based on scientific risk assessments, deciding which imports may enter the U.S.;
- Devising policies related to inspection for and treatment of prohibited or contaminated commodities at ports of entry;
- Trapping and surveying to detect the presence of harmful, economically significant pests and diseases inside the country, or to delimit the boundaries of infestations;
- Identifying pests and diseases intercepted at ports or discovered inside the country;
- Releasing sterile insects or natural predators to prevent or manage the spread of pests;
- Regulating transport of commodities into and out of quarantine zones;
- Coordinating with states and academic institutions on emergency eradication efforts;
- Conducting research related to these activities; and
- Providing national leadership and expertise related to animal and plant health.

The outcome of these efforts is a safer U.S. agriculture and environment. Harmful, economically significant pests and diseases are kept out of the country effectively. If they do enter, they are detected and eradicated before becoming established.

The following discussion separates programs related to plant pests and diseases from those related to animal pests and diseases. Based on a broad review conducted in 1999, the National Plant Board requested that USDA coordinate a comprehensive invasive plant-pest detection system. Early detection greatly reduces potential economic and environmental losses and eradication costs. In response, the Department recently added 26 pest-survey specialists to its Plant Protection and Quarantine staff to help ensure that exotic plant pests and diseases are detected before they can spread. Until recently, many States and cooperators did not have the resources to conduct surveys according to USDA guidelines or at a level adequate to provide early detection of plant pests or diseases. Thus, increased funding has been allotted for State cooperators to increase their pest detection and survey infrastructure and activities.

The Animal Health Monitoring System is a proactive animal health monitoring and surveillance system. The National Animal Health Monitoring System (NAHMS) delivers objective information regarding animal health as it pertains to U.S. trade, agricultural productivity, public health and on-farm quality assurance. Information is developed and entered into NAHMS through data sharing and effective partnerships with animal commodity producer groups, State governments, university researchers and other Federal agencies.

Exhibit 48: Strengthen the Effectiveness of Pest and Disease Surveillance and Detection Systems

Annual Performance Goals and Indicators	Fiscal Year 2003		
	Target	Actual	Result
3.2.1 Increase the percent of known, significant introductions of plant pests or diseases that are detected before they spread from the original area of colonization and cause severe economic or environmental damage (Percentage)	95%	Available 12/31/03	Deferred
3.2.2 Number of significant introductions of foreign animal pests or diseases that spread beyond the original area of introduction and cause severe economic or environmental damage, or damage to the health of animals or humans	1	1	Met

Analysis of Results.

The performance goal for Plant Pest Detection was deferred. While the surveillance and detection goals long have been part of USDA's mission, this measure remains under development as a formal management tool. Actual results will be available at the end of the calendar year. At that time, States participating in the Cooperative Agricultural Pest Survey program will have finished collecting data on field survey findings and entered them into the National Agricultural Pest Information System. This performance goal's results will be published in next year's report.

Exhibit 49: Strengthen the Effectiveness of Pest and Disease Detection and Management Systems

Trends	Fiscal Year Actual				
	1999	2000	2001	2002	2003
Increase the percent of known, significant introductions of plant pests or diseases that are detected before they spread from the original area of colonization and cause severe economic or environmental damage (Percentage)	N/A	N/A	N/A	85% Baseline	Available 12/31/03
Number of significant introductions of foreign animal pests or diseases that spread beyond the original area of introduction and cause severe economic or environmental damage, or damage to the health of animals or humans	N/A	N/A	N/A	0 Baseline	1

N/A = Not Applicable

The performance goal for animal diseases, new to USDA's performance plan, was met. The numerical target of "1" was set after the major outbreak of *Exotic Newcastle Disease* already had occurred. The target would be better stated, "Not greater than the existing one." The outbreak cost USDA and poultry producers millions of dollars because many flocks had to be depopulated and establishments decontaminated. These steps were necessary because the remaining poultry needed to be protected from this fatal disease.

It is a continuing challenge to control the disease because the smuggling of parrots and hobby birds is a possible factor in its introduction and spread. USDA, working together with its partners in State Government and the private sector, has eliminated more than 15 endemic diseases from the U.S. This partnership also has prevented many exotic animal diseases from entering the country. These actions have protected U.S. livestock and poultry, the income of farmers who raise them, the international markets of the U.S.-export community, the meat supply of U.S. consumers and human health. The value of the losses avoided by conducting monitoring programs far exceeds the cost.

Program Evaluation.

The results from the Office of Management and Budget's Program Assessment Rating Tool (PART) showed that the Animal and Plant Health Inspection Service (APHIS) has a clearly defined purpose. APHIS is to seek additional input from sources outside of the Government, including peer evaluations when appropriate. While APHIS is considering the best way to seek the input, it has not identified an appropriate, non-Governmental organization capable of conducting an independent review of the program. APHIS believes that an inherent conflict of interest would prevent most organizations with sufficient expertise in areas of animal care and the program's mission from conducting an objective review. These organizations either represent individuals and facilities regulated by the Animal Care Program, such as the American Zoo and Aquarium Association, or belong to the animal-protection community, such as the Humane Society of the United States. In either case, these organizations would have a bias preventing them from evaluating the program objectively. APHIS may invite international organizations or counterparts to conduct independent reviews. The Marine Mammal Commission also may be able to review the part of the program that focuses on marine mammals.

APHIS needs to develop additional goals (including long-term goals) to measure its impact on the humane treatment of animals. In FY 2003, the Animal Welfare Program developed a long-term goal to ensure the humane care and treatment of animals covered under the Animal Welfare Act. To measure progress toward this goal, the program is tracking the number of animals affected by noncompliances noted by inspectors at regulated facilities. The measure is "number of animals affected by noncompliances documented on inspection reports." A baseline, target and results were developed and submitted with the FY 2005 budget request. A full copy of the PART may be found at www.whitehouse.gov/omb/budget/fy2004/pma.pdf.

PART assessments were initiated on the Animal and Plant Health Monitoring and Surveillance Programs as part of the FY 2005 budget process. These programs are divided by plant (Plant Detection and Animal and Plant Health Regulatory Enforcement) and animal (Animal Health, Animal and Plant Health Regulatory Enforcement, and Veterinary Biologics). A full copy of the completed evaluations will be available February 2004 at www.whitehouse.gov/omb/part.

Improve Animal Emergency Management

The Emergency Management System (EMS) is a joint Federal-State-industry effort to improve the ability of the U.S. to deal successfully with animal-health emergencies. These emergencies could range from natural disasters to introductions of exotic animal diseases. In addition to unintentional introductions of such diseases, EMS addresses intentional introductions and emerging diseases which could threaten trade. By ensuring that Federal, State and private organizations across the country are working actively to prevent, detect and respond to animal-health emergencies, USDA is improving the national infrastructure. It is doing this to protect the Nation's food and fiber supply and public health. While the challenges of international travel and trade are increasing the odds of animal diseases spreading across borders, USDA and its partners can reduce the devastating effects that a large animal-health emergency would have on national and global economies significantly. They can do this by being prepared to move quickly to prevent small emergencies from growing to epidemic proportions.

Currently, USDA is hiring emergency-management coordinators to work throughout the country and assist in developing emergency-response infrastructures. This staff will help coordinate emergency-response resources from all sources in each State (including State, Federal and private resources). For regional threats, they will help manage resources available in two or more States. Coordinators will monitor States' progress in meeting established standards for emergency preparedness and response. Reviews of States and territories to determine their status in meeting the standards for animal-health emergencies will be conducted every two years. For the review, USDA and each State veterinarian conduct a joint self-assessment of the State's preparedness and emergency-response capability. USDA emergency-management coordinators, as they are hired, will check this self-report.

Exhibit 50: Increase the Number of States and Territories Meeting Standards

Annual Performance Goals and Indicators	Fiscal Year 2003		
	Target	Actual	Result
3.2.3 Increase the number of States and territories which meet the standards for preventing, detecting and responding to animal health emergencies.	30	Available 12/31/03	Deferred

Analysis of Results.

The performance goal was deferred. Results of the second review will be available December 31, 2003. Currently, a survey of State Veterinarians and Animal and Plant Health Inspection Service (APHIS) Veterinarians-in-Charge is being developed. This performance goal's results will be published in next year's report.

Exhibit 51: Actual Number of States and Territories Meeting Standards

Trends	Fiscal Year Actual				
	1999	2000	2001	2002	2003
Increase the number of States and territories which meet the standards for preventing, detecting and responding to animal health emergencies	0	0	1	1[1] Baseline	Available 12/31/03

[1]Revised to reflect final data.

Program Evaluation.

The Emergency Management Program of the Animal and Plant Health Monitoring and Surveillance Programs conducts continual self-evaluations and receives input from the joint State-Federal industry National Animal Health Emergency Management System Steering Committee. Based on comments in the Animal Health Safeguarding Review, which may be obtained at www.aphis.usda.gov/vs/pdf_files/safeguarding.pdf, the program has enhanced emergency-response capabilities greatly by building a response system shared by local, State, Federal and Tribal entities. The program implemented an incident-command system in response to *Avian Influenza* in Virginia in 2002 and *Exotic Newcastle Disease* in California and other States in 2003. State, Tribal and local Government cooperators were summoned to help contain the situation and eliminate the diseases. A copy of the review of the response to *Avian Influenza* in Virginia can be obtained by calling APHIS Veterinary Services Emergency Programs at (301) 734-8073. A copy of the evaluation of the response to *Exotic Newcastle Disease* will be available March 2004 by calling APHIS Policy and Program Development at (301) 734-8511.

A PART assessment was initiated on the Animal and Plant Health Monitoring and Surveillance Programs (Emergency Management Systems) as part of the FY 2005 budget process. A full copy of the completed evaluation will be available February 2004 at www.whitehouse.gov/omb/part.

Meantime, a recent internal management study, *Analysis Paper: Emergency Management Coordination in APHIS*, June 6, 2003, APHIS Policy and Program Development, Riverdale, Maryland, focused on USDA's animal and plant-pest and disease emergency-response capability. Copies of the study may be obtained by calling APHIS Policy and Program Development at (301) 734-8511.

A review (self-report) of animal health emergency-management systems in each State is underway. The self-report will be completed by the end of the first quarter of FY 2004. The emergency-management coordinators who are hired will meet with States in FY 2004. The coordinators will review the data collected. When it is completed, the report from this review can be obtained by calling the APHIS Deputy Administrator, Veterinary Services, at (202) 720-5913.

Improve Animal Diagnostic Services

USDA partners with States to provide effective emergency-response systems to detect, respond to and eliminate outbreaks of invasive pests and diseases. Having a fully operational diagnostic laboratory located close to a detection site and linked to a national network increases the rapidity with which an unknown disease sample can be tested accurately. It also increases the probability of containing an introduction before it becomes a significant outbreak. To address these needs, Congress appropriated funds for the National Animal Health Laboratory Network (NAHLN) in FY 2002. As part of a pilot for NAHLN, 12 State/university diagnostic laboratories received funding. With the funding, the laboratories developed capacity and surveillance programs for high-priority exotic animal diseases considered to be bioterrorist threats. Additionally, contracts were established with 26 diagnostic laboratories to assist with testing for Chronic Wasting Disease and scrapie, both of which are animal nervous system diseases.

Between these two networks, laboratories in 26 States are available to assist National Veterinary Services Laboratories (NVSL) in providing necessary Federal animal-diagnostic services. These laboratories are in the process of receiving training and further enhancing their laboratory facilities.

Exhibit 52: Ensure States Provide Animal Diagnostic Services

Annual Performance Goals and Indicators	Fiscal Year 2003		
	Target	Actual	Result
3.2.4 Increase the number of States that can provide necessary Federal animal diagnostic services	25	26	Exceeded

Analysis of Results.

Exhibit 53: Increase in States that Provide Animal Diagnostic Services

Trends	Fiscal Year Actual				
	1999	2000	2001	2002*	2003
Increase the number of States that can provide necessary Federal animal diagnostic services	N/A	N/A	N/A	20 Baseline	26

N/A = Not Applicable

The performance goal was exceeded. NVSL, working in conjunction with the Cooperative State, Research, Education and Extension Service, has developed a laboratory network modeled after a broader national response strategy to integrate Federal, State and local resources more tightly. This initiative will allow any type of animal health emergency to be managed effectively. Having laboratories across the country available to assist with various diagnostic-testing techniques prepares the U.S. for emergency animal disease-situations. Additionally, during large-volume testing periods, having these laboratories guarantees timely test results. During FY 2003, six additional States joined the combined network as participants. NAHLN laboratories received training in sensitive methods for distinguishing such viruses as *Foot and Mouth Disease*, *Avian Influenza* and *Exotic Newcastle Disease*. During FY 2004, USDA will look into bolstering the capabilities of the current laboratory network members before adding additional States.

Program Evaluation.

A PART assessment was initiated on the Animal and Plant Health Monitoring and Surveillance Programs (Veterinary Diagnostics Program) as part of the FY 2005 budget process. A full copy of the completed evaluation will be available February 2004 at www.whitehouse.gov/omb/part.

Improve Plant Diagnostic Laboratory Capabilities

International Standards Organization (ISO) certification of the five National Plant Diagnostic Network (NPDN) Centers ultimately will establish harmonized leadership and coordination of the diagnostic laboratories. It also ensures the performance of timely diagnostics with uniform and adequate quality, and enhances the process of producing and maintaining a timely, comprehensive catalogue of pest- and disease-outbreak occurrences in a nationally accessible database. Certification and linked communication are essential to identifying new or uncommon pests and diseases accurately. USDA, in conjunction with the States, will expedite initial control responses, verify the physical boundaries of an outbreak and initiate regional or national containment strategies.

Exhibit 54: Ensure the Capabilities of Plant and Diagnostic Laboratories are Improved

Annual Performance Goals and Indicators	Fiscal Year 2003		
	Target	Actual	Result
3.2.5 Improve the capabilities of plant diagnostic laboratories:			Met
• Certify National Plant Pest and Disease Diagnostic Network Centers	3	3[1]	
• Connect State Plant Diagnostic Laboratories to the National Agricultural Pest Information System at Purdue University	50	50[1]	

[1]Result based on projected estimate. See the Data Assessment of Performance Measures section for more information.

Analysis of Results.

The performance goal was met. No trend data are available since the Improve the Capabilities of Plant Diagnostic Laboratories effort began in FY 2003.

NPDN certification is on schedule, with three of the five National Centers certified for soybean rust.

Exhibit 55: Improve the Capabilities of Plant Diagnostic Laboratories

Trends	Fiscal Year Actual				
	1999	2000	2001	2002	2003
Certify National Plant Pest and Disease Diagnostic Network Centers	N/A	N/A	N/A	N/A	3[1] Baseline
Connect State Plant Diagnostic Laboratories to the National Agricultural Pest Information System at Purdue University	N/A	N/A	N/A	N/A	50[1] Baseline

N/A = Not Applicable
[1]Result based on projected estimate. See the Data Assessment of Performance Measures section for more information.

USDA agencies partner with State agencies and universities to achieve a high level of agricultural biosecurity through the early detection, response and containment of outbreaks of invasive pests and diseases. Diagnostic laboratories, adequately staffed and stocked with cutting-edge technology, are essential to accomplishing this mission.

Future challenges to broaden overall certification, specifically developing ISO-certification criteria, include the difficulty of coordination, regional differences and the development of standard criteria. The process of connecting State and university plant-diagnostic laboratories to NAPIS is slightly behind schedule because of unanticipated funding shortfalls. These shortfalls result from the budget difficulties that most States currently are facing. While just 25 States had at least 1 plant diagnostic laboratory connected to NAPIS, at the end of the year, all 50 were connected.

Future challenges to improving the capabilities of plant diagnostic laboratories include the availability of sufficient non-Federal funding to link at least one laboratory in each State to NAPIS, and to continue to increase the number of connected laboratories in each State.

Program Evaluation.

No program evaluations were performed in FY 2003. All research projects undergo an external peer review at the beginning of their five-year program cycle. Any research findings undergo peer review before they are published in a scientific journal. New and improved varieties are not released until they successfully complete a rigorous evaluation of the claims made for them in uniform variety tests that are conducted at 24 or more locations.

Research Plant Pathogens

USDA develops and releases to potential users varieties and/or germplasm that are new or provide significantly improved (either through traditional breeding or biotechnology) characteristics enhancing pest or disease resistance. Routine delivery of these new genetic resources is needed to protect agricultural crops from the emergence of new races of virulent pathogens. These resources also can prevent the introduction of severe diseases in the U.S. by human transport or other means.

Exhibit 56: Report of Actual Variety and Germplasm Releases

Annual Performance Goals and Indicators	Fiscal Year 2003		
	Target	Actual	Result
3.2.6 Release a series of new or improved varieties or germplasm that exhibit enhanced disease resistance to each of the following plant diseases: Sclerotinia, downy mildew, rusts and exotic viral diseases	5	5	Met

Analysis of Results.

Exhibit 57: Variety and Germplasm Releases with Enhanced Resistance to Pests and Diseases

Trends	Fiscal Year Actual				
	1999	2000	2001	2002	2003
Release a series of new or improved varieties or germplasm that exhibit enhanced disease resistance to each of the following plant diseases: Sclerotinia, downy mildew, rusts and exotic viral diseases	9 Baseline	9	5	5	5

The performance goal was met. USDA transferred five new crop varieties with enhanced pest and disease resistance traits into public domain repositories. Use of these five genetic resources by private sector major seed companies will ensure widespread adoption of this technology to sustain and improve U.S. agricultural productivity. Development of risk-reducing technologies is a central strategy in U.S. research efforts to guard against catastrophic economic losses due to crop pests and diseases. Continued development of technological advances in crop protection creates numerous approaches for improved detection, control or elimination of severe plant diseases. Research is different from most government programs. In FY 1999, the base year for this report, USDA released nine new or improved varieties. Currently, five significant accomplishments have been identified, meeting the target as established.

USDA will determine the need for additional research to meet future threats to the security of the U.S. crop-production system. With simultaneous research taking place on different issues, diseases and agriculturally important crops, it is difficult to predict exactly when new varieties or germplasm will be ready for release. Thus, the number of significant releases will vary from year to year.

Program Evaluation.

The Office of Scientific Quality Review evaluated relevant projects in the Plant, Microbial, Insect Genetic Resources, Genomics & Genetic Improvement National Program. The Office also certified approved project plans. Summary information on these reviews is available from the USDA/Agricultural Research

Service (ARS) National Program Staff. Copies of the reviews on crops may be obtained by calling the National Program Staff office at (301) 504-6252. Copies of the reviews on animals may be obtained by calling ARS' National Program Staff office at (301) 504-7050.

Selected Results in Research, Extension and Statistics for Objective 3.2

The National Animal Germplasm Program has approved 37 chicken lines developed by the USDA. The lines will be included in the National Registry of Genetically Unique Animal Populations. USDA developed the registry to recognize important genetic resources that have had and continue to have a significant impact upon the research community and the industry. These unique chicken lines have enabled scientists to characterize agriculturally important poultry traits, especially those involved in viral disease resistance. The scientists also have applied the resulting information to control economically important diseases.

Based on the development of kaolin clay-based insect repellents, evaluation of "soft" insecticides and development of biological control and other technologies, USDA developed a successful pilot project in California to control Pierce's disease and its carrier, the glassy-winged sharpshooter. Pierce's disease, which strikes grapevines, threatens the $33 billion wine industry, almonds and other agricultural crops, landscape plants and forest trees.

USDA scientists and the Department of Defense patented the most promising new mosquito repellent in 50 years. DEET, discovered in 1954 by USDA, is the most widely used repellent in the world. The new repellent, SS 220, is longer lasting at lower concentrations and, unlike DEET, is harmless to plastics. Mosquitoes transmit a wide variety of deadly diseases - such as malaria, dengue and West Nile fever - for which there are no vaccines.

USDA scientists earned a patent for a novel biological control agent that destroys 95 percent of the aquatic stages of Culex pipiens, one of the most important West Nile virus carriers. The agent, CuniNPV, is a naturally occurring baculovirus that affects only Culex mosquitoes. When ingested by larvae, CuniNPV quickly multiplies, killing them before they transform into disease-transmitting adults. Besides sequencing the entire genome of CuniNPV, USDA scientists established that they could greatly increase effectiveness by simply combining it with low concentrations of magnesium.

Veterinary medicine and animal disease diagnosis have improved thanks to new genetic technologies. These technologies speed vaccine and diagnostic-tool development. With USDA support, Tennessee researchers devised several antibodies that detect a substance called antigen 85 in cows infected with Johne's disease. This disorder is one of the top three diseases in beef and dairy cattle. Johne's disease also has caused $250 million-worth of annual economic losses. Scientists at the Virginia-Maryland Regional College of Veterinary Medicine developed a livestock vaccine against brucellosis, which affects both animals and humans. The complete genome sequence of *Mycobacterium paratuberculosis*, the bacterium that causes Johne's disease, was deposited into a publicly accessible database. The availability of the genome sequence will lead to better detection methods, the development of vaccines and the disease's ultimate eradication.

A way to reduce chemical use in agriculture is to entice pests away from the cash crop and onto a more-appetizing perimeter "trap" crop. This plan would allow farmers to kill the bugs on the trap crop. Connecticut researchers, supported in part with USDA funds, used this approach with a pepper pest. The treatment left the cash crop nearly 100-percent pest-free, reducing pesticide use nearly 90 percent. It also saved growers up to $153 per acre. Kentucky State University scientists devised a mechanical means to reduce chemical use with honeybees, which are vital crop pollinators. The scientists installed special screens under hives to trap varroa mites, which are major honeybee predators.

USDA-supported scientists contributed to the completion of a 10X draft genome sequence of *Fusarium graminearum*. This microorganism causes head blight (scab) in wheat and barley. The draft has been deposited into a publicly accessible database. The availability of the sequence will increase the potential for developing methods to control this fungal pathogen. *Fusarium graminearum* caused more than $3 billion in losses to U.S. farmers in the 1990s.

STRATEGIC GOAL 4: IMPROVE THE NATION'S NUTRITION AND HEALTH

Exhibit 58: Resources Dedicated to Improve the Nation's Nutrition and Health

USDA Resources Dedicated to Strategic Goal 4	FY 2003	
	Actual	Percent of Total USDA
Program Obligations ($ Mil)	$42,245	36%
Staff Years	2,974	3%

USDA is strongly committed to improving the nutrition and health of everyone living in the United States. For example, in addition to increasing the resources households have for proper nutrition at home and at school, the Department's Special Supplemental Nutrition Program for Women, Infants and Children (WIC) and the Food Stamp Program (FSP) invested more than $200 million and more than $300 million, respectively, in nutrition donation in 2003. Also, in May 2003, the Department announced the purchase of 39.1 million pounds of fruit and vegetables for donation to schools, neighborhood shelters for needy families and other food-aid institutions. Overall, USDA distributed more than $1.3 billion worth of commodity foods in 2003. The Department's distribution of these kinds of nutritious foods is making a real difference in the lives of children and low-income people across America.

USDA also awarded more than $4 million worth of Team Nutrition training grants to help State agencies improve children's lifelong eating and physical activity habits. Team Nutrition provides schools with nutrition-education materials for children and families. It also offers technical-assistance materials for school food-service directors, managers and staff. Additionally, the program provides materials to build school and community support for healthy eating and physical activity. State agency partners provide training and technical assistance to support these programs in local schools.

Additionally, recent studies have shown that FSP, the Nation's largest nutrition-assistance program, served an increased share of those eligible for benefits two years in a row. Evidence is strong that the program is reaching more working families and the accuracy of FSP payments is at the highest level of its history.

Objective 4.1: Improve Access to Nutritious Food

Exhibit 59: Resources Dedicated to Improve Access to Nutritious Food

USDA Resources Dedicated to Objective 4.1	FY 2003	
	Actual	Percent of Goal 4
Program Obligations ($ Mil)	$41,322	98%
Staff Years	1,300	44%

Overview

USDA's nutrition-assistance programs represent the Federal Government's primary effort to reduce hunger and improve nutrition among low-income people in the U.S. By working with States to maintain program access for those who are eligible and ensure effective benefit delivery to participants, USDA seeks to provide access to an adequate diet for those with low income and few resources.

Serving the Public

The Department manages nutrition-assistance programs that reach one in five people directly in the U.S. annually. Additionally, these programs promote better health for all people in the U.S. through more than $500 billion in food and nutrition education, guidance and promotion. USDA policy seeks to ensure that all Americans have access to a healthy and nutritious food supply, regardless of income. A well-nourished population is healthier, more productive and better able to learn. No child or family should go hungry.

Challenges for the Future

Periodic studies, conducted most recently for FY 2001, show that many eligible individuals and families do not participate in USDA's nutrition-assistance programs. The *USDA Strategic Plan for FY 2002-2007* includes strategies to improve access to a number of underutilized programs, particularly the Food Stamp, School Breakfast and Summer Food Service Programs. The strategies also call for education and outreach efforts to make eligible people aware of the availability of nutrition assistance. USDA's ability to achieve its goals depends partly on sound legislative authority to promote effective access to nutrition assistance, and on adequate funding to support program participation. Additionally, as programs are delivered by third parties, with voluntary participation, responsibility for reaching program goals is shared by the Federal, State and local Governments, non-profits, and other cooperatives, including eligible recipients.

Reduce Hunger and Improve Nutrition

Resources distributed through 15 USDA programs represent the primary Federal effort to fight hunger and poor nutrition in the U.S. FSP helps participants improve their food-purchasing power through monthly benefits delivered primarily through electronic debit technology. The school meals programs provide meals and snacks to all school children with a free or reduced-price rate for those in low-income families. WIC provides supplemental food packages, nutrition education and referrals to health and human services for low-income pregnant women, breastfeeding and non-breastfeeding new mothers, and infants and children up to 5 years old.

USDA is committed to improving access to and use of vital nutrition assistance and education programs for eligible low-income people.

Exhibit 60: Improve Nutrition

Annual Performance Goals and Indicators	Fiscal Year 2003		
	Target	Actual	Result
4.1.1 Improve Access to Nutritious Food (Mil):			Met
• Food Stamp Program participation (people)	20.7	21.3	
• Special Supplemental Nutrition Program for Women, Infants and Children participation (average monthly participation)[1]	7.7	7.6	
• National School Lunch Program participation (average daily participation)	28.7	28.3	
• School Breakfast Program participation (average daily participation)	8.8	8.4	
• Child and Adult Care Food Program meals served	1,831	1,766	
• Summer Food Service Program participation (average daily participation)	2.0	Available 02/04	

[1]New measure under development.

Analysis of Results.

Exhibit 61: Trends in Improving Nutrition

Trends[1]	Fiscal Year Actual				
	1999	2000	2001	2002	2003
Food Stamp Program participation (people)	18.2	17.2 Baseline	17.3	19.1	21.3
Special Supplemental Nutrition Program for Women, Infants and Children participation (average monthly participation)[2].	7.3	7.2 Baseline	7.3	7.5	7.6
National School Lunch Program participation (average daily participation)	26.9	27.2 Baseline	27.5	28.0	28.3
School Breakfast Program participation (average daily participation)	7.4	7.6 Baseline	7.8	8.1	8.4
Child and Adult Care Food Program meals served	1,638	1,671 Baseline	1,681[3]	1,737[3]	1,766
Summer Food Service Program participation (average daily participation)	2.2	2.1 Baseline	2.1	1.9	Available 02/04

[1]All data is in millions.
[2]New measure under development.
[3]Revised to reflect final data.

The performance goal was met. Because program participation is voluntary, performance projections are estimated based on macroeconomic assumptions and other factors that impact the behavior of eligible populations.

The increase in program participation from the 2002 level reflects the impact of decline in economic conditions for some U.S. households. It also reflects continuing efforts to ensure program access for eligible people. This participation shows that the programs can respond quickly and effectively to changing economic conditions, and provide access to nutritious food. In particular, FSP participation exceeded expectations, growing substantially over the FY 2002 level.

USDA made expanding the Summer Food Service Program a priority during 2003. The Department undertook national and regional efforts to improve program participation. USDA hopes that these efforts will contribute to improved access and participation in this underutilized program in future years.

For the future, results related to this objective depend on a variety of factors. Such socioeconomic issues as the strength of the economy and job availability will shape the scope and impact of nutrition-assistance program performance. The quality of program delivery at the State and local levels also will impact results. Maintaining effective partnerships with State and local cooperators, in light of State-level resource constraints, remains an ongoing challenge.

Program Evaluation.

USDA completed the following analyses and evaluations:

- Characteristics of Food Stamp Households: FY 2002 (Advance) (FNS)
- Trends in Food Stamp Program Participation Rates: 1999 to 2001 (FNS)
- Food Stamp Participation Rates and Benefits: An Analysis of Variation Within Demographic Groups (FNS)
- Expunging Food Stamp EBT Benefits: A Case Study of the Elderly in Three States (FNS)
- Characteristics of Food Stamp Households: FY 2001 (FNS)
- Reaching Those in Need: State Food Stamp Participation Rates in 2000 (FNS)
- Elderly Participation and the Minimum Benefit (FNS)
- Empirical Bayes Shrinkage Estimates of State Food Stamp Participation Rates for 1994-1999 and 1998-2000 (FNS)
- Evaluation of the School Breakfast Program Pilot Program Interim Report (FNS)

- Household Food Security in the United States, 2001 (ERS)
- The Emergency Food Assistance System–Findings From The Client Survey (ERS)
- Hunger: Its Impact on Children's Health and Mental Health (ERS)
- The Emergency Food Assistance System–Findings From the Provider Survey (ERS)
- Exploring Food Purchase Behavior of Low-Income Households: How Do They Economize? (ERS)
- Food Stamp Caseloads Over the Business Cycle (ERS)
- Food Stamp Leavers Research Study—Study of ABAWDs Leaving the Food Stamp Program in South Carolina (ERS)
- Food Stamp Leavers Research Study—Study of Nonwelfare Families Leaving the Food Stamp Program in South Carolina (ERS)
- The WIC Program: Background, Trends and Issues (ERS)
- Feeding Low-Income Children When School Is Out—The Summer Food Service Program (ERS)

Reports prepared by FNS are available at: www.fns.usda.gov/oane/MENU/Published/Publications.htm. Reports prepared by ERS are available at www.ers.usda.gov/Publications/.

Additionally, the Government Accounting Office (GAO) released the following audits related to this objective:

- *Food Stamp Employment and Training Program: Better Data Needed to Understand Who is Served and What the Program Achieves (GAO-03-388):* GAO examined the population served by the Food Stamp Employment and Training Program (E&T), the program's services and what is known about E&T's outcomes and effectiveness. GAO has recommended improvement in data collection and evaluation of the program. While USDA officials agreed to consider GAO's recommendations, they expressed concern over the costs of implementing them in light of competing priorities.
- *Food Assistance: Potential to Serve More WIC Infants by Reducing Formula Cost (GAO-03-331):* GAO examined the extent to which WIC agencies have reduced their use of non-contract brands of infant formula to lower WIC program costs. GAO recommended that USDA work with WIC agencies to reduce nonstandard formula use. USDA plans to analyze the level of need and, if warranted, work with State agencies to develop policy and train local agencies on formula usage.

GAO reports are available at www.gao.gov.

A Program Assessment Rating Tool assessment was initiated on the Food Stamp Program as part of the FY 2005 budget process. A full copy of the completed evaluation will be available February 2004 at www.whitehouse.gov/omb/part.

Selected Results in Research, Extension and Statistics for Objective 4.1

Limited-resource families in the Oregon State University Nutrition Program learned budgeting, menu planning, product labeling and comparison shopping. The program helped these families eat healthier and get the most for their money. More than 60 percent of those who complete the program say that they now read nutrition-facts labels to make healthier choices. Forty-four percent say they have enough food each month. Cooperative Extension expects to save Oregon more than $3.60 in future health costs for every $1 invested to improve nutrition behaviors.

National data show that each dollar invested in the Expanded Food and Nutrition Education Program (EFNEP) leads to $10.64 in savings in future health care costs. EFNEP is a national Cooperative Extension program that targets low-income homemakers with young children. Delaware EFNEP doubled the number people consuming more dairy, fruit, vegetables, breads and cereal products. It also allowed this same group to get all of their recommended nutritional daily allowances. A Purdue University EFNEP program is tailored to Spanish-speaking residents. Almost half the participants in this program made the recommended changes in nutrition for their households. In Arizona, 11,640 youths began eating better and experienced improved overall nutrition.

Objective 4.2: Promote Healthier Eating Habits and Lifestyles

Exhibit 62: Resources Dedicated to Promote Healthier Eating Habits and Lifestyles

USDA Resources Dedicated to Objective 4.2	FY 2003	
	Actual	Percent of Goal 4
Program Obligations ($ Mil)	$757	2%
Staff Years	551	19%

Overview

Eating right is vital to promoting health and reducing the risk for death or disability due to such chronic ailments as heart disease, certain cancers, diabetes, stroke and osteoporosis. Sadly, a large gap remains between recommended dietary patterns and what Americans actually eat. USDA's nutrition programs focus on improving eating behaviors through nutrition promotion and services. These programs also provide technical assistance, training and resources for State and local agency staff to ensure delivery of quality services.

Serving the Public

Promoting healthy eating and lifestyle behaviors is a vital public health issue. Overweight and obesity soon will rival cigarette smoking as a leading cause of premature death and disability in the U.S. According to the Surgeon General's *2001 Call to Action to Prevent and Decrease Overweight and Obesity*, the costs related to obesity and inactive lifestyles reach into the billions of dollars annually. Based on the Surgeon's General report, the human cost attributed to this cause is approximately 300,000 deaths annually. The burden of medical costs and the loss of productivity are shared by all Americans.

Nutrition, health and education professionals look to USDA to provide the information, tools and educational materials they need to help people improve their diets. Additionally, USDA develops and distributes information, and provides assessment and educational tools for the general public. One such tool is the Interactive Healthy Eating Index (IHEI). The Index allows an individual to assess daily food intake and compare it to current national standards. In 2003, individuals used IHEI more than one million times to help them check their own food choices and identify how they could be improved.

Additionally, USDA's nutrition education for the public will focus on providing information that will motivate Americans to improve their food choices. This focus includes a particular emphasis on attaining and maintaining a healthy weight. Because low-income people and members of certain ethnic groups experience a disproportionate share of diet-related problems and risk factors, USDA's nutrition-assistance programs include strategies to convey motivational messages and behavior-focused nutrition guidance to encourage healthier eating habits. Tools such as the *Eat Smart. Play Hard.™* campaign and Team Nutrition help nutrition, health and education professionals reach low-income families, children and their caregivers make healthy choices together early in life and beyond.

Challenges for the Future

As the Surgeon General's report notes, more than 6 in 10 Americans are overweight or obese, with the number growing. The most recent statistics from the Center for Disease Control and Prevention indicate that 15 percent of 6-to-19-year-old children and adolescents are overweight. These numbers are even higher among low-income Americans. To meet the challenge posed by obesity and diet-related diseases, USDA will continue to focus its efforts on:

- Using sound science to provide healthy school meals;
- Promoting breastfeeding;
- Developing educational materials with information designed to help Americans improve their food choices; and
- Maintaining a healthy weight.

While an understanding of healthy eating is vital knowledge, it is not enough. Messages and materials must be crafted to convince Americans to make such positive changes as selecting a balanced diet with more fruits and vegetables, and being sensible about calorie intake.

Healthier Eating Habits and Lifestyles

A healthy diet, which includes fruits and vegetables, can lessen the risk for certain chronic illnesses. Thus, USDA encourages and promotes eating these foods through its nutrition-assistance programs. For babies, breastfeeding has been shown to make a significant difference in their health in infancy and beyond. Since all Americans can benefit from improving their diets, USDA is distributing educational materials with simple, clear messages about what and how much Americans should eat.

Exhibit 63: Improve America's Diet

Annual Performance Goals and Indicators	Fiscal Year 2003		
	Target	Actual	Result
4.2.1 Promote Healthier Eating Habits and Lifestyles:			Exceeded
• Support for fruits and vegetables provided through nutrition assistance programs ($ Mil)	8,246	8,351[1]	
• School Meals Initiative monitoring reviews conducted by State agencies	2,900	4,113[1]	
• Percentage of WIC mothers initiating breastfeeding (Percentage, data collected biennially)	N/A	N/A	
• USDA nutrition education materials and education interventions disseminated (Mil. of pieces)	6.1	19.6[1]	

[1]Result based on projected estimate. See the Data Assessment of Performance Measures section for more information.
N/A = Not Applicable – data collected every two years.

Analysis of Results.

The performance goal was exceeded. In the three areas for which data are available, USDA successfully implemented its nutrition promotion and diet-quality improvement strategies. Its key accomplishments include:

- Increasing support for consumption of fruits and vegetables through nutrition-assistance programs. Partial data indicates an increase over last year's level and a continuation of a trend of increases in recent years. This trend represents improved variety in the diets of program participants.
- Continued monitoring and oversight of the nutrition quality of meals served through school meal programs. USDA's partners conducted more School Meal Monitoring Reviews than last year. USDA's partners also continued steady progress in meeting the goal of reviewing all schools in a five-year cy-

cle. Results of these reviews are used by State and local agencies to target corrective action to improve meals.

- Increased dissemination of nutrition-education materials to targeted audiences and the general public. The current level of disseminated materials increased from FY 2002. The increase reflects a large distribution of materials due to increased demand for nutrition information from USDA's program cooperators. Additionally, the Department increased its use of the Internet as an efficient means to allow more Americans to access these materials. These science-based, tested nutrition-education materials can make a real difference in improving peoples' diets and motivating other healthy behavioral changes.

While data on breastfeeding in WIC are unavailable this year, USDA is committed to continue its efforts to promote it as the preferred infant-feeding practice. The Department also looks to sustain the increase in breastfeeding-initiation rates that have occurred over the past several years.

Exhibit 64: Trends in Improving America's Diet

Trends	Fiscal Year Actual				
	1999	2000	2001	2002	2003
Support for fruits and vegetables provided through nutrition assistance programs ($ Mil)	6,692	6,747 Baseline	7,102	7,628	8,351[1]
School Meals Initiative monitoring reviews conducted by State agencies	2,937	3,939 Baseline	4,073	3,517	4,113[1]
Percentage of WIC mothers initiating breastfeeding (Percentage, data collected biennially)	N/A	44.5% Baseline	N/A	48.3%	N/A
USDA nutrition education materials and education interventions disseminated (Mil. of pieces)	.38	2.2 Baseline	3.4	14.8	19.6[1]

N/A = Not Applicable

[1]Result based on projected estimate. See the Data Assessment of Performance Measures section for more information.

A key challenge for the future in achieving results is the priority the American population places on healthy eating and maintaining a healthy weight. USDA's nutrition education efforts are designed so that program participants and the general public are influenced by a wide range of messages. The Department's ability to promote dietary improvements and regular exercise will be impacted by societal behavior, including the changing of products and practices in the food marketplace.

Program Evaluation.

USDA completed the following analyses and evaluations:

- Environmental Scan and Audience Analysis for Phase II of *Eat Smart. Play Hard™* (FNS)
- Survey of the Public Health Nutrition Workforce (FNS)
- Effects of Food Assistance and Nutrition Programs on Nutrition and Health (FNS)
- Evaluation of the USDA Fruit and Vegetable Pilot Program: Report to Congress (ERS)
- Balancing Food Costs with Nutrition Goals in WIC (ERS)
- Factors Affecting the Macronutrient Intake of U.S. Adults (ERS)
- Effects of Food Assistance and Nutrition Programs on Nutrition and Health: Volume II, Data Sources (ERS)

Reports prepared by FNS are available at: www.fns.usda.gov/oane/MENU/Published/Publications.htm. Reports prepared by ERS are available at www.ers.usda.gov/Publications/.

Additionally, GAO released the following audits related to this objective:

- *School Lunch Program: Efforts Needed to Improve Nutrition and Encourage Healthy Eating (GAO-03-506):* GAO examined schools' efforts to provide and promote healthy meals, and Federal, State and local actions to overcome factors that deter healthy eating. It recommended that the USDA and the Departments of Health and Human Services and Education help schools promote nutrition education while still meeting the demands of State standards-based assessments. GAO also wants the Departments to direct states to identify a focal point to promote collaborative efforts that would further develop nutrition-education activities for the schools.

- *School Meal Programs: Few Instances of Foodborne Outbreaks Reported, but Opportunities Exist to Enhance Outbreak Data and Food Safety Practices (GAO-03-530):* GAO found that about 3 percent of the 7,390 foodborne outbreaks reported nationally from 1990-1999 occurred in schools. It recommended that CDC add school meals as an outbreak category to its report, the Agricultural Marketing Service (AMS) highlight its more stringent school procurement specifications on its Web site, and FNS and AMS promote training and certification of key food service personnel, and study the advantages and disadvantages of donating precooked or irradiated food. USDA generally accepted the report's recommendations.

GAO reports are available at www.gao.gov.

Selected Results in Research, Extension and Statistics for Objective 4.2

USDA has developed new search applications to provide the American public with easy, user-friendly access to USDA's unique food composition data through personal digital assistants, personal computers and the Web-based National Nutrient Database. These applications allow consumers and health professionals to access the information needed to make better choices and recommendations for healthier foods more easily.

Researchers in the Processed Foods Research unit at the Western Regional Research Center (WRRC) developed and licensed a technology for forming 100-percent fruit health bars from pears to add value and create new markets for pears. In collaboration with USDA, the industrial partner now is producing the bars commercially in a plant in North Bonneville, Washington, which is an area of high unemployment. Ninety new jobs have been created. This grassroots effort of pear growers has expanded into other fruits from the Western states. This action is designed to enhance grower profitability and assist people in the U.S. in meeting their daily requirements for fruits.

Researchers in the Processed Foods Research Unit at WRRC developed casting technologies to produce 100-percent fruit and vegetable wraps. They entered into a Cooperative Research and Development Agreement with an industrial partner to scale up the production process for these films. ARS researchers successfully enhanced the production of the 100-percent fruit and vegetable wraps.

Researchers, with USDA funding support, demonstrated that the hormone leptin functions less effectively in obesity-prone mice when they consume high-fat diets. Leptin is produced by fat cells and involved in appetite regulation. The researchers also discovered the mechanisms responsible for this effect. Normally, leptin is an important component of a feedback system between adipose tissue and the brain to match rates of energy utilization with rates of energy intake. These studies are relevant to humans because leptin resistance is a hallmark of essentially all forms of human obesity. Knowledge gained from the studies improved USDA's understanding of how leptin functions in humans. It also guided the development of effective treatments and intervention strategies.

USDA-supported researchers identified factors that determine fruit and vegetable consumption by low-income African-American mothers of young children. They did this by using the Transtheoretical Model to explain behavior change. This model is used by researchers to develop effective interventions to promote health-behavior changes. While all mothers enrolled in the study expressed some concern about their children eating healthier diets, those who already had or were preparing to make changes in their children's diets used more complex strategies to increase fruit and vegetable consumption. The results will be used to develop educational materials tailored specifically for use in nutrition counseling for African-American mothers of young children.

Missouri Cooperative Extension taught the *Show-Me Nutrition* curriculum to 14,000 students at risk for obesity. After completing the education program, 53 percent made healthier food and beverage choices in the school cafeteria.

Objective 4.3: Improve Food Program Management and Customer Service

Exhibit 65: Resources Dedicated to Improve Food Program Management and Customer Service

USDA Resources Dedicated to Objective 4.3	FY 2003	
	Actual	Percent of Goal 4
Program Obligations ($ Mil)	$166	0%[1]
Staff Years	1,123	38%

[1]Less than 1 percent (0.4 percent)

Overview

USDA is strongly committed to attaining the best-possible program outcomes while preventing program abuse or wasting taxpayer dollars. The Department also wants to ensure that nutrition-assistance programs serve those in need at the lowest possible costs. USDA continued to improve stewardship by reducing program error and continuing its use of electronic technology to enhance customer service.

Serving the Public

Maintaining public trust in the Department's nutrition-assistance programs is vital to their success and continued public support. The sheer size of these programs demands that the utmost attention be given to applying efficient management practices and preventing errors in distributing benefits. In the Food Stamp Program (FSP), collaborative efforts between States and USDA to improve payment accuracy have worked, resulting in more program benefits issued in the proper amounts.

In the School Lunch Program, the risk of erroneous payments remains a significant concern. Work undertaken by USDA provided important information about the size of the problem and its complexities. USDA is working to develop strategies to address certification inaccuracy without compromising access for eligible children or unduly burdening school authorities.

Challenges for the Future

To meet the challenge of continued improvements in payment accuracy in the FSP, USDA continues to dedicate significant resources to this area. Nevertheless, there are two significant challenges that will affect success in the future:

- Congressional action has changed the quality-control process. It remains to be seen how States will react to the lowered risk of penalties for poor performance and less incentives for good performance.
- State budgets have been and will continue to be extremely tight. This factor could hurt State performance in the payment-accuracy arena.

Regarding the National School Lunch Program (NSLP), USDA is aware of the growing discrepancy over time between the number of children certified for free meals and the estimates of those eligible. While certification errors alone do not result in Government losses, they represent a risk of erroneous payments.

Payment errors occur only when ineligible students actually receive meals. This is a daily decision. No data are collected to document if or how often those who are certified actually participate. To improve information in this area, USDA is exploring the feasibility of a nationally representative study of the level of NSLP payment error. The Department also is seeking funding and authority for regular assessments of a variety of key program outcome measures. These measures include the level of certification error and program loss as part of Child Nutrition reauthorization.

Improve Food Management Efficiency

USDA continued to implement strategies to reduce erroneous payments within the Food Stamp and School Meal Programs. Efforts resulted in more program benefits being delivered in the proper amounts. Additionally, continued development and deployment of electronic debit technologies resulted in improved customer service by reducing stigma and improving program management.

Exhibit 66: Increase Efficiency in Food Management

Annual Performance Goals and Indicators	Fiscal Year 2003		
	Target	Actual	Result
4.3.1 Improve Food Program Management and Customer Service:			Deferred
• Increase the Food Stamp payment accuracy rate (Percentage; Cumulative)	91.5%	Available Spring 2004	
• Decrease the number of children certified for free school meals in excess of those estimated eligible (Percentage)	25%	TBD	

Analysis of Results.

The performance goal was deferred. FY 2003 performance data with respect to FSP payment accuracy will not become available until FY 2004. Available data for FY 2002 indicate that program integrity continues to improve, representing better targeting of the taxpayer investment in this program to those most in need.

Exhibit 67: Trends in Increasing Efficiency in Food Management

Trends	Fiscal Year Actual				
	1999	2000	2001	2002	2003
Increase the Food Stamp payment accuracy rate (Percentage; Cumulative)	90.1%	91.1%	91.3% Baseline	91.7%	Available Spring 2004
Decrease the number of children certified for free school meals in excess of those estimated eligible (Percentage)	27%	N/A[1]	N/A[1]	N/A[1]	TBD

[1]Measurement methodology is being revised.

The most important factor in maintaining improved performance in this area is the need for State partners to continue and renew their commitment to utilize findings from the Quality Control system. This commitment will improve payment accuracy. To support State improvement, USDA will continue efforts to resolve Quality Control liabilities through settlements which require States to invest in specific program improvements. The Department also will support States in improving accuracy with "best practices" information sharing, develop specific intervention plans for high issuance/high error rate States and encourage States to adopt available options that simplify program rules.

A results measure currently is unavailable for NSLP certification accuracy because USDA is refining its methodology for calculating certification error. Since the FY 2003 *Annual Performance Plan* measure and targets were set, the Department has continued to explore alternative analyses of data that may match program-eligibility requirements more closely. While these alternatives vary in the level of discrepancy between the total number of free certifications and the estimates of those eligible, the evidence remains clear that certification accuracy is a serious problem that must be addressed.

The Department does not believe that such a measure is feasible using available data sources. USDA has recommended a number of policy changes to address certification accuracy as part of Child Nutrition reauthorization with an approach that balances the need to improve integrity with promoting program access for eligible children. Department recommendations include:

- Expanding the use of "direct certification" for school meals of children already participating in other means-tested programs. This approach can improve accuracy without causing barriers to eligible children already participating in the Food Stamp Program.
- Improving the paper-based application process by providing for year-long certifications using a single application for all children in a household, increasing the verification sample and requiring a robust follow-up process to encourage eligible children to remain on the program; and
- Continuing to test methods to improve the application and verification processes through a program of applied research and analysis. This includes a nationally representative study of certification error and the number of dollars lost to program error.

Program Evaluation.

USDA completed the following analyses and evaluations related to this outcome:

- Evaluation of the National School Lunch Application/Verification Pilot Projects (FNS)
- Evaluation of the School Breakfast Program Pilot Program Interim Report (FNS)
- Food and Nutrition Service Regional Office Verification Activity (FNS)
- The Food Assistance Landscape (ERS)
- Rural Welfare Reform: Lessons Learned (ERS)
- Assessment of WIC Cost-Containment Practices (ERS)
- Aiming for Targets, Saving on Arrows: Insights from Two USDA Food Assistance Programs (ERS)
- Direct Certification in the National School Lunch Program—Impacts on Program Access and Integrity (ERS)

Reports prepared by FNS are available at: www.fns.usda.gov/oane/MENU/Published/Publications.htm.
Reports prepared by ERS are available at www.ers.usda.gov/Publications/.

Additionally, the Office of Inspector General (OIG) and GAO released the following audits related to this objective:

- *Controls over the Access, Disclosure and Use of Social Security Numbers (27601-29-CH)*: OIG concluded that, while Federal-level controls are in place and functioning, improvements are needed at the State and county food stamp offices of Wisconsin and Illinois to protect social security numbers from identify theft. USDA generally agreed with the report's findings and recommendations.
- *School Meal Programs: Revenue and Expense Information from Selected States School-Meal Programs: Revenue and Expense Information from Selected States (GAO-03-569):* GAO explored how overall revenues and federal reimbursement in particular, from school years 1996-2000 compared with the expense of producing meals during this timeframe. GAO found that, for the six States reviewed, the primary revenue sources are federal reimbursements and food sales. Approaches to enhance program revenues focused on increasing participation and a la carte sales. The report contains no recommendations.

GAO reports are available at www.gao.gov. OIG reports are available at www.usda.gov/oig/rptsaudits.htm.

The Office of Management and Budget completed a Program Assessment Rating Tool (PART) review of NSLP. While the review showed that NSLP is generally well-designed and has a clear purpose, it also found that the program's performance measures do not link to long-term goals adequately. The PART also noted that inaccuracy in the certification of participants remains an important problem. Based on the findings, USDA intends to pursue program changes to increase certification accuracy and improve measures related to erroneous payments and other aspects of program performance. A copy of the PART assessment may be found at www.whitehouse.gov/omb/budget/fy2004/pma/nationalschool.pdf.

Selected Results in Research, Extension and Statistics for Objective 4.3

USDA conducted the first nationally representative survey of the emergency food-assistance system. This system includes food pantries, emergency kitchens, food banks and other organizations. The findings indicate that this informal network provides more than 173 million meals and distributes about 2.9 billion pounds of food annually. Public and private food-assistance providers or organizations work together to offer more comprehensive aid than either could offer alone.

The Department's Economic Research Service also launched *The Food Assistance Landscape*. This first-ever periodic publication highlights USDA's food-assistance efforts. Several important studies were completed that provide policymakers, program agencies and others with information to improve the Department's food-assistance programs. These studies included an evaluation of a pilot program to provide fruits and vegetables to schools. Also examined were infant-formula pricing in WIC's Special Supplemental Nutrition Program and the background, trends and issues surrounding WIC.

STRATEGIC GOAL 5: PROTECT AND ENHANCE THE NATION'S NATURAL RESOURCE BASE AND ENVIRONMENT

Exhibit 68: Resources Dedicated to Protect the Nation's Natural Resource Base and Environment

USDA Resources Dedicated to Strategic Goal 5	FY 2003	
	Actual	Percent of Total USDA
Program Obligations ($ Mil)	$11,306	10%
Staff Years	53,117	47%

USDA assisted the approximately 100,000 residents of Lake Arrowhead, California, by providing more than $13 million to the Lake Arrowhead and Idyllwild areas of the San Bernardino National Forest. This funding was to address the significant wildfire threat from thousands of dead and dying trees caused by California's worst-recorded drought.

Large stands of trees and vegetation suffered severe damage on more than 354,000 acres of the San Bernardino and San Jacinto Mountains. This left the resulting stressed and weakened trees vulnerable to rapidly increasing bark beetle populations and such pathogens as *root disease* and *mistletoe*. The funding was used for removing dead and stressed trees and brush, thinning overstocked stands, replanting trees and vegetation, and providing technical assistance to private landowners and communities.

In another action demonstrating the Department's commitment to protecting the environment, USDA accepted two million acres of the Nation's most environmentally sensitive land into the Conservation Reserve Program (CRP). CRP allowed eligible farmers and ranchers to establish voluntarily long-term conservation practices on highly erodible and environmentally sensitive cropland. In exchange, they received 10 to 15 years of annual rental payments and cost-share assistance for maintaining those practices.

Additionally, the USDA Forest Service partnered with State Foresters, conservation organizations, land-grant institutions, Indian tribes and forest landowner organizations. The groups worked together to develop an interim rule for the Forest Land Enhancement Program (FLEP) authorized by the Farm Security and Rural Investment Act of 2002. Non-industrial, private forest landowners may receive cost-share, technical and educational assistance under FLEP from State forestry organizations. This assistance enables landowners to implement forest-stewardship plans on their properties. Thus, they maintain the land's productive health and provide public goods and services.

State Foresters interested in participating in FLEP prepare priority plans with the State Forest Stewardship Coordinating Committee to identify priorities. States adopting priority plans are granted FLEP funds by the Forest Service for assistance in support of forest-stewardship activities. The funds then are used to sustain non-industrial, private forest lands.

Through its Conversation Technical Assistance (CTA) program, USDA helped private resource managers and State, local and Tribal governments assess their resources and develop plans to meet their objectives. The Department provided planning assistance through CTA on more than 18 million acres. This assistance came in the form of site-specific planning on individual operations and area-wide plans for larger landscapes. For example, USDA helped develop a long-range plan to solve water and other natural resource conservation concerns in the Klamath River Basin of Oregon and California. This plan contains long-term solutions to enhance water quantity and quality. These solutions involve applying good management, planning and information to mitigating the impacts of drought and protecting public health. The assessments that USDA assisted the local conservation districts to conduct as a basis for this plan were CTA activities. Financial assistance for implementing the plan is being provided through programs authorized by the Farm Security and Rural Investment Act of 2002 (FSRIA).

In FY 2003, USDA effectively continued to execute activities to implement the expanded public investment in conservation provided by FSRIA. The Department continued to write clear and flexible program rules. USDA produced the proposed and final rules for the Farm and Ranch Lands Protection Program; the final rule for the Conservation of Private Grazing Land and Environmental Quality Incentives Program; and the interim final rule for Technical Service Provider Assistance.

One of USDA's goals for FY 2003 was to ensure that every producer knew about farm bill programs and had an opportunity to participate. Department employees and partners in every State worked to inform the public about these programs. USDA received thousands of applications for farm-bill funds because of these outreach efforts. Underserved segments of the producer population were well represented.

A key element of USDA's outreach involved posting the national and local priorities for conservation programs onto the Internet. Having access to these priorities helps producers focus their time and effort on submitting applications that have the best chance of being approved. This assistance demonstrated one more way in which USDA's electronic government efforts produce better service for its customers.

To help provide the technical assistance that the expanded programs entail, USDA implemented the Technical Service Provider (TSP) process. TSPs are non-USDA technical specialists certified to deliver conservation technical services to farmers and ranchers participating in USDA conservation programs. TSPs were authorized by FSRIA as a strategy to meet conservation goals while reducing the need for substantial increases in Federal staff. The names of certified specialists are available to landowners, farmers, ranchers and others seeking conservation technical assistance on a National, Web-based registry called TechReg. More than 1,600 potential TSPs have applied for certification through the TechReg site. More than 1,000 of these providers have completed the certification process. Additionally, "not to exceed" payment rates for categories of technical services provided by TSPs have been established for each State, based on USDA's total cost to provide technical assistance for conservation practices.

Objective 5.1: Implement the President's Healthy Forests Initiative and Other Actions to Improve Management of Public Lands

Exhibit 69: Resources Dedicated to Implementing the Healthy Forest Initiatives and Other Actions

USDA Resources Dedicated to Objective 5.1	FY 2003	
	Actual	Percent of Goal 5
Program Obligations ($ Mil)	$5,671	50%
Staff Years	38,168	72%

Overview

USDA is dedicated fully to implementing the President's Healthy Forest Initiative to reduce the threat of catastrophic wildfires and protect communities. The Department is improving processes involving the National Environmental Policy Act (NEPA), administrative appeal rules, timely consultation by Federal agencies and implementing Council on Environmental Quality guidelines. USDA is improving the management of public lands for the enjoyment of U.S. citizens to promote and sustain the health of all

National Forest System lands, and ensure the viability of the U.S. natural resource base and the environment in the future. In this goal, USDA's focus is on Improving Fire Management, Managing Sustainable Rangelands and the Cleanup of Hazardous Wastes.

Together, USDA and the U.S. Department of the Interior (DOI) implemented the National Fire Plan (NFP) as described in *Managing the Impact of Wildfires on Communities and the Environment,* and in the 10-Year Comprehensive Strategy Implementation Plan released in May 2002. USDA and DOI are working to reduce catastrophic wildfire risks, protect rural communities and increase firefighting readiness.

USDA is responsible for managing federally owned rangelands in the National Forest System to assure their sustainability. There are approximately 90 million acres of rangeland within USDA grazing allotments. Rangelands are a type of land on which grasses, forbs and shrubs dominate the natural vegetation. The land is managed as a natural ecosystem. Grazing allotments are an area of land designated for livestock grazing under USDA permit.

Serving the Public

To implement NFP effectively, USDA and DOI worked with the States to develop a 10-year Comprehensive Strategy and a collaborative Implementation Plan. These documents guide USDA's efforts to protect communities and manage wildland fire on and around the 192 million acres of National Forest and Grasslands. The Western Governor's Association, the National Association of State Foresters, the National Association of Counties and the Intertribal Timber Council endorsed the 10-year Comprehensive Strategy and Implementation Plan.

Qualified USDA employees oversee grazing allotments by implementing management direction from NEPA analyses for grazing allotments under permit to members of the public. Improved management of grazing allotments and improved monitoring have resulted in public benefits, including the maintenance or improvement of watershed conditions and habitat of endangered species.

Challenges for the Future

USDA's main challenge is to reduce the risk of catastrophic wildfire on public lands. The Department also must protect communities in the Wildland-Urban interface. The interface is an area where structures and other human development meet or intermingle with undeveloped wildland or vegetative fuel.

To meet the Implementation Plan's goals, USDA and DOI have adopted three guiding principles: 1) Protect communities and high-priority watersheds at risk, 2) Enhance collaboration among governments and stakeholders, and 3) Increase accountability through performance measures and monitoring.

Improved monitoring and management of grazing allotments in the future, through the implementation of new decisions that are analyzed under NEPA procedures, represent a continuing challenge for the USDA's range-management program.

Improve Fire Management

In September 2002, The National Academy of Public Administration released the report, *Wildfire Suppression: Strategies for Containing Costs*. The report recommends four strategic initiatives designed to:

- Hasten the job of reducing fuel loads and sharing the cost;
- Mitigate fire hazards at the interface between people and wildlands;
- Make managing large incidents more efficient and accountable; and
- Speed the contributions of science, technology and information management to cost-effective fire management.

In response, the Forest Service (FS) developed two Action Plans designed to reduce large wildland fire-suppression costs. The first, "Large Fire Cost Reduction Action Plan," emphasizes actions to reduce large fire-suppression costs. The plan recommends increased training, awareness and accountability for decisions; a provision of assistance to line officers making large fire-cost decisions; changing some organization procedures; developing additional decision-support computer systems; and providing a greater degree of administrative oversight. The second, "Fire and Aviation Operations Action Plan," provides direction to line officers, agency administrators and field managers to focus on four areas: preparedness, cost containment, hazardous fuel treatment and firefighter and public safety. These plans define strategies and tactics managers will use to reduce large fire-suppression costs while maintaining safety and effectiveness.

The Hazardous Fuels program reduces hazards in the interface area. This program includes coordination with partners and projects on State and private lands to maximize benefits across the landscape. USDA emphasizes continuous maintenance.

Exhibit 70: Reduce Risk of Catastrophic Fire

Annual Performance Goals and Indicators	Fiscal Year 2003		
	Target	Actual	Result
5.1.1 Continue to restore, rehabilitate and maintain fire-adapted ecosystems by treating hazardous fuels in both the Wildland Urban Interface (WUI) and non-WUI areas (Mil. of acres)	1.6	1.4	Unmet
5.1.2 Ensure Federal fire management plans are in compliance with Federal Wildland Fire Policy (Percentage)	75%	75%	Met
5.1.3 Control unplanned and unwanted fires during initial attack (Percentage)	99%	99%	Met

Analysis of Results.

The performance goal for the treatment of hazardous fuels was not met. Accomplishment was 1.4 million acres, compared with the target of 1.6 million acres. The severe fire season required a funding transfer from the hazardous fuels account. This transfer was designed to maintain the capability to conduct vegetation-management treatments and activities in areas that will reduce the risk of wildland fires to communities. Drought and a severe fire season – factors external to USDA's control – caused FS to fall short of the FY 2003 target for hazardous fuel reduction treatments.

Exhibit 71: Trends in Reducing Risk of Catastrophic Fire

Trends	Fiscal Year Actual				
	1999	2000	2001	2002	2003
Continue to restore, rehabilitate and maintain fire-adapted ecosystems by treating hazardous fuels in both the Wildland Urban Interface (WUI) and non-WUI areas (Mil of acres)	1.4	0.8	1.4 Baseline	1.3	1.4
Ensure Federal fire management plans are in compliance with Federal Wildland Fire Policy (Percentage)	N/A	N/A	N/A	50% Baseline	75%
Control unplanned and unwanted fires during initial attack (Percentage)	98.3%[1]	97.5%[1]	98.7%[1] Baseline	99%	99%

N/A = Not Applicable
[1]Revised to reflect USDA and DOI jointly developed data.

The performance goal for fire management plans was met. These plans are being updated to comply with Federal Wildland Fire Policy and in conjunction with revisions being undertaken for National Forest Land and Resource Management Plans. USDA expects 75 percent of Fire Management Plans to be compliant and on schedule to be 100 percent compliant by calendar year 2004, in coordination with the four DOI bureaus having wildland fire-fighting management responsibilities.

The performance goal for the initial control of fires was met. USDA wildland fire-preparedness resources controlled 99 percent of unplanned wildland fires during initial attack in FY 2003. Controlling wildland fires during initial attack reduces threats to life and property, protects forest resources and reduces wildland fire-suppression expenses. The ability to control fires with initial attack results in fewer acres burned and less catastrophic wildfires. Large fires imperil private homes and businesses, destroy such USDA infrastructure as campgrounds and administrative facilities, and threaten the health and lives of the rural residents and fire-fighters. Resource loss from large fires includes reduced water quality, degraded fish and wildlife habitat and burned timber. Additionally, firefighting costs escalate rapidly once more suppression resources are mobilized. Meeting the target of controlling 99 percent of fires with initial attack helps prevent these negative consequences of large fires and contains the cost of large fires.

Future challenges include reducing unit costs for fuel treatment in the wildland-urban interface (WUI) while addressing a number of issues. These issues include smoke management, air quality, using mechanical versus prescribed fire for fuel treatments, prolonged drought in many areas of the western U.S., human-caused fires, administrative appeals of proposed fuel-treatment projects and potential litigation that delay the work. The success of initial attack to control unplanned and unwanted fires hinges largely on the level of fire-preparedness resources available, such weather conditions as drought, the reduction of hazardous fuel levels and the severity of the fire season.

Description of Actions and Schedules.

The projected accomplishment of 1.4 million acres of hazardous fuel treatment is approximately 200,000 less than the target of 1.6 million acres. Treating fewer acres leaves some areas of the country more at risk from wildland fire than if they had been treated as planned. USDA will consider those areas as a priority for treatment next fiscal year. The Department also will continue to treat as much acreage of priority hazardous fuel as practical. This treatment is part of implementation of the President's Healthy Forest Initiative (HFI). Some of the challenges to reducing hazardous fuel levels, such as inefficient NEPA regulations, Endangered Species Act consultation, appeals and litigation, are addressed by HFI. Other challenges and barriers USDA will confront include steep and fragile lands precluding mechanical treatment, lack of markets for non-commercial trees, endangered species concerns and barriers to the use of prescribed fire to treat fuels. These barriers include private homes interspersed with wildland areas, smoke distribution concerns and the precise weather and fuel conditions required for safe burning. Wildfire ignitions and droughts leading to conflagrations largely are beyond the control of USDA. The Department will focus on public and firefighter safety, and protection of communities as it responds in future years to high fire risk.

Program Evaluation.

The Office of Management and Budget's (OMB) Program Assessment Rating Tool (PART) on Wildland Fire Management Program determined that the program has a clear and well-focused purpose and design. In order to track and control firefighting efficiency, a systematic cost-containment strategy is needed. The Forest Service (FS) needs to develop a real-time obligations system to improve the accountability of firefighting costs and accuracy of wildland-fire obligations. FS also needs to ensure that States are paying their fair share of costs. OMB also recommended the completion of a fire-preparedness model to focus on efficient allocation of available resources. Additionally, OMB recommended that FS establish project criteria consistent with the 10-year implementation strategy to ensure that all hazardous fuels-reduction funds are targeted as effectively as possible. A full copy of the PART can be found at www.whitehouse.gov/omb/budget/fy2004/pma/usdawildlandfire.xls.

Additionally, while OMB's PART on the Capital Improvement and Maintenance Program determined that the program has a clear and important purpose, in order to improve the management of the public's physical assets, financial data-quality improvements are needed. FS needs to improve the collection of timely, reliable and complete financial data of physical assets. Additionally, annual performance measures must be linked to ongoing management initiatives. A full copy of the PART can be found at www.whitehouse.gov/omb/budget/fy2004/pma/nationalforest.xls.

The General Accounting Office (GAO) report *Wildland Fire Management: Additional Actions Required to Better Identify and Prioritize Lands Needing Fuel Reduction (GAO-03-805)* describes the hazardous fuel problem on public lands. The report also portrays the range of issues that may impact hazardous fuel-reduction treatments as they are accomplished. GAO makes several specific recommendations to ensure that Federal lands needing the most fuel reduction are treated. In response, USDA is evaluating methods to identify more accurately the amount and location of lands with excess fuel buildup. The Department also is facilitating the prioritization of fuel-reduction treatments. Additionally, USDA is working with States and other partners to refine WUI and its application in prioritizing fuel-reduction treatments. A copy of the report may be found at www.gao.gov.

Managing Sustainable Rangelands

USDA is responsible for managing Federally owned rangelands in the NFS to assure watershed sustainability. Land managers base their management decisions on environmental analyses and assessments of land conditions pursuant to the NEPA. Implementing environmental-protection measures contained in decisions supported by NEPA analyses provide for the maintenance, restoration or rehabilitation of NFS rangelands to provide the public benefits of economic enterprise and environmental protection. There are approximately 90 million acres of rangeland within FS grazing allotments.

Ranchers and farmers who live on private lands near NFS lands benefit from a permit program managed by USDA. The program allows these landowners to use higher-elevation national forest lands for part of their forage needs during the summer. They graze their livestock on their own lands during the fall, winter and spring. By providing high-elevation forage during the dry summer months, the program contributes economically to ranching and farming operations. The plan maintains open space and provides winter habitat for wildlife.

Exhibit 72: Maintain Rangeland Allotments

Annual Performance Goals and Indicators	Fiscal Year 2003		
	Target	Actual	Result
5.1.4 Allotment acres administered to 100 percent of standard (Mil of acres)	24.5	38[1]	Exceeded

[1]Result based on projected estimate. See the Data Assessment of Performance Measures section for more information.

Analysis of Results.

Exhibit 73: Administering Livestock Grazing Allotments

Trends	Fiscal Year Actual				
	1999	2000	2001	2002	2003
Allotment acres administered to 100 percent of standard (Mil of acres)	N/A	45.0 Baseline	44.0	21.0	38[1]

N/A = Not Applicable

[1]Result based on projected estimate. See the Data Assessment of Performance Measures section for more information.

The performance goal was exceeded. NEPA analyses have identified necessary environmental protection measures that address past grazing practices, Endangered Species Act concerns, riparian area concerns, State-listed sensitive species concerns, and expanding deer and elk populations. These new measures, along with new Forest Service (FS) range management guidelines requiring periodic, on-the-ground USDA monitoring of allotment compliance, often have led to a decline in acres available for grazing. Appeals and litigation of decisions have increased substantially in recent years. These legal issues have led to a further decline in the acreage of NFS lands for the same use. The decline from the 2000 baseline reflects a shift in management emphasis from administering allotment acres to standard toward updating management plans consistent with new NEPA analyses. By administering more than 42 percent of the approximately 90 million acres of rangeland within USDA grazing allotments to standard each year, the Department manages all acres to standard over a four-year period. This reflects the implementation of required directions found in decision documents, allotment-management plans and biological opinions. An allotment is considered managed to standard when all management direction is implemented for that year. This management approach protects and enhances the Nation's natural resource base and environment. The public benefits through clean water, soil conservation, available habitat for threatened and endangered plant and animal species, forage for wildlife, the maintenance of open space, and the production of forage for domestic animals grazing on public lands. Limited availability of trained staff challenges FS to accomplish required visits to all allotments on the ground and administer them over a three-year period. Shifting USDA range-management staff to allotment management once the backlog of NEPA analysis is completed should increase acres managed to standard in future years.

Program Evaluation.

PART assessments were initiated for the Forest Legacy, Land Acquisition and McIntire-Stennis Cooperative Forest Research Programs as part of the FY 2005 budget process. A full copy of these completed evaluations will be available February 2004 at www.whitehouse.gov/omb/part.

Cleanup of Hazardous Wastes

USDA established the Hazardous Materials Management Program in the 1980s to clean up environmental contamination on Department-managed lands. These lands are the headwaters of many of the Nation's most significant watersheds. Among the most important benefits and services that ecosystems and watersheds provide are water for drinking and irrigation, recreation, employment opportunities and havens for biodiversity. Contamination that degrades or interrupts those benefits and services harms the economy at all levels. When fish cannot survive in a community's streams because of sedimentation or contamination from heavy metals, pesticides or other pollutants, development and revitalization are impacted adversely.

Exhibit 74: Cleanup USDA-Managed Lands

Annual Performance Goals and Indicators	Fiscal Year 2003		
	Target	Actual	Result
5.1.5 Cleanup Comprehensive Environmental Response, Compensation and Liability Act (CERCLA) sites on USDA-managed lands and facilities (Cumulative percent of five-year goals to complete 150 cleanups)	26	33	Exceeded

Analysis of Results.

USDA performed 50 site cleanups under the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA) during FY 2003. This is 33 percent of the 5-year goal. The performance goal of 26 percent was exceeded. While the number of cleanups completed in FY 2003 exceeds the baseline rate for 1998 through 2002, it is unlikely that this performance level will be maintained once the smaller, simpler, less-expensive cleanups are done.

Exhibit 75: Cleanup Program Performance

Trends	Fiscal Year Actual				
	1999	2000	2001	2002	2003
Cleanup CERCLA sites on USDA-managed lands and facilities (Cumulative percent of 5-year goal to complete 150 cleanups) Baseline: 1998-2002 = 22 percent of the 5-year goal per year	44	60	91	110[1]	33

[1] Five-year goal for 1998-2002 exceeded.

CERCLA provides broad Federal authority to respond directly to releases or threatened releases of hazardous substances that may endanger public health or the environment. Analysis reveals that more than 40,000 sites are releasing, could release or are potential threats to release such substances. Upon investigation, many may be determined too small a threat to human health or the environment to warrant action. Based on historical percentages, USDA estimates that between 5 and 10 percent of the 40,000 sites will require some level of CERCLA cleanup. Each completed investigation narrows this range. USDA uses five-year performance goals to compensate for these types of uncertainty.

The Department has cleaned up between 200 and 300 CERCLA sites so far. An exact number is unavailable because the cleanups performed under the various environmental laws were not distinguished until the late 1990s. While Resource Conservation and Recovery Act requirements called for USDA to "clean up" more than 2,000 underground storage tanks (USTs), the Department's actions did not reduce its inventory of CERCLA sites requiring cleanup.

All environmental cleanups are not the same because they yield differing degrees of benefits for the public. USDA agencies substantially completed the UST cleanup program in about 10 years at a small fraction of the estimated cost needed to complete the CERCLA cleanup program. Most USTs had not leaked and proven technologies were available to address all but a few of those that had. That is not the case with CERCLA cleanups, which involve much more toxic, environmentally persistent and technically challenging pollutants.

The public benefits of USDA's environmental cleanup program include safeguarded or restored:

- Places of work;
- Sources of drinking and irrigation water;
- Areas in which to hunt, fish, camp, boat, swim or hike;
- Natural resources that strengthen the American economy; and
- Refuges for biodiversity and subsistence hunting and gathering.

The 50 environmental cleanups delivered, in varying degrees, these public benefits. These USDA environmental cleanups targeted heavy metals (e.g., arsenic, lead, mercury), persistent pesticides (e.g., coumaphos) and wood-treating chemicals (e.g., pentachlorophenol). Many of the newly cleaned sites had released pollutants at toxic levels to streams or groundwater for years.

Program Evaluation.

No program evaluations were performed during FY 2003.

Selected Results in Research, Extension and Statistics for Objective 5.1

Southern Utah, like many areas throughout the U.S., faces increasing threats of wildfire due to residential growth in areas prone to wildland fire. USDA researchers and local managers are developing fuel and vegetation information to model fire behavior and effects across the landscape, and to produce maps to display this information. Researchers are assisting land managers in using the data, models and protocols to support fuel-treatment decisions. Fuel maps developed from the cooperative project in Utah have been used successfully to model wildfire, and these techniques can be expanded to other areas of the country.

USDA and the Department of Interior's Bureau of Land Management staff collaborated to develop and revise Ecological Site Descriptions (ESDs) for rangelands in portions of the southwestern U.S. ESDs represent the core technology at the base of rangeland management. The new ESDs are consistent with new scientific theory and can be used by ranchers and natural resource professionals. They are providing a model for ESD revisions for remaining areas of the Nation's grazing lands. These new descriptions provide more ecologically based tools for management of public and private rangelands.

Department researchers, in cooperation with state agencies and other partners, established the Fire Consortia for Advanced Modeling of Meteorology and Smoke. This national initiative, a network of regional-modeling consortia, provides high terrain resolution (4 KM grid spacing) weather and smoke dispersion predictions of up to 72 hours into the future. Fire managers used these predictions during the Biscuit and Hayman fires that occurred in the summer of 2002 in southwest Oregon and central Colorado respectively to protect lives and public health, and to develop a plan for prescribed burning.

Research by USDA scientists in the Albuquerque Bosque on the Rio Grande River have identified fuels-reduction practices that will preserve cottonwoods and other native plants, reduce wildfire risk via fuels removal, control spread of exotic woody shrubs and have positive or neutral impacts on wildlife species.

A Connecticut urban and community-forestry project, supported with USDA funds, helped 38 communities enact shade-tree ordinances and plant 1,700 trees. Connecticut Cooperative Extension specialists trained more than 160 urban-forestry volunteers who worked on community-service projects in their hometowns.

In Arizona, which provides little shade, studies show that proper tree placement can reduce home-cooling costs by 20 percent. Working with an electric company, Cooperative Extension distributed more than 1,469 trees to 509 residents in FY 2002. Master Gardener volunteers showed people how to plant the trees for the best results.

Objective 5.2: Improve Management of Private Lands

Exhibit 76: Resources Dedicated to Improve Management of Private Lands

USDA Resources Dedicated to Objective 5.2	FY 2003	
	Actual	Percent of Goal 5
Program Obligations ($ Mil)	$5,635	50%
Staff Years	14,948	28%

Overview

USDA uses a "portfolio" approach in helping farmers, ranchers and owners of private, non-industrial forest land conserve natural resources, while producing food, fiber, energy and other agricultural goods and services. The portfolio includes:

- Technical assistance tailored to the needs of individual producers;
- Financial assistance in the form of cost shares and incentive payments to apply key practices on working land;

- Easements and rental payments to protect sensitive land; and
- Research, technology development, resources inventory and assessment programs to provide the information and effective tools resource managers need to be good stewards of the Nation's land and water.

USDA's assistance on private, non-industrial forest land is provided through State departments of forestry. Assistance on agricultural land is provided in partnership with local conservation districts and State conservation agencies.

Serving the Public

Farmers, ranchers and private forest landowners manage two-thirds of the Nation's land. They are the primary stewards of U.S. soil, air and water. Society gains from good stewardship. Thus, the Nation has established public programs to provide land managers with the science-based information and expertise they need to practice good stewardship. Other programs share the costs that land managers incur in seeking to protect and enhance their natural resources. Since the 1930s, USDA, in partnership with local conservation districts, has helped land managers protect their soil and water resources, working directly with them on their land. In recent years, an increasing part of USDA's assistance has been devoted to helping land managers meet the requirements for environmental quality enacted in local, State or Federal laws and regulations.

USDA's assistance for private forestland enables landowners to better assess the current and potential future value of their forest resources. It also helps them produce the goods and services they desire. Professional resource managers and service foresters prepare forest stewardship plans. They work closely with individual landowners to develop management strategies that address unique private objectives.

Because not all resource issues can be addressed by individuals working separately, USDA's watershed planners and other experts help people in communities work together to protect their shared environment. The assistance provided to State and local governmental entities, Tribes and private sector organizations helps them protect the environment and improve the standard of living and quality of life for the people they represent.

USDA conducts research and develops and transfers technology, including conservation standards, specifications and guidelines for conservation practices. The Department also collects and disseminates data on water and soil conditions and related resources. The information and technical tools developed and provided to the public through USDA activities are the fundamental basis for sustaining natural resources. USDA information reaches a wide and diverse audience with increasing emphasis on electronic communications technology.

Challenges for the Future

The dynamic nature of the Nation's economy results in a continuous challenge to maintain past gains. For example, between 1997 and 2001, land managers converted almost 23 million acres of cropland to other uses. They also converted almost 17 million acres of land from other uses to cropland. While almost 6 million fewer acres of cropland existed in 2001 than in 1997, 17 million acres needed new conservation systems after their conversion to cropland. Many of the 23 million acres converted to other uses also needed new conservation systems appropriate for those new uses. On millions of acres of other cropland that remained in production between 1997 and 2001, farmers changed their cropping system or equipment. This modification required conservation-system changes so that the new production process would not cause resource deterioration.

Greater population densities exert greater pressures on the environment. Continuing demand for new sites for homes and industries, transportation and recreation results in conversion of agricultural land to non-agricultural uses and fragmentation of open space. As the landscape increasingly becomes a mosaic of developed areas scattered within agricultural land, the need for conservation increases while the options available to producers may be constrained.

Many environmental and social factors continue to threaten the existence and health of much of the Nation's remaining non-industrial private forestland. Landowners who do not know how to manage or assess the value of their forested properties often convert them to non-forest uses or sell them to developers. Fragmented and parceled forest areas are less functional in terms of the services they can provide. This aspect makes them less valuable and even more threatened by conversion or subject to a lack of management. USDA continues to identify effective ways to provide landowners with the technical assistance they need to manage and enhance the productivity of their forested properties. USDA also continues to consider the full range of forest uses and values so that all landowner objectives are provided for and encouraged.

Maintain Resource Health and Productive Capacity

Privately owned cropland, rangeland, pastureland and forestland make up a substantial and vibrant agricultural economy that provides food and fiber for the Nation. Conservation helps ensure that these important agricultural lands sustain productivity and support healthy plant, animal and human communities. Farmers, ranchers and forestland owners are responsible for protecting the resource base against changes that would reduce their properties' capacity for sustained use. USDA assists landowners and land managers in adopting environmentally sound management practices. Land managers who receive Department assistance are more likely to plan, apply and maintain conservation systems that support agricultural production and environmental quality as compatible goals.

USDA provides information and technical and financial assistance to land managers to maintain the productive capacity of land and water for agricultural uses. USDA's Conservation Operations provides the basic resource-inventory data, technical tools and comprehensive planning approach producers need. Technical and financial assistance to apply conservation practices are provided through the Environmental Quality Incentives Program (EQIP) and other programs authorized by FSRIA. The Grasslands Reserve Program and Wetlands Reserve Program (WRP) provide long-term protection of environmentally sensitive land through long-term or permanent easements. The Conservation Reserve Program (CRP) provides rental payments through 10-15-year contracts. FSRIA also authorized USDA to provide cost-share, technical and education assistance through the Forest Land Enhancement Program (FLEP) to implement stewardship plans. These plans are designed to maintain the productive health of the land. They also provide public goods and services, and local economic diversification.

Exhibit 77: Maintain Productive Health of Land

Annual Performance Goals and Indicators	Fiscal Year 2003		
	Target	Actual	Result
5.2.1 Protect the productive capacity of agricultural and forestland:			Met
• Protect against degradation (Mil acres)			
- Working[1] cropland and grazing land with new conservation practices	16	27	
- Highly erodible and other environmentally sensitive cropland and grazing land under long-term land retirement contracts (Cumulative)	34.4	34.1[2]	
• Total erosion prevented (Mil tons)[3]	474.5	479[2]	
• Carbon sequestered in soil and vegetation through long-term retirement of crop and grazing land (Mil metric tons per year)[4]	16.8	17[2]	
• Non-industrial private forestlands under approved stewardship management plans (Mil acres)	1.6	1.6[2]	

[1]Does not include land retired from production under CRP contracts.
[2]Result based on projected estimate. See the Data Assessment of Performance Measures section for more information.
[3]Includes working cropland and CRP land.
[4]The performance measure for carbon sequestration was included in the *USDA FY 2004 Annual Performance Plan* under Objective 5.2.2. While carbon sequestration benefits both soil productivity and the atmosphere, the performance measure has been moved to this objective because the primary emphasis is on the benefits to soil productivity.

Analysis of Results.

The performance goal was met. As a result of the actions taken with USDA assistance, producers maintained the productive capacity of more than 61 million acres of agricultural land (27 million acres of working land and 34.1 million acres in CRP) or 6 percent of the Nation's total cropland and grazing land. The conservation practices applied on working land this year will continue to provide protection for many more years. During the next few years, the amount of land on which conservation is applied each year will increase substantially as a result of the increased assistance authorized by the Farm Security and Rural Investment Act of 2002 (FSRIA). The major challenge for continued progress in maintaining the productive capacity of natural resources is to assist producers in planning for sustainable resource management. This planning would

Exhibit 78: Trends in Land Management

Trends	Fiscal Year Actual				
	1999	2000	2001	2002	2003
Working cropland and grazing land with new conservation practices (Mil. acres)	N/A	20.7 Baseline	21.8	25.6	27
Highly erodible and other environmentally sensitive cropland and grazing land under long-term land retirement contracts (Cumulative, Mil. Acres)	29.8	31.5 Baseline	33.6	33.9	34.1[1]
Total erosion prevented on working cropland and CRP land (Mil. tons)[2] Baseline: Total cropland erosion in 1982 = 3.07 billion tons	368	470	507	475	479[1]
Carbon sequestered in soil and vegetation through long-term retirement of crop and grazing land (Mil. Metric tons per year)	14.6	15.5 Baseline	16.1	16.3	17[1]
Non-industrial private forestlands under approved stewardship management plans (Mil. acres)	1.9 Baseline	1.4	1.6	1.6	1.6[1]

N/A = Not Available
[1]Result based on projected estimate. See the Data Assessment of Performance Measures section for more information.
[2]FY 1999 includes only CRP lands. Other years include working cropland and CRP lands.

require land managers to take a comprehensive approach that covers their entire operation and considers the operating unit as part of a larger landscape. USDA's efforts to support this comprehensive approach rely on the assistance provided through its Conservation Technical Assistance, Water Resources and research programs.

The reported performance on working cropland and grazing land exceeded the target level for several reasons:

- The budget as enacted provided a higher funding level than that on which the target was based; and
- Program delivery was streamlined, making more time available for planning and application.

The data for conservation practices applied to working land include 16 million acres of cropland and grazing land. On this land, producers applied all conservation measures needed to protect the resource base during 2003. Conservationists call this the "resource management system" level of conservation. Assuming that applied management is maintained properly, the land's productive capacity will be sustained under long-term use. On an additional 11 million acres, practices were applied to resolve specific resource issues, while others issues were left for a later date. FSRIA modified EQIP, the Department's largest financial-assistance program for working land, to emphasize this incremental approach.

The 34.1 million acres of environmentally sensitive land enrolled in CRP includes 24.6 million acres of highly erodible cropland. Due to wind and water (sheet and rill), this cropland eroded an average 15 tons per acre per year before CRP enrollment. This rate is almost three times the current average cropland-erosion rate. Erosion is reduced to less than one ton per acre on lands enrolled in CRP. An additional indicator of soil-health benefits, carbon sequestered in vegetation and soils enrolled in CRP, is estimated to be increased a total of 17 million metric tons. The majority of the increased carbon is sequestered in the soils.

Research has shown that agricultural cultivation of more than 20 years significantly reduces soil carbon levels between 20 to 60 percent on lands previously maintaining forest ecosystems or native grasses. Reforestation, or the planting of grass on CRP land in retirement, increases the terrestrial carbon sink. It also helps mitigate climate change.

In the early 1980s, USDA redirected activities to address the erosion problems that had increased in severity for a number of years. The baseline condition, as identified in the *1982 National Resources Inventory*, showed a total annual cropland erosion of 3.07 billion tons. By 1995, erosion on all cropland, including CRP land, had been reduced by 38 percent to about 1.9 billion tons per year. The Department assisted farmers and ranchers in reducing the erosion through three major strategies. USDA assisted in removing highly erodible land from production through CRP. The Department provided technical assistance for application of acceptable management systems to operators of highly erodible cropland who received benefits from USDA income support and supply-control programs. USDA offered conservation technical assistance to producers who were controlling erosion on their land voluntarily without Department financial assistance. Since 1995, there has been little change in the tons of cropland soil eroded annually. While the assistance that USDA provided each year since 1995 was adequate to maintain progress between 1985 and 1995, it did not expand significantly the progress the Department had made to that date.

In support of stewardship management plans for non-industrial private forest lands, USDA field units have developed grants for State Foresters to provide technical and financial assistance to private landowners. This assistance will allow the landowners to develop forest stewardship plans. These plans will help them maintain resource health and productivity while providing public goods and services, and contributing to the local economy. The plans developed in 2003 add approximately 15 percent fewer acres to the total acreage managed under forest stewardship plans than were added in the baseline year. These new acres add to each State's total acreage.

Future challenges include the large number of non-industrial private forest landowners without forest management training, and widely varying management objectives. FLEP will make additional funds available for State Foresters. The foresters will be able to use the funds to increase the level of technical, financial and educational assistance to non-industrial private forest landowners.

Program Evaluation.

GAO completed a review of USDA activities for the protection of highly erodible cropland and wetlands (*GAO-03-418, April 2003*). The report recommended strengthening oversight of these activities. While the Statement of Action still is being prepared, activities already are underway to address the audit's five recommendations. A new automated system for distributing and tracking compliance reviews has been implemented. It will serve as the prototype design for a Web-based system in 2004. A copy of this review may be obtained at www.gao.gov.

The Economic Research Service is conducting a congressionally mandated study of CRP's economic effects. Meantime, USDA conducted and published an environmental impact statement on CRP's environmental benefits. The environmental-impact statement identifying CRP's impacts may be obtained at www.fsa.usda.gov/dafp/cepd/epb/nepa.htm. The Department also conducted a cost/benefit analysis of CRP during the rulemaking process. The analysis concluded that CRP benefits included reduced commodity payments, increased farm income and enhanced soil productivity. A copy of the analysis may be obtained by calling the Farm Service Agency, Conservation and Environmental Programs Division, at (202) 720-6221.

An economic analysis of FSRIA's potential impact estimated that its technical-service provider process will benefit the Nation's natural resources. According to the analysis, the process will:

- Accelerate the adoption of conservation practices;
- Increase environmental and resource benefits;
- Maintain and enhance long-term productivity of the resource base;
- Reduce non-point source pollution damage and farming costs; and
- Contribute to an increase in net farm income.

A copy of the analysis may be obtained by calling the Natural Resources Conservation Service (NRCS), Resource Economics and Social Sciences Division, at (202) 720-5009.

The results of the Office of Management and Budget's (OMB) FY 2004 Program Assessment Rating Tool (PART) showed that the Farm and Ranch Lands Protection Program is administered effectively. The program prioritizes applications at the State level and selects the best projects for protecting important agricultural lands from development. The PART also stated that the program has no appropriate long-term performance measures. In response, NRCS conducted an internal review of the program in 2003. A copy of the PART assessment may be found at www.whitehouse.gov/omb/budget/fy2004/pma/farmland.pdf.

PART assessments were initiated on the Soil Survey, Conservation Technical Assistance, National Resources Inventory and Plant Materials Programs as part of the FY 2005 budget process. A full copy of these completed evaluations will be available February 2004 at www.whitehouse.gov/omb/part.

Additionally, eight states (AZ, MA, MD, MI, NE, NM, TN, and UT) conducted Forest Stewardship Program reviews. The results of the reviews may be obtained by calling the Cooperative Forestry Division at (202) 205-1602.

Clean and Abundant Water Supplies

The ability of water resources to meet the Nation's needs is an increasing concern in many areas. Concerns focus on the water supply's quality and quantity. Agriculture is one potential source of pollutants in the Nation's waters. Runoff from agricultural operations can carry sediment, bacteria, nutrients, salinity and pesticides into the Nation's streams, lakes and estuaries. Pollutants also can seep through the soil to groundwater. While the most extensive threat to water quality from agricultural activities is sediment, the greatest current public concern is the possibility of excess nutrients and pathogens entering water from poorly managed animal agriculture facilities. This concern particularly is relevant in areas of concentrated livestock production. Water demand is growing nationwide. The needs for competing uses must be considered to find the best balance. Agriculture is the major water consumer. It accounts for nearly 80 percent of all water consumption nationwide. The major agricultural use of water is irrigation.

Comprehensive, locally-led watershed planning and management can ensure that the Nation's watersheds provide adequate supplies of clean, well-managed water. USDA has a major role in assisting individuals, Tribes and communities with comprehensive water resources planning and management. USDA's water resources programs provide technical and financial assistance to help local and State entities plan and implement projects to protect water quality, improve its supply and enhance wildlife habitat. The Department's Conservation Operations provides the basic resource inventory data, including soil moisture and water supply forecasts, on soil properties and water. It also offers technical tools and a comprehensive planning approach for producers. Technical and financial assistance to apply conservation practices is provided through FSRIA-authorized programs. CRP, the Grasslands Reserve Program and WRP provide long-term protection of environmentally sensitive land. USDA's activities to improve management of water supplies and protect water quality are executed in cooperation with such entities as Tribal governments, State conservation agencies, State Foresters, resource conservation and development councils, conservation districts, irrigation districts, the U.S. Department of Interior's Bureau of Reclamation and the Environmental Protection Agency (EPA).

Exhibit 79: Ensure Clean and Abundant Water Supplies

Annual Performance Goals and Indicators	Fiscal Year 2003		
	Target	Actual	Result
5.2.2 Manage watersheds to provide clean and abundant water supplies:			Met
• Animal feeding operations with comprehensive nutrient management plans (Number)			
- Developed	4,556	4,860	
- Applied	3,013[1]	3,237	
• Working land with new conservation measures applied to reduce potential for off-site pollution by nutrients (Mil. acres)	4.1	4.7	
• Sheet and rill erosion prevented (Mil tons)[2]	216	214[3]	
• Reduced nitrogen applications on land under long-term land retirement contract (Thousand tons)	691	655[3]	
• Reduced phosphorus applications on land under long-term land retirement contract (Thousand tons)	106	103[3]	
• Land in buffers under long-term land retirement contract (Mil. acres)	2.4	2.4[3]	
• Land benefiting from application of improvements to irrigation management (Mil acres)	1.5	1.8	
• Increase national implementation rate:			
- Forestry best management practices (Percentage)	89%	89%[3]	
- States conducting effectiveness monitoring	26	26[3]	

[1]The target was stated incorrectly in the published plan.
[2]Includes only CRP.
[3]Result based on projected estimate. See the Data Assessment of Performance Measures section for more information.

Analysis of Results.

The performance goal was met. Indicators for this performance goal identify actions that producers are taking with USDA assistance to minimize the risk that pathogens, sediment, phosphorus and nitrogen will move from agricultural operations into the environment. Applying erosion-control practices, including conservation buffers on working lands, improving nutrient management and retiring critical areas from crop production, reduce the potential for off-site movement. Implementation of comprehensive nutrient management plans for animal-feeding operations ensures that collection, storage and disposal of animal wastes are managed in ways that minimize the potential for environmental damage.

Exhibit 80: Trends in Water Resources Protection

Trends	Fiscal Year Actual				
	1999	2000	2001	2002	2003
Animal feeding operations with comprehensive nutrient management plans (Number)[1]					
- Developed	N/A	6,314	6,206	5,214 Baseline	4,860
- Applied	N/A	4,405	4,315	3,352 Baseline	3,237
Working land with new conservation measures applied to reduce potential for off-site pollution by nutrients (Mil. acres)	2.7	4.3 Baseline	5.4	5.5	4.7
Sheet and rill erosion prevented (Mil. tons)[2]	175	201 Baseline	214	215	214[3]
Reduced nitrogen applications on land under long-term land retirement contract (Thousand tons)	553	605 Baseline	634	681	655[3]
Reduced phosphorus applications on land under long-term land retirement contract (Thousand tons)	80	87 Baseline	99	104	103[3]
Land in buffers under long-term land retirement contract (Mil. acres)	1.2	1.3 Baseline	1.7	2.1	2.4[3]
Land benefiting from application of improvements to irrigation management (Mil. acres)	N/A	1.25 Baseline	1.25	1.9	1.8
Forestry best management practices (Percentage)[4]	Not Tracked	87% Baseline	Not Tracked	Not Tracked	89%[3]
States conducting effectiveness monitoring[4]		17 Baseline			26[3]

[1] Technical guidance for comprehensive nutrient management plans (CNMPs) was first implemented in FY 2002. The data for FY 2000 and 2001 are for waste management systems, which may be less complex and comprehensive than CNMPs.

N/A = Not Available

[2] Includes only CRP data.

[3] Result based on projected estimate. See the Data Assessment of Performance Measures section for more information.

[4] FY2000 data are from the biannual NASF Nonpoint Source Pollution Monitoring Report.

Although FSRIA provided for increased funding for conservation, slight decreases occurred in the number of comprehensive nutrient-management plans assisted in 2003 as compared to 2002. The acreage amount of working land where nutrient management was applied also showed a slight drop in the same period. This is because many conservation measures, such as comprehensive nutrient management plans, cannot be completed in a single year. Performance on these indicators will increase sharply in future years as producers who contracted for assistance this year complete their application of conservation practices.

Sedimentation in surface water bodies is the greatest single impairment to water quality associated with agricultural activities. Reduction of water-driven (sheet and rill) erosion and installation of conservation buffers through long-term land retirement contracts protect surface and ground water from sedimentation and nutrient (nitrogen and phosphorus) runoff. While estimates of sediment and nutrient load reductions attributable to CRP currently are unavailable, water-quality benefits are demonstrated by the 214 million tons of sheet and rill erosion and fertilizer-application reductions on CRP land. Buffers intercept sediment and nutrients before they reach water bodies. Long-term CRP contracts cover 2.4 million acres of buffers. These buffer practices primarily impact water quality: almost 1.4 million acres of grass filterstrips and riparian (trees) buffers, 160,000 acres in wellhead protection areas, 90,000 acres of grass waterways and 280,000 acres in permanent vegetation to reduce salinity.

Irrigated agriculture makes a significant contribution to the U.S. farm economy—nearly 40 percent of total crop sales come from irrigated acreage, which accounts for only about 15 percent of all cropland. Inadequate management of irrigation water can increase irrigation costs and degrade soil and water resources. Improvements in irrigation water management can help maintain the viability of the irrigated agricultural sector, and protect and improve soil and water quality. USDA continues to provide assistance through the Conservation Technical Assistance Program. Additionally, increased technical and financial assistance was provided through EQIP, the Ground and Surface Water Conservation Program and the Klamath-Basin Program. USDA's assistance resulted in saving an estimated 4.5 million acre-inches of water. An acre-inch is the amount of water needed to cover an acre of land with a layer of water one-inch deep. For future years, USDA will set performance goals in terms of water conserved rather than acres with improved management. Water conservation is only one of the benefits of improved irrigation-water management. Others include reductions in irrigation-induced erosion, salinity delivered to ground and surface water, and drought vulnerability.

The National Association of State Foresters (NASF) facilitates data monitoring and compilation in compliance with Forestry Best Management Practices (BMPs) performed by State Foresters. BMPs are developed autonomously by each State under authority delegated to them by EPA, usually under the lead of the State Forester. These State BMPs vary considerably in terms of objectives and means from State to State. To date, the State BMP program has been successful in improving forest products harvest and transportation activities. It also has maintained water quality and quantity and avoided adoption of total maximum daily load standards and discharge-permit requirements for forest management.

Taxpayer benefits from increased BMP implementation include:

- Maintenance of water quality for municipal water supplies without the expense of costly filtering systems;
- Protection and improvement of aquatic habitats for fish and other species; and
- Avoidance of new discharge-permit requirements for forest management that would lower the availability and raise the cost of forest products.

Future challenges include the relatively short duration of ownership, the continued decrease in the parcel size of non-industrial private forest land and the lack of forest management knowledge of new forest owners.

A major challenge is to develop a practical and reliable methodology to document the effects of conservation practices on water quality. USDA is conducting studies to develop this methodology. The National Resources Inventory-Conservation Effects Assessment Project (NRI-CEAP) is an interagency effort that will provide data and analytical models to produce scientifically defensible estimates of conservation-program benefits. In 2005, NRI-CEAP will provide initial estimates on conservation systems' effects on cropland condition and the movement of sediment and nutrients from farm fields.

Program Evaluation.

A cost-benefit assessment of CRP demonstrated that the benefits associated with CRP lands include reduced erosion and nutrient runoff, increased producer income and reduced commodity-program payments. A copy of this assessment may be obtained by calling the Farm Service Agency, Conservation and Environmental Programs Division, at (202) 720-6221.

USDA conducted and published an environmental-impact statement for CRP, evaluating the program's impact on water quality. The statement is available at www.fsa.usda.gov/DAFP/CEPD/EPB/nepa.htm.

The Department is participating in a cooperative agreement between the Office of Risk Assessment and Cost-Benefit Analysis and the Food & Agricultural Policy Research Institute at the University of Missouri. The agreement is designed to estimate CRP enrollment impacts on edge-of-field nutrient and sediment runoff and nutrient seepage beyond the root zone, and changes in soil carbon levels.

A cost-benefit analysis (CBA) of EQIP found that the program benefits the adoption of conservation practices. Additionally, when installed or applied according to technical standards, EQIP will achieve economic and environmental gains. Other benefits are long-term productivity maintenance of the resource base, reductions in non-point source pollution damage and wildlife enhancements. A copy of the analysis may be obtained at www.nrcs.usda.gov/programs/eqip.

USDA contracted with NASF to compile results from State-level monitoring of Forestry BMPs. NASF's Water Resources Committee will oversee the evaluation. The committee consists of seven State Foresters (American Samoa, HI, KY, MD, NE, OH and VA) who promote forest-management practices. These practices are designed to protect water quality and prevent water-quality problems. Results of the evaluation will be available from NASF in FY 2004 at www.stateforesters.org.

A PART assessment was initiated on the Snow Survey and Water Supply Forecasting Program as part of the FY 2005 budget process. A full copy of the completed evaluation will be available February 2004 at www.whitehouse.gov/omb/part.

Wildlife Habitat

The rural landscape provides critical habitat, food and safety for much of the Nation's wildlife. Many of the conservation practices that farmers and ranchers apply to cropland and grazing land improve the habitat those lands provide for wildlife. Additional actions are needed to protect specific ecosystems and landscapes—including wetlands, grasslands, floodplains and certain types of forests. These ecosystems can help support wildlife and aquatic species. They also can provide benefits in the form of recreation, hunting and other forms of agro-tourism.

USDA assists in improving fish and wildlife habitat through the programs that help producers manage working lands. The Department helps producers evaluate the effects of production practices while developing comprehensive plans through the Conservation Technical Assistance Program. USDA provides financial assistance for restoring and improving important wildlife habitat, including wetlands, native grasslands and species at risk through WRP, CRP, the Wildlife Habitat Incentives Program and EQIP. USDA's activities for protecting wetlands and fish and wildlife habitat are cooperative actions conducted in partnership with Tribal governments, State agencies, private sector organizations and interest groups, and Federal land-management agencies.

Exhibit 81: Improve Wildlife Habitats

Annual Performance Goals and Indicators	Fiscal Year 2003		
	Target	Actual	Result
5.2.3 Ensure diverse wildlife habitats:			Met
• Increase protection of wetlands by enrolling in the Wetlands Reserve Program wetlands identified as high priority by States (Mil. acres, Cumulative)	1.5	1.5	
• Wetlands and associated upland under multi-year CRP contracts (Mil. acres)	1.9	1.9[1]	
• Apply new management practices to improve wildlife habitat on working cropland, grazing land, forest and other land (Mil. acres)	7	10.1	
• Land retired from cropping and grazing and restored to ecosystems with high benefits for wildlife, including threatened and endangered species (Mil. acres, Cumulative)	3.5	3.5[1]	

[1]Result based on projected estimate. See the Data Assessment of Performance Measures section for more information.

Analysis of Results.

The performance goal was met. The land protected in USDA's reserve programs and the working land where practices were applied will provide a better habitat. This better habitat will enable the landscape to support healthy and diverse wildlife populations. The Department will continue to increase its assistance for protection of wetlands and wildlife habitat.

Exhibit 82: Trends in Enhancement of Wetlands and Wildlife Habitat

Trends	Fiscal Year Actual				
	1999	2000	2001	2002	2003
Increase protection of wetlands by enrolling in the Wetlands Reserve Program wetlands identified as high priority by States (Mil. acres, Cumulative)	0.785 Baseline	0.934	1.074	1.27	1.5
Wetlands and associated upland under multi-year CRP contracts (Mil. acres)	1.3	1.5 Baseline	1.7	1.7	1.9[1]
Apply new management practices to improve wildlife habitat on working cropland, grazing land, forest and other land (Mil. acres)	N/A	7.5 Baseline	8.1	10	10.1
Land retired from cropping and grazing and restored to ecosystems with high benefits for wildlife, including threatened and endangered species (Mil. acres, Cumulative)	1.6	2.5 Baseline	3.0	3.3	3.5[1]

[1]Result based on projected estimate. See the Data Assessment of Performance Measures section for more information.
N/A = Not Applicable

Since the early 1980s, USDA has given increasing attention to protecting wetlands. Wetlands are among the most biologically diverse areas on earth. They provide habitat for a rich mixture of plants and animals--including many rare, threatened and endangered species. Wetlands protect shorelines, filter impurities from water, help control floodwaters, regulate waterflow and help reduce soil erosion. Between 1992 and 1997, 101,000 acres of wetlands were converted to other uses. During that same period, almost 69,000 acres were gained annually for an overall average of 32,600 acres per year. Agriculture accounted for 26 percent of the losses and 52 percent of the gains. Compared to earlier periods, this represents a dramatic slowing of the rate of wetland loss. Much of the reduction in loss of agricultural wetlands results from USDA's programs and activities to restore wetlands and discourage their conversion to agricultural uses. The indicators in this plan reflect the key strategy of restoring wetlands under permanent and long-term easements in the WRP and long-term contracts in the CRP. Because the reserves have proven to be popular and effective, FSRIA expanded these efforts.

USDA is helping producers and other land managers enhance wildlife habitat for a wide range of species. Because the target species varies by site, national-level baselines and targets have been set only in terms of acres of habitat affected. On a majority of the acreage of working cropland, wildlife habitat is a secondary use. USDA also provides technical and financial assistance to landowners and others to develop upland, wetland, riparian and aquatic habitat areas on their property through the Wildlife Habitat Incentives Program (WHIP). WHIP offers 1-year, 5-10-year and 15-year agreements. The 15-year agreements authorized under FSRIA fund up to 100 percent of the costs for implementing practices designed to restore and protect essential plant and animal habitat. This enables landowners to implement beneficial wildlife habitat practices that do not offer economic return, such as declining species like bog turtles and bats.

The 3.5 million acres of sensitive wildlife ecosystems restored under long-term land retirement contracts (CRP) include 1.9 million acres of wetland and upland buffers, 390,000 acres of rare and declining habitat, 220,000 acres of longleaf pine habitat, and 50,000 acres of shallow water areas for wildlife. Additionally, about 18 million acres of land enrolled in CRP since 1996 have been established with covers determined locally to be "best suited to wildlife." Under CRP, wildlife habitat is created through consolidation of large blocks of land with undisturbed vegetation. This consolidation forms vital space where wild populations can breed and expand. While not all of the 39 million acres enrolled in CRP are planted and managed specifically for wildlife, most of it provides valuable habitat.

Future challenges are to bring interested parties together to develop landscape scale plans to achieve effective habitat enhancement. Pursuing environmental quality across a diverse landscape mosaic will better safeguard wildlife populations and healthy ecosystems. The alternative is limiting conservation to small, specialized and isolated tracts.

Program Evaluation.

A CBA demonstrated that the environmental benefits associated with CRP lands include wildlife recreation opportunities, increased producer income and reduced commodity program payments. A copy of the CBA may be obtained by calling the Farm Service Agency, Conservation and Environmental Programs Division, at (202) 720-6221.

U.S. Geological Survey wildlife biologists surveyed CRP participants in 2001 and 2002 on attitudes about the program's administration. The survey focused on the program's emphasis on wildlife. Of those surveyed, 73 percent called the amount of attention given to wildlife habitat in CRP enrollment requirements appropriate. Additionally, 20.9 percent said that grazing would be the most suitable management practice for their CRP lands, while 24.7 percent preferred burning. A copy of the report *A National Survey of Conservation Reserve Program (CRP) Participants on Environmental Effects, Wildlife Issues, and Vegetation Management on Program Lands* may be obtained by calling the Farm Service Agency, Conservation and Environmental Programs Division, at (202) 720-6221.

OMB's PART showed that WHIP is managed effectively, prioritizes funding for rare, threatened and endangered fish and wildlife, and leverages significant resources from partners. PART also stated that WHIP did not have appropriate, long-term performance measures. NRCS is developing better measures for the program. An internal review scheduled for 2003 has been postponed until 2004. A copy of the PART assessment may be found at www.whitehouse.gov/omb/budget/fy2004/pma/habitatincentives.pdf.

Selected Results in Research, Extension and Statistics for Objective 5.2

USDA researchers examined the net effects of species diversity within the plant community on long-term carbon sequestration in soils. Pastures planted in the Northeastern States with 3- and 11-species mixtures had greater photosynthetic rates and greater total root biomass than those planted with a 2-species mixture. Additionally, the pastures had a greater proportion of root biomass concentrated in the lower soil profile. Increasing plant-species diversity in pastures could help mitigate the adverse effects of greenhouse gas emissions that may contribute to global climate change by increasing the potential for soil carbon sequestration.

USDA measured nitrate-nitrogen in surface waters and in shallow wells at two different depths to determine the extent of seasonal movement of nitrogen from poorly drained grass seed fields. The results showed low concentrations of nitrate-N in water originating from these fields. The use of direct seeding, rather than conventional tillage, further lowered nitrate-N losses without reducing crop yield. These data showed that perennial grasslands in western Oregon function much like buffer strips and are highly effective in preventing nutrient movement into ground and surface waters.

Recent USDA research assesses the effects that restrictions on the land application of animal manure would have on the costs to animal-feeding operations. While results suggest that livestock and poultry farms' net income could decline by more than $1 billion (around 3 percent), the outcome depends heavily on the extent to which cropland operators are willing to use manure. It also depends on the degree to which livestock price increases offset cost increases. USDA research suggests that, while net returns in the crop sector could increase by more than $400 million as manure nutrients replace commercial fertilizer, consumers could face slightly higher prices for animal products.

Tennessee Cooperative Extension programs encourage farmers Statewide to increase their no-till and conservation tillage practices. Organizers estimate that these tillage changes have reduced soil-erosion potential by 20 million tons. Using techniques learned from Georgia Cooperative Extension, farmers in one county switched to conservation tillage on 9,000 acres in 2002. They produced yields comparable to conventional tillage at less cost, saving $30 per acre.

Leafy spurge, an invasive noxious weed, is spreading throughout the West. It costs Oregon ranchers at least $13 million a year in lost income and ineffective herbicide treatments. Oregon State University scientists, supported in part by USDA, use angora goats to reduce the need of herbicide use. One-hundred goats on a 150-acre ranch reduced herbicide costs by $10,000 per year. Translated Statewide, this could cut herbicide costs by $1 million. North Dakota State University scientists also found that sheep suppressed the growth of leafy spurge by more than 90 percent.

Texas A&M University and New Mexico State University researchers, supported by USDA, found that lining irrigation canals can prevent water seepage of up to seven cubic feet per second per mile. Utah State University researchers helped 70 large water users with water audits and irrigation scheduling. This assistance reduced water use up to 28 percent last year. The 67 million gallons saved annually translates economically to $207,146.

USDA-supported researchers in several States are working to develop methods to reduce harmful manure odor from hog farms. Purdue University researchers reduced the odor by changing the pigs' diet. By reducing the crude protein and adding synthetic amino acids, they cut nitrogen levels in manure by up to 30 percent. They also reduced ammonia concentrations in the air in half and dropped detectable odors and "rotten egg" gas emissions by 40 percent. South Dakota State University researchers developed a biofilter that hog farmers can build themselves for as little as $1,500. The biofilter also can reduce odor in a confinement facility by as much as 97 percent. Michigan State University scientists are adding ozone to stored swine manure to remove odor and render it safe as fertilizer.

FY 2003 PROGRAM OBLIGATIONS AND STAFF YEARS

Fiscal Year 2003 Program Obligations Incurred

The following table depicts the component agencies and staff offices of the Department of Agriculture with total program level dollars for each account allocated to each objective. The program level dollars are displayed in millions and have been rounded to the nearest tenth. An account's funding was allocated to more than one objective when the amount for each objective was significant and could be identified. Thus, the table provides a general indication of the funding dedicated to each objective. Staff office and departmental management accounts generally support all USDA objectives and, in most cases, have been reallocated equally among all strategic objectives.

USDA FY 2003 Program Obligations
(Dollars in Millions)

Agency	Account	Program Obligations	Objectives 1.1	1.2	1.3	1.4	2.1	2.2	3.1	3.2	4.1	4.2	4.3	5.1	5.2
OSEC	Office of the Secretary	54.0	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2
OCFO	OCFO	15.0	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2
	Working Capital Fund	356.0	27.4	27.4	27.4	27.4	27.4	27.4	27.4	27.4	27.4	27.4	27.4	27.4	27.4
OCIO	OCIO	38.0	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9
	Common Computing Environment	144.0	18.0	18.0	18.0	18.0	18.0	18.0	0.0	0.0	0.0	0.0	0.0	18.0	18.0
DA	Agriculture Buildings and Facilities Rental Payments	198.0	15.2	15.2	15.2	15.2	15.2	15.2	15.2	15.2	15.2	15.2	15.2	15.2	15.2
	Departmental Administration	57.0	4.4	4.4	4.4	4.4	4.4	4.4	4.4	4.4	4.4	4.4	4.4	4.4	4.4
	Hazardous Materials Management	12.0	-	-	-	-	-	-	-	-	-	-	-	12.0	-
OC	OC	9.0	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
OIG	OIG	77.0	5.9	5.9	5.9	5.9	5.9	5.9	5.9	5.9	5.9	5.9	5.9	5.9	5.9
	IG Assets Forfeiture Funds+B18	1.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
OGC	OGC	36.0	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8
OCE	OCE	11.0	0.7	0.7	2.8	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
NAD	NAD	14.0	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1
OBPA	OBPA	7.0	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
ERS	Economic Research	70.6	9.9	3.5	3.5	12.7	2.8	4.2	3.5	4.9	4.2	4.2	8.5	-	8.5
NASS	NASS	155.4	77.3	0.0	-	7.5	45.7	-	13.8	-	-	-	-	-	11.1
ARS	ARS Salaries and Expenses	1,107.4	-	-	104.1	-	-	-	104.1	626.8	33.2	33.2	33.2	86.4	86.4
	Buildings and Facilities	81.2	-	-	7.6	-	-	-	7.6	46.0	2.4	2.4	2.4	6.3	6.3
	ARS-No Year Funds	11.8	-	-	1.1	-	-	-	1.1	6.7	0.4	0.4	0.4	0.9	0.9

USDA FY 2003 Program Obligations
(Dollars in Millions)

Agency	Account	Program Obligations	Objectives 1.1	1.2	1.3	1.4	2.1	2.2	3.1	3.2	4.1	4.2	4.3	5.1	5.2
ARS (Cont.)	Miscellaneous Contributed Funds	21.5	-	-	2.0	-	-	-	2.0	12.2	0.6	0.6	0.6	1.7	1.7
	Collaborative Research with the Newly Independent States (AID) FY 03-04	5.0	-	-	0.5	-	-	-	0.5	2.8	0.2	0.2	0.2	0.4	0.4
CSREES	Extension Activities	484.8	33.9	19.4	43.6	24.2	24.2	24.2	24.2	58.2	38.8	43.6	-	75.1	75.1
	Research and Education Activities	582.2	52.4	52.4	75.7	17.5	17.5	17.5	40.8	81.5	29.1	17.5	-	90.2	90.2
	Integrated Activities	45.9	0.0	0.0	0.6	0.6	0.6	0.6	3.7	22.0	6.4	0.0	-	6.0	5.5
	Native Americans Institutions Endowment Fund	1.7	0.1	0.1	0.2	0.1	0.1	0.1	0.1	0.2	0.1	0.2	-	0.3	0.3
	Community Food Projects	5.0	-	-	-	-	-	-	-	-	-	-	5.0	-	-
	Outreach for Socially Disadvantaged Farmers and Ranchers	6.8	-	-	-	6.8	-	-	-	-	-	-	-	-	-
APHIS	Salaries and Expenses	1,435.4	172.2	-	-	-	-	-	-	1,263.2	-	-	-	-	-
	Buildings and Facilities	2.2	-	-	-	-	-	-	-	2.2	-	-	-	-	-
	Trust Funds	14.6	-	-	-	-	-	-	-	14.6	-	-	-	-	-
FSIS	FSIS-Salaries & Expenses	838.6	-	-	-	-	-	-	838.6	-	-	-	-	-	-
	FSIS-No Year Funds	31.0	-	-	-	-	-	-	31.0	-	-	-	-	-	-
	Trust Funds	3.7	-	-	-	-	-	-	3.7	-	-	-	-	-	-
GIPSA	Salaries and Expenses	33.2	13.6	0.7	1.7	14.6	2.7	-	-	-	-	-	-	-	-
	Inspection and Weighing Services	35.9	35.9	-	-	-	-	-	-	-	-	-	-	-	-
AMS	Marketing Services	110.7	110.7	-	-	-	-	-	-	-	-	-	-	-	-
	Payments to States and Possessions	1.3	1.3	-	-	-	-	-	-	-	-	-	-	-	-
	Perishable Ag. Commodities Act Fund[1]	(10.2)	(10.2)	-	-	-	-	-	-	-	-	-	-	-	-
	Funds for Strengthening Markets/Income/Supply	1,285.5	1,285.5	-	-	-	-	-	-	-	-	-	-	-	-
	Wool Research Development and Promotion Trust Fund	2.2	2.2	-	-	-	-	-	-	-	-	-	-	-	-
	Expenses & Refunds, Inspection & Grading of Farm Products	93.5	93.5	-	-	-	-	-	-	-	-	-	-	-	-
	Payment to Expenses & Refunds, Inspection & Grading of Farm Products	0.5	0.5	-	-	-	-	-	-	-	-	-	-	-	-
RMA	Administrative and Operating Expenses	70.2	-	-	-	70.2	-	-	-	-	-	-	-	-	-
	Federal Crop Insurance Corporation Fund	2,902.0	-	-	-	2,902.0	-	-	-	-	-	-	-	-	-
FSA	Salaries and Expenses	1,447.1	-	-	-	1,316.9	-	-	-	-	-	-	-	-	130.2
	State Mediation Grants	4.0	-	-	-	4.0	-	-	-	-	-	-	-	-	-

USDA FY 2003 Program Obligations
(Dollars in Millions)

Agency	Account	Program Obligations	Objectives 1.1	1.2	1.3	1.4	2.1	2.2	3.1	3.2	4.1	4.2	4.3	5.1	5.2
FSA (Cont.)	Agricultural Credit Insurance Fund (Prog.)	790.1	-	-	-	790.1	-	-	-	-	-	-	-	-	-
	Agricultural Conservation Demonstration Program Account	0.6	-	-	-	-	-	-	-	-	-	-	-	-	0.6
	Dairy Indemnity Program	0.4	-	-	-	0.4	-	-	-	-	-	-	-	-	-
	Agricultural Conservation Program	5.7	-	-	-	5.7	-	-	-	-	-	-	-	-	-
	Emergency Conservation Program/Transfer to CCC	27.4	-	-	-	-	-	-	-	-	-	-	-	-	27.4
	Agricultural Credit Insurance Fund	23.7	-	-	-	23.7	-	-	-	-	-	-	-	-	-
	Farm Storage Facility Loan Direct Financing Acct.	66.0	-	-	-	66.0	-	-	-	-	-	-	-	-	-
	Ag. Conservation Guarantee Financing Acct.	0.8	-	-	-	0.8	-	-	-	-	-	-	-	-	-
	Agricultural Credit Insurance Fund-Direct (Fin.)	1,701.6	-	-	-	1,701.6	-	-	-	-	-	-	-	-	-
	Agricultural Credit Insurance Fund-Guar. (Fin.)	222.8	-	-	-	222.8	-	-	-	-	-	-	-	-	-
	CCC Apple Loans Direct Loan Financing Account	1.0	-	-	-	1.0	-	-	-	-	-	-	-	-	-
	CCC Apple Loans Direct Loan Program Fund	1.3	-	-	-	1.3	-	-	-	-	-	-	-	-	-
	CCC Export Loans Program Account	722.7	-	722.7	-	-	-	-	-	-	-	-	-	-	-
	Commodity Credit Corporation	33,948.5	4,073.8	-	156.4	27,487.0	-	-	-	-	-	-	-	-	2,231.2
	CCC Export Guarantee Financing Account	738.2	-	738.2	-	-	-	-	-	-	-	-	-	-	-
	CCC Export Guaranteed Loans Liquidating Account	1.8	-	1.8	-	-	-	-	-	-	-	-	-	-	-
	CCC Emergency Boll Weevil Direct Loan Financing Account	0.3	-	-	-	0.3	-	-	-	-	-	-	-	-	-
	CCC Farm Storage Facility Loans Program Account	0.8	-	-	0.8	-	-	-	-	-	-	-	-	-	-
NRCS	Conservation Operations	815.0	-	-	-	-	-	48.9	-	-	-	-	-	-	766.1
	Watershed Rehabilitation Programs	29.0	-	-	-	-	-	29.0	-	-	-	-	-	-	-
	Biomass Research and Development Program	14.0	-	-	14.0	-	-	-	-	-	-	-	-	-	-
	Farm Security and Rural Investment Programs	1,213.0	-	-	-	-	-	12.1	-	-	-	-	-	-	1,200.9
	Resource Conservation and Development	50.0	-	-	0.5	-	-	26.0	-	-	-	-	-	-	23.5
	Watershed Surveys and Planning	11.0	-	-	-	-	-	6.1	-	-	-	-	-	-	5.0
	Watershed and Flood Prevention Operations	185.0	-	-	-	-	-	42.6	-	-	-	-	-	-	142.5
	Wildlife Habitat Incentive Program	1.0	-	-	-	-	-	-	-	-	-	-	-	-	1.0
RD	Rural Community Advancement Program	1,053.0	-	-	-	-	452.8	600.2	-	-	-	-	-	-	-
	Salaries and Expenses	673.0	-	-	-	-	269.2	403.8	-	-	-	-	-	-	-

USDA FY 2003 Program Obligations
(Dollars in Millions)

Agency	Account	Program Obligations	Objectives 1.1	1.2	1.3	1.4	2.1	2.2	3.1	3.2	4.1	4.2	4.3	5.1	5.2
RHS	Rental Assistance Program	724.0	-	-	-	-	-	724.0	-	-	-	-	-	-	-
	Rural Housing Assistance Grants	48.0	-	-	-	-	-	48.0	-	-	-	-	-	-	-
	Mutual and Self-Help Housing Grants	42.0	-	-	-	-	-	42.0	-	-	-	-	-	-	-
	Rural Housing Insurance Fund (Prog.)	798.0	-	-	-	-	-	798.0	-	-	-	-	-	-	-
	Rural Housing Insurance Fund (Liq.)	401.0	-	-	-	-	-	401.0	-	-	-	-	-	-	-
	Rural Housing Insurance Fund Direct (Fin.)	2,648.0	-	-	-	-	-	2,648.0	-	-	-	-	-	-	-
	Rural Housing Insurance Fund-Guar. (Fin.)	109.0	-	-	-	-	-	109.0	-	-	-	-	-	-	-
	Rural Community Facility Loans-Direct (Fin.)	373.0	-	-	-	-	-	373.0	-	-	-	-	-	-	-
	Farm Labor Housing	32.0	-	-	-	-	-	32.0	-	-	-	-	-	-	-
	Rural Community Facility Loans-Guar. (Fin.)	3.0	-	-	-	-	-	3.0	-	-	-	-	-	-	-
RBCS	Rura Cooperative Development Grants	60.0	-	-	-	-	60.0	-	-	-	-	-	-	-	-
	Renewable Energy Program	22.0	-	-	-	-	22.0	-	-	-	-	-	-	-	-
	Rural Development Loan Fund (Prog.)	24.0	-	-	-	-	24.0	-	-	-	-	-	-	-	-
	Rural Economic Development Grants	4.0	-	-	-	-	4.0	-	-	-	-	-	-	-	-
	Rural Economic Development Loans (Prog.)	3.0	-	-	-	-	3.0	-	-	-	-	-	-	-	-
	Rural Economic Development Loans (Fin.)	22.0	-	-	-	-	22.0	-	-	-	-	-	-	-	-
	National Sheep Industry Improvement Center Revolving Fund	1.0	-	-	-	-	1.0	-	-	-	-	-	-	-	-
	Rural Development Loan Fund -Direct (Fin.)	58.0	-	-	-	-	58.0	-	-	-	-	-	-	-	-
	Rural Business and Industry Direct Loans (Fin.)	6.0	-	-	-	-	6.0	-	-	-	-	-	-	-	-
	Rural Business and Industry Direct Loans-Guar. (Fin.)	121.0	-	-	-	-	121.0	-	-	-	-	-	-	-	-
	Rural Empowerment Zones/Enterprise Communities	27.0	-	-	-	-	27.0	-	-	-	-	-	-	-	-
RUS	RETRF (Prog. Acct.)	193.0	-	-	-	-	135.1	57.9	-	-	-	-	-	-	-
	Rural Telephone Bank Program Account	7.0	-	-	-	-	4.9	2.1	-	-	-	-	-	-	-
	Distance Learning and Medical Link Programs	68.0	-	-	-	-	47.6	20.4	-	-	-	-	-	-	-
	High Energy Cost Grants	19.0	-	-	-	-	13.3	5.7	-	-	-	-	-	-	-
	Rural Communication Development Fund	3.0	-	-	-	-	2.1	0.9	-	-	-	-	-	-	-
	Distance Learning Telemedicine Direct Loan (Fin. Acct.)	83.0	-	-	-	-	58.1	24.9	-	-	-	-	-	-	-

USDA FY 2003 Program Obligations
(Dollars in Millions)

Agency	Account	Program Obligations	Objectives												
			1.1	1.2	1.3	1.4	2.1	2.2	3.1	3.2	4.1	4.2	4.3	5.1	5.2
RUS (Cont.)	Rural Development Insurance Fund (Liq. Acct.)	132.0	-	-	-	-	92.4	39.6	-	-	-	-	-	-	-
	Rural Telephone Bank (Fin. Acct.)	196.0	-	-	-	-	137.2	58.8	-	-	-	-	-	-	-
	RETRF (Fin. Acct. - Direct)	5,308.0	-	-	-	-	3,715.6	1,592.4	-	-	-	-	-	-	-
	Rural Water & Waste Disposal Loans (Direct Fin. Acct.)	1,138.0	-	-	-	-	796.6	341.4	-	-	-	-	-	-	-
	RETRF (Liq. Acct.)	998.0	-	-	-	-	698.6	299.4	-	-	-	-	-	-	-
	Rural Telephone Bank (Liq. Acct.)	28.0	-	-	-	-	19.6	8.4	-	-	-	-	-	-	-
	Appalachian Reg. Commission Transfer	17.0	-	-	-	-	11.9	5.1	-	-	-	-	-	-	-
	Dept. of Commerce Transfer	3.0	-	-	-	-	2.1	0.9	-	-	-	-	-	-	-
FAS	Scientific Activities Overseas (Foreign Curr. Prog)[2]	(7.8)	-	(7.8)	-	-	-	-	-	-	-	-	-	-	-
	Trade Adjustment Assistance for Farmers	2.4	2.4	-	-	-	-	-	-	-	-	-	-	-	-
	Salaries and Expenses	197.8	128.6	69.2	-	-	-	-	-	-	-	-	-	-	-
	Title I Ocean freight Differential Grants	30.3	-	30.3	-	-	-	-	-	-	-	-	-	-	-
	P.L.480 (Liq. Acct.)	9.2	-	9.2	-	-	-	-	-	-	-	-	-	-	-
	P.L.480 (Prog.)	87.6	-	87.6	-	-	-	-	-	-	-	-	-	-	-
	P.L 480 Title II	1,530.9	-	1,530.9	-	-	-	-	-	-	-	-	-	-	-
	Program & Grants Accounts	248.4	-	248.4	-	-	-	-	-	-	-	-	-	-	-
	P.L.480-Direct (Fin. Acct.)	652.7	-	652.7	-	-	-	-	-	-	-	-	-	-	-
	Food for Progress (Russia)	208.3	-	208.3	-	-	-	-	-	-	-	-	-	-	-
	Debt Reduction (EAI) Fin. Acct.	47.2	-	47.2	-	-	-	-	-	-	-	-	-	-	-
	McGovern-Dole Account	100.0	-	100.0	-	-	-	-	-	-	-	-	-	-	-
FNS	Food Donations Programs	59.5	-	-	-	-	-	-	-	-	59.5	-	-	-	-
	Food Stamp Program	25,688.0	-	-	-	-	-	-	-	-	25,431.1	256.9	-	-	-
	Commodity Assistance Program	169.0	-	-	-	-	-	-	-	-	169.0	-	-	-	-
	Food Program Administration	139.0	-	-	-	-	-	-	-	-	87.6	2.8	48.7	-	-
	Special Supplemental Nutrition Program (WIC)	4,686.0	-	-	-	-	-	-	-	-	4,358.0	328.0	-	-	-
	Child Nutrition Programs	11,034.0	-	-	-	-	-	-	-	-	11,034.0	-	-	-	-
FS	Land Acquisition Title VIII	2.4	-	-	-	-	-	-	-	-	-	-	-	2.4	-
	Capital Improvement and Maintenance	654.6	-	-	-	-	-	-	-	-	-	-	-	654.6	-

USDA FY 2003 Program Obligations
(Dollars in Millions)

Agency	Account	Program Obligations	1.1	1.2	1.3	1.4	2.1	2.2	3.1	3.2	4.1	4.2	4.3	5.1	5.2
			Objectives												
FS (Cont.)	Forest and Rangeland Research	328.3	-	-	-	-	-	-	-	-	-	-	-	328.3	-
	State and Private Forestry	444.6	-	-	-	-	-	-	-	-	-	-	-	71.1	373.5
	National Forest System	1,644.7	-	-	-	-	-	-	-	-	-	-	-	1,644.7	-
	Wildland Fire Management	1,913.6	-	-	-	-	-	-	-	-	-	-	-	1,837.1	76.5
	Payments to States	282.7	-	-	-	-	-	-	-	-	-	-	-	-	282.7
	Payments to States, Northern Spotted Owl Guarantee	18.7	-	-	-	-	-	-	-	-	-	-	-	18.7	-
	Management of National Forest Lands for Subsistence Uses	5.6	-	-	-	-	-	-	-	-	-	-	-	5.6	-
	Emergency Pest Suppression Fund	0.2	-	-	-	-	-	-	-	-	-	-	-	0.2	-
	Working Capital Fund	227.6	-	-	-	-	-	-	-	-	-	-	-	227.6	-
	Land Acquisition	169.8	-	-	-	-	-	-	-	-	-	-	-	169.8	-
	Recreation Fees for Collection Costs	0.8	-	-	-	-	-	-	-	-	-	-	-	0.8	-
	Federal Payment, Payments to States, National Forests Fund	137.6	-	-	-	-	-	-	-	-	-	-	-	137.6	-
	Timber Roads, Purchaser Elections[3]	(0.2)	-	-	-	-	-	-	-	-	-	-	-	(0.2)	-
	Roads and Trails for States, National Forest Fund	17.4	-	-	-	-	-	-	-	-	-	-	-	17.4	-
	Timber Salvage Sales	70.5	-	-	-	-	-	-	-	-	-	-	-	70.5	-
	Expenses, Brush Disposal	8.0	-	-	-	-	-	-	-	-	-	-	-	8.0	-
	Range Betterment Fund	3.4	-	-	-	-	-	-	-	-	-	-	-	3.4	-
	Payment to Minnesota from the National Forests Fund	2.1	-	-	-	-	-	-	-	-	-	-	-	-	2.1
	Licenses Programs[4]	(10.7)	-	-	-	-	-	-	-	-	-	-	-	(10.7)	-
	Restoration of Forest Lands	2.2	-	-	-	-	-	-	-	-	-	-	-	2.2	-
	Acquisition of Lands to Complete Land Exchanges	4.0	-	-	-	-	-	-	-	-	-	-	-	4.0	-
	Operation and Maintenance Quarters	6.9	-	-	-	-	-	-	-	-	-	-	-	6.9	-
	Timber Sale Pipeline Restoration Fund	2.2	-	-	-	-	-	-	-	-	-	-	-	2.2	-
	Recreation Fee Demonstration Program	37.1	-	-	-	-	-	-	-	-	-	-	-	37.1	-
	Midewin National Tallgrass Prairies Rental Fees[5]	(0.3)	-	-	-	-	-	-	-	-	-	-	-	(0.3)	-
	Land Between the Lakes Management Fund[3]	(0.2)	-	-	-	-	-	-	-	-	-	-	-	(0.2)	-
	Cooperative Work Trust Fund	36.7	-	-	-	-	-	-	-	-	-	-	-	36.7	-

USDA FY 2003 Program Obligations
(Dollars in Millions)

Agency	Account	Program Obligations	Objectives 1.1	1.2	1.3	1.4	2.1	2.2	3.1	3.2	4.1	4.2	4.3	5.1	5.2
FS (Cont.)	Reforestation Trust Fund	22.0	-	-	-	-	-	-	-	-	-	-	-	22.0	-
	Gifts and Bequests	0.5	-	-	-	-	-	-	-	-	-	-	-	0.5	-
	Payments to Counties, National Grasslands[5]	(0.8)	-	-	-	-	-	-	-	-	-	-	-	(0.8)	-
	Federal Highway Transfer (FS)	9.5	-	-	-	-	-	-	-	-	-	-	-	9.5	-
Total		118,850	6,169	4,600	499	34,763	6,984	8,936	1,142	2,208	41,322	757	166	5,671	5,635
Total by Goals*			46,031				15,920		3,350		42,245			11,306	

*Goal and objective totals have been rounded to the nearest whole number. Totals may not add due to rounding.
[1]Negative balance is a result of investments with commercial banks. Investments create de-obligations in the account. At the end of FY 2003 there was no obligation to offset the earlier de-obligation.
[2]Negative balance is due to the transition from the old central accounting system to the new system (FFIS). When overseas transactions were reconciled, overstated obligations were eliminated. Funds were de-obligated to bring the account into sync with Treasury.
[3]Negative balance due to adjustment of funds in FY 2003 to ensure that both current and historical data were aligned appropriately between the budgetary and proprietary accounts.
[4]Negative balance in FY 2003 is a result of 2002 restated financial activity.
[5]Negative balance is due to reviews and adjustments of on-going payments to States. Transfers from the receipts accounts had not been completed. Research currently is being conducted.

Fiscal Year 2003 Staff Years

The table below depicts the component agencies and staff offices of the Department of Agriculture with estimated staff years obligated to each objective. Staff years have been rounded to the nearest tenth and have been allocated to more than one objective when the amount of each objective was significant and could be identified. Staff offices and departmental management generally support all USDA objectives and, in most cases, have been reallocated equally among all objectives.

USDA FY 2003 Staff Years

Agency	Staff Years	Objectives 1.1	1.2	1.3	1.4	2.1	2.2	3.1	3.2	4.1	4.2	4.3	5.1	5.2
OSEC	70	5.4	5.4	5.4	5.4	5.4	5.4	5.4	5.4	5.4	5.4	5.4	5.4	5.4
OCFO	1,650	126.9	126.9	126.9	126.9	126.9	126.9	126.9	126.9	126.9	126.9	126.9	126.9	126.9
OCIO	310	23.8	23.8	23.8	23.8	23.8	23.8	23.8	23.8	23.8	23.8	23.8	23.8	23.8
DA	684	52.6	52.6	52.6	52.6	52.6	52.6	52.6	52.6	52.6	52.6	52.6	52.6	52.6
DA/HMM	6	-	-	-	-	-	-	-	-	-	-	-	6.0	-
OC	98	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5
OIG	621	47.8	47.8	47.8	47.8	47.8	47.8	47.8	47.8	47.8	47.8	47.8	47.8	47.8
OBPA	64	4.9	4.9	4.9	4.9	4.9	4.9	4.9	4.9	4.9	4.9	4.9	4.9	4.9
OGC	319	24.5	24.5	24.5	24.5	24.5	24.5	24.5	24.5	24.5	24.5	24.5	24.5	24.5
OCE	53	4.1	4.1	4.1	4.1	4.1	4.1	4.1	4.1	4.1	4.1	4.1	4.1	4.1
ERS	438	70.1	21.9	21.9	78.8	21.9	30.7	21.9	30.7	21.9	21.9	43.8	-	52.6
NAD	119	9.2	9.2	9.2	9.2	9.2	9.2	9.2	9.2	9.2	9.2	9.2	9.2	9.2
NASS	1,076	461.1	-	-	58.0	320.9	-	-	96.0	-	-	-	-	140.1
ARS	8,622	-	-	845.0	-	-	-	845.0	5,345.6	120.7	120.7	120.7	612.2	612.2
CSREES	360	28.8	28.8	28.8	18.0	14.4	14.4	21.6	36.0	25.2	25.2	25.2	46.8	46.8
APHIS	7,462	895.4	-	-	-	-	-	-	6,566.6	-	-	-	-	-
FSIS	9,479	-	-	-	-	-	-	9,479.0	-	-	-	-	-	-
GIPSA	707	289.9	14.1	35.4	311.1	56.6	-	-	-	-	-	-	-	-
AMS	3,361	3,361.0	-	-	-	-	-	-	-	-	-	-	-	-
RMA	515	-	-	-	515.0	-	-	-	-	-	-	-	-	-
FSA	5,905	-	-	-	5,786.9	-	-	-	-	-	-	-	-	118.1
FSA Non-Federal	12,368	-	-	-	10,512.8	-	-	-	-	-	-	-	-	1,855.2
NRCS	12,140	-	-	-	-	-	1,140.7	-	-	-	-	-	-	10,999.3
RD	6,788	-	-	-	-	2,715.2	4,072.8	-	-	-	-	-	-	-
FAS	1,002	651.3	350.7	-	-	-	-	-	-	-	-	-	-	-
FNS/CNPP	1,528	-	-	-	-	-	-	-	-	825.1	76.4	626.5	-	-
FS	38,014	-	-	-	-	-	-	-	-	-	-	-	37,196.7	817.3
Total	113,759	6,064	722	1,238	17,587	3,436	5,565	10,674	12,382	1,300	551	1,123	38,168	14,948
Total by Goals*		25,612				9,001		23,056		2,974			53,117	

*Goal and objective totals have been rounded to the nearest whole number. Totals may not add due to rounding.

DATA ASSESSMENT OF PERFORMANCE MEASURES

Strategic Goal 1: Enhance Economic Opportunities for Agricultural Producers

Objective 1.1: Expand International Market Opportunities

Improve International Marketing Opportunities

Data for the World Trade Organization and tariff rate are projected estimates based on results posted to the performance-tracking system within the Foreign Agricultural Service (FAS) during the first three quarters of FY 2003. Estimates for the fourth quarter of the reporting year 2003 are derived by estimating the sum value of trade-policy disputes currently under negotiation. USDA believes the disputes will be resolved successfully by the end of the fiscal year. Data are reliable and used by Agency and Department officials to highlight successes in the trade-policy arena.

While USDA uses an automated performance-tracking system to collect and analyze actual performance data from the Department's network of overseas offices and its headquarters, there often is a lag time between reported successful resolution of trade issues and estimated value to U.S. agriculture. This also can happen with independent verification through the U.S. Government's official trade statistics. There is no known remedy immediately available to address this problem.

The primary sources of trade data are U.S. Customs (which was absorbed into the Department of Homeland Security), information compiled by the U.S. Census Bureau, the USDA publication *Foreign Agricultural Trade of the United States* and other databases. For some products, trade data are not recorded. Thus, estimating the potential value of a sanitary and phytosanitary (SPS) accomplishment may be a challenge, especially where new exports to a previously closed market are concerned. In arriving at these estimates, USDA considers such factors as similar exports by other countries, the importing countries' respective purchasing power and sales into comparable markets. In addition to trade data, other sources include market reports compiled by USDA and industry estimates.

The raw data on animal-export protocols are complete, reliable and of good quality. The lists of new export protocols negotiated by the National Center for Import Export are updated monthly and can be obtained at www.aphis.usda.gov/vs/ncie/iregs/animals/history.html. Program management staff has collected and posted the data where any errors can be seen by all interested parties and, if necessary, corrected.

The data for the number of international standards adopted are complete, final, reliable and of good quality. USDA's Animal and Plant Health Inspection Service (APHIS) personnel who attend the meetings of standard-setting bodies helped develop these international standards. The personnel provides updates to the Trade Support Team. The team then reports these accomplishments in the annual *SPS Accomplishments Report.* These standards are documented on the Web sites of the International Plant Protection Convention, the North American Plant Protection Organization and the International Organization of Epizootics. APHIS is developing a new performance measure for FY 2005 for Trade Issues Resolution and Management, which will reflect proposed increases in funding more accurately.

Objective 1.2: Support International Economic Development and Trade Capacity Building

Support International Economic Development and Foreign Food Assistance

Projected estimates indicate that USDA expects to meet its budgeted number of activities and projects completed to support international economic development and trade-capacity building. Data are based on results for the first three quarters. Estimates for the fourth quarter of the reporting year 2003 are derived by estimating the sum value of trade-policy disputes currently under negotiation. USDA believes the disputes will be resolved successfully by the end of the fiscal year. They are deemed to be reliable and are used by Agency and Department officials to highlight successes in the trade-policy arena.

An automated performance-tracking system is in place to collect and analyze actual performance data from USDA's network of overseas offices and its headquarters. However, there often is a time lag between the reported successful resolution of trade issues and estimated value to U.S. agriculture, and independent verification through the U.S. Government's official trade statistics. There is no known remedy immediately available to address this problem.

Objective 1.3: Develop Alternative Markets for Agricultural Products and Activities

Increase the Use of Bioenergy and Biobased Products

The data upon which performance information is based is complete and reliable. It represents the universe of applications for program participation received during the open-enrollment periods during FY 2003. Data quality is high since they represent the universe of actual sign-ups in the programs, proposals for funding or projects funded under the programs. Certification is approved by program managers.

Objective 1.4: Provide Risk Management and Financial Tools to Farmers and Ranchers

Provide Risk Management Tools to Farmers and Ranchers

The data are deferred until the end of the second quarter of FY 2004 because of the unavailability of actual crop-year data. Analysis has shown that 99 percent of the acreage and liability data will be reported to USDA during the first quarter of the new fiscal year. Once received, the Department will take extensive steps to verify the data's accuracy and validity. Thus, final actual data for any given fiscal year is unavailable until the second quarter of the following fiscal year. Additionally, the forecasted participation rates are calculated from USDA baseline projections of acres planted. Prior to FY 2003, the Department's baseline information contained planted acreage data for 13 principle crops. As of this fiscal year, the baseline information has been changed to seven major crops. This report contains updates to information submitted in previous performance reports to reflect more complete Federal crop-insurance data. Data for the number of commodities eligible for crop insurance are derived from internal sources and considered final and reliable.

Provide Credit to Agricultural Producers

Data for these indicators are projected estimates. The projected year-end results are based on actual data through August 31, 2003.

Most farm-loan program data originates from the Agency's accounting system and is subject to internal and external audits. Service Center staff enters progress as applications are processed. The reliability of this data has been improving through system changes and reviews.

Comprehensive reviews are conducted annually to ensure that loan decisions are sound and program implementation complies with statutes and regulations. Additionally, the Office of Inspector General (OIG) audited FSA's Government Performance and Results Act process in FY 2001-02. OIG did not identify any problems related to the reliability of indicators for the farm loan programs.

Reports generated from the Executive Information Service System and the Intranet are the primary means of measuring farm loan program performance. The National Office reviews these reports quarterly to monitor progress toward achievement of the performance goals. Web-based FOCUS programs have been developed to monitor performance.

Provide Income Support to Agricultural Producers

Data for eligible commodity production are final. Actual production data are from the National Agricultural Statistics Service (NASS) Published Estimates Database, which can be found at www.nass.usda.gov:81/ipedb/. Loan and Loan Deficiency Payment (LDP) data are from the year *2002 National Loan Summary Report* and the crop year *2002 LDP Summary Report.* These two query reports may be found on the Online Reports section of FSA's Price Support Division (PSD) Web page at www.fsa.usda.gov/dafp/psd/.

Data for the amount of commodity placed under marketing assistance loans and LDP originates from the USDA Service Centers, where it is input by FSA staff. This data then is uploaded daily to an automated system maintained at Kansas City. To help ensure accuracy, FSA personnel perform periodic spot checks to verify the quantity and eligibility of commodities placed under loan or LDP.

NASS production data may not be final for some commodities for up to two years after the end of the crop year. Additionally, NASS may not always have data for every State in which the PSD database shows loan or LDP activity. This report only includes data for those States with both loan and/or LDP data and NASS data. Therefore, a data limitation is that results may not always account for 100 percent of loan/LDP activity and actual production.

Improve Electronic Delivery of Information and Services

Data are projected estimates, with year-end projections based on system data as of September 16, 2003. Data source is a Web-based Database maintained and verified by FSA's Forms, Graphics and Records Branch within the Management Services Division. Data are updated daily as additional forms are added or a change in the status of a form occurs. For example, forms may become obsolete or programs expire. Reports are generated on request for Agency management.

Information contained in the Database constantly changes because of program changes or system enhancements, which allow additional forms to be added.

Strategic Goal 2: Support Increased Economic Opportunities and Improved Quality of Life in Rural America

Objective 2.1: Expand Economic Opportunities through USDA Financing of Businesses

Improve Rural Economic Opportunities

Business program data are collected in two ways. The Finance Office records and reports total loan and grant obligations, as of the date of obligation. These data are collected as part of the obligation process. Additionally, Rural Development uses one of its own systems, GLS, to collect more information for management and evaluation purposes. This information includes the number of jobs created or saved. Data on delinquency status mostly are reported by lenders directly to GLS. In other cases, Rural Development staff reports the information.

The data are final and complete as of September 2003 year-end calculations. While hundreds of lenders report the financial performance of their borrowers semi-annually to the Rural Business-Cooperative Service, all lenders currently are not reporting. There also is no consistency to the timing of their reports. In lieu of this, the Finance Office's financial data have been found acceptable to OIG, as are State Office-verified data on the financial performance of loans. Data for jobs created or saved are obtained by State Office staff and entered into GLS. These data are reliable when they have been updated and verified by State staff. USDA computes the jobs saved or created based on feasibility projections accompanying loan documents. The jobs are counted only in the initial year. The delinquency rate, excluding bankruptcy cases, is based on feasibility projections accompanying loan documents.

While the percentage of States verifying third-party financial and jobs data have improved each year, further improvements remain stalled due to staffing limitations and competing assignments. Rural Development has entered into an agreement with ERS to design and complete a model to better compute and measure the impacts of business programs in rural communities. These programs include such "quality of life" issues as health and education.

Improve Telecommunication for Rural Residents

Data are actual, final and complete. The county data are collected from each approved loan application. Applicants are required to detail their proposed service territories. This includes the number of subscribers to be served and location by county. Loan funds are advanced only for approved purposes. Measuring the extent to which broadband service is deployed in rural America on a county-by-county basis will enable Rural Development to assess improved economic conditions because of the availability of high-speed telecommunications network access for residents and business.

The data on the number of counties to be served for each loan are derived from applicants' loan applications. Data must be complete before loans can be approved. While applicants are required to perform market surveys of their proposed service areas, the actual counties served may vary from the plan if all funds are not used or the borrower later requests a change of purpose from the original loan application. Overall, the data on counties served are reliable.

All applications undergo an extensive review to determine eligibility. Additionally, all approved applications must show feasibility from a financial and technical standpoint. Applicants also are required to perform market surveys of their proposed service areas. Therefore, the data are reliable. As previously noted, the data on the number of counties to be served for each loan approved come from the applicant's loan application. The data are dependent upon the borrower drawing down loan funds and constructing the system as portrayed in the applicant's loan design. Loan funds only may be used for the approved purposes for which the loan was made. Thus, variances may result if a borrower does not draw down all loan funds or requests approval for a change of purpose from the original loan. This could result in a different number of counties served from the plan.

Objective 2.2: Improve the Quality of Life through USDA Financing of Quality Housing, Modern Utilities and Needed Community Facilities

Improve the Standard of Living in Rural America

Homeownership data are actual, final and complete. The initial entry point for homeownership data is the Web-based UniFi system. This centralized server application ensures viable data collection. It tracks performance and forecast needs. Information entered into UniFi also uploads nightly into the MortgageServ (a.k.a. Fasteller) system that is used to obligate funds, establish closed loans, administer escrow accounts, manage defaulted loans and perform other administrative functions. Brio, a query and reporting tool, serves as the interface between the data warehouse and Rural Development staff.

Homeownership data originate in systems used to obligate funding and are reliable. Data for initial placement of households into their own homes are reliable since they are linked directly to homeownership loans maintained in Rural Development's financial accounting systems. This is despite the fact that no adjustments are made for later defaults and the resulting loss of homeownership that lowers net homeownership achieved. Homeownership data are based on loan obligations collected in the Dedicated Loan Origination and Servicing system and stored in the Rural Development's Data Warehouse. As such, the data on number of households is auditable. Data represents the population served based on available U.S. census information. Rural Development's National Office screens the data annually for completeness and they are reliable.

Community Facilities program data are complete and final. They are collected by means of two streams of input. The Finance Office records and reports total loan and grant obligations as of the date of obligation. These data are collected as part of the obligation process. Additionally, Rural Development collects information for management and evaluation purposes. Data on delinquency status are reported by the Finance Office for Community Facilities Direct loans, and by lenders for the Community Facilities Guaranteed loans.

Community Facilities data are entered into GLS by field staff at the time program funds are obligated. Data are final, complete and reliable, and represent the population served based on available U.S. census information. Rural Development's National Office screens the data annually for completeness and they are reliable. Population data served by community facilities are estimates. Rural Development's National Office screens data annually for irregularities. Given the variety of service areas served by different types of community facilities (e.g., libraries, fire equipment, health clinics), estimation is an art, not a precise science. Population estimates served by community facilities are much less reliable as indicators of the extent of benefits. Rural Development is developing mapping technologies that will enable more consistent determination of service areas for community facilities. Data are reliable, based on engineering studies used for design of new or expanded public utilities systems.

New program applications are developed using the Community Programs Application Processing (CPAP) system. CPAP is a software tool used by field staff to work directly and interactively with applicants regarding planned system characteristics. The program contains a number of edit checks to enhance reliability. The data are stored on a server and moved nightly to the Data Warehouse for permanent storage and reporting. This manner of developing system plans greatly enhances data reliability since they are integral to program planning.

The number of subscribers (650,000) receiving new or improved water or wastewater service are determined by USDA's Rural Development field staff. This number, then, are entered into the Rural Community Facilities Tracking System. This figure is a projected estimate based on approximately 10 months of actual data. It is adjusted for the remaining time and available funding.

Strategic Goal 3: Enhance Protection and Safety of the Nation's Agriculture and Food Supply

Objective 3.1: Enhance the Protection of Meat, Poultry and Egg Products from Foodborne Hazards in the U.S.

Strengthen Food Safety

The data used to develop risk assessments are complete, reliable and of good quality. They are the best data that the food-safety and public-health community can assemble. USDA works with partners and contractors to ensure the data's quality and the science behind risk assessments. If a risk assessment is to be used as the basis for a regulation, it is peer reviewed by experts from academia, other government agencies and/or the public-health community.

Enhance Protection from *Salmonella* and *Listeria monocytogenes*

The data are complete, reliable and of good quality. The data are derived from sampling programs and analysis of product samples taken from meat and poultry plants by USDA employees. The samples are analyzed by Food Safety and Inspection Service (FSIS) and International Organization for Standardization-accredited laboratories to ensure accurate results. The results of the analyses are entered into the Pathogen Reduction Enforcement System. The information is used to schedule future sampling at FSIS-inspected plants. FSIS considers the data to be extremely reliable and bases policy, program decisions and resource allocation upon this data.

Improve Detection of Foodborne Hazards

Data for developing systems for detecting foodborne hazards are complete, highly reliable and of good quality. Each research unit submits annual progress reports via USDA's state-of-the-art, electronic-information and database system. Line and program managers review the information and report their findings to Congress, customers, stakeholders, partners and the general public. Progress reports are available at www.ars.usda.gov. Once you arrive at the site, click on "Research." The reports also are available at the Food Safety Research Information Office (FSRIO) at the USDA-National Agricultural Library. FSRIO is the source for all Federal food-safety research information, having absorbed the role and duties of the Joint Institute for Food Safety Research. Data from the USDA Food Safety Research Program must meet FSRIO's quality standards. Customers and stakeholders provide the Department with continual feedback on the data's quality, relevance, value and usefulness.

Objective 3.2: Reduce the Number and Severity of Agricultural Pest and Disease Outbreaks

Reduce the Risks of Entry and Establishment of Pests and Diseases

The data on plant-pest detection cannot be complete and final until the surveys are finished at the end of the calendar year. Surveys are based on plant-pest biology instead of fiscal years. Recent increases in the program's appropriation and funding for State cooperators will increase the number of surveys. The data are retrieved from the National Agricultural Pest Information System (NAPIS) after they have been recorded by State and university cooperators working under cooperative agreements. The data are reliable because they track actual finds or the absence of pests. The final percentage reported is based on the findings from NAPIS, pest risk assessments and the New Pest Advisory Group.

The data on animal pests and disease are complete, final, reliable and of good quality. Veterinary Services' management officials use many information sources to alert them to the possibility of new diseases. Information on the presence or absence of animal diseases is collected monthly from each State's Chief

Animal Health Official. The diseases for which the information is collected are those that are listed as being most serious by the Office International des Epizooties (OIE). When a suspected animal disease outbreak occurs, USDA investigates. Databases have been developed to track exotic animal disease investigations. The emerging animal disease database is verified and analyzed on a quarterly basis by the Emergency Programs Staff.

Other important surveillance information is found in NAHMS' database. The National Animal Health Reporting System (NAHRS) is a joint effort of the U.S. Animal Health Association (USAHA), the American Association of Veterinary Laboratory Diagnosticians (AAVLD) and USDA's APHIS. NAHRS is considered one part of a comprehensive, integrated animal health surveillance system in the U.S.

Reporting criteria for OIE's disease list were developed by commodity working groups consisting of representatives from USAHA, AAVLD, the respective industry, USDA and private practitioners. The commodities currently covered are cattle, sheep and goats, equine, swine, and commercial poultry and food fish. OIE's list can be found in the *NAHRS Operational Manual/Uniform Methods and Rules*. More information about USDA's animal disease-monitoring surveillance can be found at www.aphis.usda.gov/vs/ceah/cahm/index.htm.

Improve Animal Emergency Management

The data on the number of States and territories which meet the standards for preventing, detecting and responding to animal-health emergencies, once reported, will be complete, final, reliable and of good quality. They are based on a self-assessment provided jointly by USDA's Area Veterinarian in Charge, the Department's Emergency Management Coordinator (when all are hired) and the State Veterinarians. The assessments are verified by peer reviews and test exercises. Each test exercise contains an evaluation component that assesses the preparedness and response capability of the coordinated responders. APHIS expects to have all coordinators in place by the end of FY 2005.

Improve Animal Diagnostic Services

The NAHLN Steering Committee determines the criteria for adding diagnostic laboratories to the Network. A letter is sent to each newly accepted laboratory recognizing its membership. Contracts are initiated for those laboratories selected to assist with Chronic Wasting Disease (CWD) and scrapie testing. Those two lists are reviewed and the number of States represented is tallied and used as the data source for animal-diagnostic services.

The data are complete, final, reliable and of good quality. Approval is provided either by the steering committee or the NVSL director before a laboratory can be placed on a list identifying them as NAHLN or as a contract CWD/scrapie laboratory. Since the data are merely a tally of those States involved, statistical misrepresentation is impossible. Managers use the information to evaluate whether their laboratories have access to adequate backup in an animal disease emergency situation. Ongoing listings of both NAHLN laboratories and the CWD/scrapie laboratories are maintained.

Improve Plant Diagnostic Laboratory Capabilities

The data represent actual and projected accomplishments. The data are direct counts of accomplishments–the number of laboratories receiving certification and connected to the National Agricultural Pest Information System. State and university partners report the data to National Program Leaders for review and verification through certification providers and Purdue University.

This new effort of improving plant diagnostic laboratory capabilities makes it impossible to provide any data other than the numbers of laboratories achieving certification or linkup. As the effort continues, more valid and specific performance data will become available. Specifically, the data will represent the combined performance measurement score (0 to 100) reflecting annual and periodic (five-year) scientific, academic or expert and stakeholder review of the relevance, quality and performance of the portfolio of diagnostic activities. Scores represent the respective panels' assessment along a continuum from exceeding expectations, to meeting expectations, to needing improvement in one or more of the three dimensions. This scoring procedure, based on OMB's new Research and Development Criteria, currently is under development, and baseline measures will be developed in FY 2004.

Research Plant Pathogens

Data represents actual accomplishments and are highly reliable.

All intramural research projects undergo an external peer review at the beginning of their five-year program cycle. Any research findings undergo peer review before they are published in a scientific journal. New and improved varieties are not released until they successfully complete a rigorous evaluation of the claims made for them in uniform variety tests that are conducted at 24 or more locations.

The formal system of annual progress reports is received via a state-of-the-art, electronic-information and database system. Initial reviews were conducted by line management prior to submission to National Program Staff for final review and reporting to Congress and stakeholders.

Strategic Goal 4: Improve the Nation's Nutrition and Health

Objective 4.1: Improve Access to Nutritious Food

Reduce Hunger and Improve Nutrition

The data are of good quality and highly reliable. Data for the Food Stamp Program (FSP) and the Special Supplemental Nutrition Program for Women, Infants and Children (WIC) are 12-month, fiscal-year participation averages. National School Lunch Program (NSLP) and School Breakfast Program (SBP) data are nine-month, fiscal-year participation averages. The summer months are excluded because activity in minimal. Child and Adult Care Food Program (CACFP) meals served are a 12-month cumulative total.

Summer Food Service Program (SFSP) average daily attendance is reported only for the month of July. It should be noted that the only bases for estimating SFSP activity is initial data for meals served in June. These data have been subject to substantial revision in prior years. July data for average daily attendance are not available until the end of November.

Internally, agency managers use USDA data regularly with confidence.

Some of the users who accept the reliability of USDA data regularly include:

- The Office of Management and Budget (OMB): OMB accepts and utilizes the Department's budget projections biannually. These include the use of both complete and preliminary data.
- Food and Nutrition Service (FNS): USDA publicly releases its data on the FNS Web site monthly. Any use of preliminary data always is labeled as such.
- The Office of Inspector General (OIG): OIG auditors accept USDA data annually as part of the documentation for the FNS (and now USDA) financial statement.
- The Government Accounting Office (GAO): GAO routinely uses the eligibility, participation and financial information in the National Data Bank (NDB) in its reports to Congress and the general public. There have been no reported instances of data reliability being questioned subsequent to publication in GAO reports.

State agency reports are submitted to FNS regional offices. The reports are reviewed for completeness and consistency. The State agency validates and certifies the data. Regional office analysts review State agency submissions to verify completeness, reliability and quality. If the data are acceptable, the regional analyst posts them to the NDB Preload System. The System is a holding area for data review prior to release. If the data are unacceptable as provided, regional office personnel reject the report and contact the State agency. Data posted by regional personnel into the NBD Preload are reviewed at FNS Headquarters by staff of the Program Reports, Analysis and Monitoring Branch, Budget Division. If data are reasonable and consistent with previous reports, they will be downloaded to the NDB Production System for public release. If not, headquarters rejects the reports and contacts the regional office. The office then informs the State agency that it must provide more reasonable data or a valid explanation of apparent inconsistencies.

Objective 4.2: Promote Healthier Eating Habits and Lifestyles

Healthier Eating Habits and Lifestyles

Data for support for the purchase of fruits and vegetables and School Meal Monitoring Reviews are projected estimates. Data on the USDA purchase of fruits and vegetables for commodity distribution programs come from the Processed Commodities Inventory Management System (PCIMS) and the Food Distribution Program on Indian Reservations (FDPIR). Data maintained in both systems record the amount of inventory of fruits and vegetables purchased by USDA for its programs along with the corresponding program costs.

Estimates of the proportion of food stamp benefits or Child Nutrition Program meal reimbursements used to support fruits and vegetables are based on national studies and data sets. The estimate of the amount of food stamp benefits spent on fruits and vegetables is based on data collected in 1996. That data indicated that about 20 percent of the dollars available for household food is spent on fruits and vegetables. Similarly, estimates of the amount of Child Nutrition Program meal reimbursements are based on 1996-97 data collection that indicated public schools spent about 20 percent of all food dollars on fruits and vegetables. Since all Child Nutrition Programs have similar meal-pattern requirements, this percentage has been applied to all program estimates. An analysis of the WIC food packages suggests that slightly more than 15 percent of total WIC food benefits are spent on fruits and vegetables. Currently, there is no information available that suggests purchasing patterns have changed sufficiently over the last five years to require revision of these estimates.

While data on School Meal Monitoring Reviews are obtained from the State administering agencies that conduct the reviews, the agency's ability to ensure that they are complete and accurate is limited because their collection is voluntary and informal. These limitations exist because of strong opposition from the school food service community to a more formal data collection process. Despite the collection process' flaws, the data are the best-available on the oversight of school-meals quality.

PCIMS tracks commodity purchases for nutrition-assistance programs. USDA staff enters and validates PCIMS data. FDPIR data are obtained from Defense Department billing information and verified through USDA administrative records. Both are maintained in database systems. Estimates of the portion of food benefits or meal reimbursements spent on fruits and vegetables utilize information obtained from nationally representative studies. These studies provide the most current estimates of food expenditures on fruits and vegetables. USDA is unaware of any significant limitations on the data's validity or accuracy.

Data for the percentage of WIC mothers breastfeeding are deferred because performance data is available only biennially. Targets are set only for those years. This information comes from a biennial analysis of WIC participation data provided by State agencies. The data represent a census of WIC participants and are reliable.

Data for dissemination of USDA nutrition-education materials are projected estimates. Contractors, which include the National Technical Information Service, U.S. Chamber of Commerce and the District of Columbia Archival Research Catalogue, distribute materials for USDA. They provide distribution reports to USDA, which are verified through management reviews and other reporting mechanisms as resources permit.

Additionally, USDA staff collects and compiles data for its own hard-copy dissemination efforts from internal mailing lists and Agency print orders. The Department also collects information on Web downloads using WebTrends software. The software tracks Web-site traffic over time. USDA compiles Web data monthly and verifies its accuracy. The Department is unaware of any significant limitations of the data's validity.

Data on the overall number of materials released cannot be linked directly to the number or proportion of participants reached by these events. USDA plans to evaluate the impact of its nutrition-education efforts as resources permit.

Objective 4.3: Improve Food Program Management and Customer Service

Improve Food Management Efficiency

The most-current Quality Control data available are for FY 2002. Final conclusions about a more current rate cannot be made until the established methodology for calculating it is completed. The Food Stamp payment accuracy data are used annually to support the Food Stamp Quality Control process based on statistically valid methodology. The process uses a systematic random sampling of FSP participants. The results of these activities are used to determine individual States combined payment-error rate. This rate is made up of over-issuances and under-issuances of FSP benefits. A regression formula is applied to the results of the reviews to arrive at the official error rates. The Quality Control error rate is valid and accepted by GAO and OIG.

State agencies select cases monthly that are reviewed to determine the accuracy of the eligibility and benefit-level determination. They include a client interview and a process of getting verification of all elements of eligibility, and the basis of issuance of Food Stamp benefits. Federal reviewers validate a sample of the State's reviews by conducting a second review. State agencies can verify and validate data through an informal review process. This process and the protections in place to ensure the data's accuracy are based on an agreement between the States and Federal reviewers. The process has proven to be a sound method of arriving at reliable data.

A results measure currently is unavailable for NSLP certification accuracy because USDA is refining the methodology for calculating certification error. Since the FY 2003 *Annual Performance Plan* measure and targets were set, the Department has continued to explore alternative analyses of data that may match program-eligibility requirements more closely. These alternatives vary in the discrepancy level between the total number of free certifications and the estimates of those eligible.

Strategic Goal 5: Protect and Enhance the Nation's Natural Resource Base and Environment

Objective 5.1: Implement the President's Healthy Forests Initiative and Other Actions to Improve Management of Public Lands

Improve Fire Management

The data for Fire Management are reliable, of good quality and certified by the respective line officer. They are based on actual FY 2003 performance data. USDA wildfire program managers collected, compiled and analyzed the data. Data for hazardous fuels were reported through the National Fire Plan Operations and Reporting System. This system was co-developed by USDA and Department of Interior land-management agencies. Field units reported data for the fire-management plans and success in controlling wildfires during initial attacks directly to national headquarters. The Office of Management and Budget uses the data in preparing the President's budget to Congress. The data are generated from the USDA accounting system and subject to internal and external audits.

Managing Sustainable Grasslands

Rangelands-management data are considered reliable and of high quality. Rangeland data were projected estimates from 10 months of actual 2003 performance data and 2 months projected data. Data are based on FS records of acres contained within individual allotments and are records certified by the respective line officers. Employees who manage rangelands and grazing allotments enter data into the Management Attainment Reporting System. This data reflect the implementation of required directions found in decision documents, allotment management plans and biological opinions. An allotment is considered managed to standard when all management direction is implemented for that year. Data reported through September are estimates. Actual final figures will become available between late-October and mid-November. The data are valid for each allotment that is assessed. Data from assessed allotments are joined with similar data for the remaining allotments. This combination results in a reliable rollup of quality data to USDA.

Cleanup Hazardous Wastes

Each agency has assigned responsibility for planning, implementing, documenting and reporting results in the environmental cleanup program to a professional staff at an appropriate organizational level. The data is reliable and used throughout the year by the agencies and USDA.

With respect to data quality, there may be issues associated with specific sites targeted for cleanup. During any given fiscal year, the specific cleanups declared complete may differ from those identified as performance targets. Deviations may be due to unexpected findings, emergencies or delays in working with States and other stakeholders. Agency environmental coordinators review planned and actual performance, and senior management confirm the results before reporting is finalized. The Department then reviews all reported data.

Objective 5.2: Improve Management of Private Lands

Maintain Resource Health and Productive Capacity

Data for protection of working cropland and grazing land and data for erosion reduction on working cropland are collected through the NRCS Performance and Results Measurement System (PRMS). Data for these indicators are final.

Data are reported by agency employees and partners in each field office across the Nation. Ongoing quality assurance activities are designed to minimize variation in data-definition interpretation. State-level managers certify the quality of their data. Data-quality checks also are conducted at the national level. Additional training is provided if reviews indicate a need. GAO conducted a review (GAO/RCED-00-83) of the accountability system, including PRMS. Data are considered reliable for use in monitoring progress toward goals and demonstrating use of program funds. Improvements to be implemented in FY 2004 are designed to improve data quality while reducing the reporting burden for field-level employees.

Data reported for land under long-term retirement contract are projected estimates. They are direct enumerations based on Conservation Reserve Program (CRP) contract file data. Year-end estimates are based on actual data through August, plus projected performance for the remaining two months of the fiscal year. Data are derived from the Farm Service Agency (FSA) National CRP Contract and Offer Data Files. The data are reliable and of acceptable quality. CRP data are uploaded from the USDA Service Centers to the automated CRP data files weekly. These files record the conservation practice installed and the location of land relative to National and State priority areas. They also document the erodibility index (EI) and other soil characteristics of the land enrolled in each contract. To help ensure program integrity, service center employees conduct on-site spot checks. They also review producer files prior to annual payment issuance to ensure conservation practices are maintained in accordance with program requirements. CRP acreage and soils descriptions could be considered certified by the contract's completion and accompanying conservation plan approval process.

CRP's erosion impacts are projected estimates using regional average National Resources Inventory (NRI) erosion rates on CRP land in 1997 (after CRP). These rates are compared with erosion rates estimated to have occurred on CRP land in 1982 (before CRP). Erosion rates before CRP are estimated by a multi-step process. First, 1982 average erosion rates by county, type of erosion and erodibility index from the NRI are assigned to each CRP contract. The rates are based on the contract's county, erosion type and EI. State (and regional, if needed) average erosion rates are used to assign erosion rates to CRP contracts that do not have assigned rates after the first step. Erosion prevented by type is the difference between the before and after estimates. NRI data for resource attributes are the highest quality available and are reliable and acceptable. Erosion estimates are considered preliminary because the models used are updated and improved periodically.

Carbon sequestration data are projected estimates using CRP contract and current global change research data. The CRP contract data are sorted to identify the area in grass and tree cover. The tree data then are sorted by region and age. For grasslands, projected estimates of the carbon sequestered per acre are obtained from the Agricultural Research Service (ARS). Those estimates then are merged with CRP contract data to estimate total carbon sequestered by CRP grasslands. FS estimates of the carbon sequestered per acre by region, tree species and age are merged with the corresponding data from CRP contract data. This is done to estimate total carbon sequestered by CRP forestlands. Total carbon sequestered is the sum of the grassland and forestland estimates. These projected estimates provided by ARS and FS are the best available and considered reliable and acceptable. Data from USDA was developed in 2001 through 2002. The data for estimating the amount of carbon sequestered remains under development. Current estimates rely on the extrapolation of regional parameters. Additional research may lead to improved measurement capabilities, resulting in more accurate estimates. While the data currently reported represent the best estimates available at this time, they could change as the USDA/Department of Energy carbon-accounting rules are completed.

Data on acreage under approved forest stewardship management plans are collected by the Forest Service (FS) from the State Foresters and entered into the Performance Measurement Accountability System. The projected number of acres of non-industrial private forestlands under approved stewardship management plans equals that of the planned accomplishments for the year. The Forest Stewardship Program is administered by the State Foresters under FS grants that stipulate that State Foresters report on grant accomplishments after the end of the grant period.

Because forest stewardship plans must be approved by the State Foresters, they are prepared by professional foresters and include acreage of forest land. The data are deemed reliable and of high quality.

The respective regional FS office reviews each State's implementation of the Forest Stewardship Program every five years. These reviews include field inspection of a selection of properties to verify acreage covered in the plans. Additionally, FS headquarters executes a program and management review of each regional office every five years. FS also has begun a direct-mail survey of a sample of program participants to determine the degree of implementation of management activities included in the stewardship plans. The survey also is designed to assess whether the program affected non-industrial, forest-landowner management decisions on the ground.

Clean and Abundant Water Supplies

Data for planning and application of comprehensive nutrient management plans (CNMPs) for animal-feeding operations, application of all nutrient-management measures on working land and irrigation water management on working cropland are collected through PRMS. Data for these indicators are final.

Data are reported by agency employees and partners in each field office across the Nation. Ongoing quality assurance activities are designed to minimize variation in interpretation of data definitions. FY 2002 marked the first year of implementation of new guidance for CNMPs. Extensive training of field staff was conducted prior to implementation. GAO conducted a preliminary review of the system. Data are considered reliable for use in monitoring progress toward goals and demonstrating use of program funds. System enhancements to be implemented in FY 2004 are designed to further improve data quality while reducing the reporting burden for field-level employees.

Data for sheet and rill erosion, reductions in phosphorous and nitrogen, and carbon sequestration are projected estimates. They are estimated based on models which are updated and improved periodically. Year-end estimates of buffer acreage are based on actual data through August, plus projected performance for the remaining two months of the fiscal year. Projected performance is based on the estimated number of acres that will be enrolled through CRP signup during September. The reliability of erosion indicators is discussed in the "Maintain Resource Health and Productive Capacity" section above. Reduced nitrogen and phosphorus applications are projected estimates. The estimates are derived using CRP contract data and National Agricultural Statistics Service (NASS) fertilizer-usage data. Land under long-term retirement contract is assumed to have been growing a normalized mix of crops by State. Reduced nutrient applications are projected estimates. These estimates are derived by merging fertilizer applications rates with CRP State acres. NASS surveys provide the best quality, crop-specific, fertilizer-usage data in the Nation. The data are reliable and accurate.

Data for the land buffer indicator are direct enumerators from the FSA National CRP Contract and Offer Data Files. They are considered reliable and of acceptable quality. The amount of land managed as buffers is a subset of the total acres under long-term land retirement contract. Conservation practices, such as grass-filter strips and riparian buffers planted with trees, are identified within the contract data. The data are considered reliable and of acceptable quality.

The National Association of State Foresters (NASF) facilitates the monitoring and compilation of data on compliance with Best Management Practices (BMP), which are performed by State Foresters. The data projected for performance goals indicate that both the percentage of forestry BMPs and the number of States conducting effectiveness monitoring were met. The USDA does not have responsibility for developing or monitoring BMPs. BMP implementation and effectiveness monitoring are carried out by the States and data are compiled by the NASF. While BMP data are believed to be reliable and accurate, USDA does not directly monitor implementation or effectiveness of BMPs and has no program to determine data reliability and quality.

Wildlife Habitat

Data for acreage enrolled in WRP are reported through the NRCS WRP National database. Data for conservation that benefits wildlife applied on working land are collected through the NRCS PRMS. Data for these indicators are final.

Data are reported by agency employees and partners in each field office across the Nation. Ongoing quality assurance activities are designed to minimize variation in interpretation of data definitions. State-level managers certify the quality of their data in PRMS. Data-quality checks also are conducted at the national level. WRP data provided by field and State offices are reviewed for accuracy by the national program manager. Data are considered within acceptable limits for current uses. System enhancements to be implemented in FY 2004 to both the program reporting databases and the performance reporting system are designed to further improve data quality while reducing the reporting burden for field-level employees.

CRP data for wetlands and wildlife habitat are projected estimates. They are direct enumerators of CRP contract data. Year-end estimates are based on actual data through August, plus projected performance for the remaining two months of the year. Projected performance is based on the estimated number of acres that will be enrolled through continuous CRP signup during September. Data are reliable and of acceptable quality. CRP data are uploaded from the USDA Service Centers to the automated CRP data files weekly. CRP Offer Data Files are uploaded following each general sign-up period. These files record the conservation practice installed, location of land relative to National and State priority areas, EI and other soil characteristics of the land enrolled in each contract. To help ensure program integrity, service center employees conduct on-site spot checks. They also review producer files prior to annual payment issuance to ensure conservation practices are maintained in accordance with program requirements.

III. SYSTEMS, CONTROLS AND LEGAL COMPLIANCE

INSPECTOR GENERAL ACT AMENDMENTS OF 1988 MANAGEMENT'S REPORT ON FINAL ACTION (AUDIT FOLLOW-UP)

Introduction

USDA's Office of the Chief Financial Officer (OCFO) oversees audit follow-up for the Department. OCFO works with agencies and the Office of Inspector General (OIG) to identify and resolve issues that affect the timely completion of corrective actions.

The Inspector General Act Amendments of 1988 require reporting on audit reports that remain open more than one year past the date of management decision. The report must include:

- Beginning and ending balances for the number of audit reports and dollar value of disallowed costs and funds to be put to better use;
- The number of new management decisions reached;
- The disposition of audits with final action; and
- For each audit report, the date issued, dollar value and an explanation of why final action has not been taken. For audits in formal administrative appeal or legislative solution, reporting may be limited to the number of affected audits.

Specific definitions of terms used in this section are provided on the next page.

Highlights

During FY 2003, USDA agencies completed corrective actions on 65 audits. An additional 55 audits reached management decision. The current inventory of audits with management decision is 217, down from 227 at the beginning of the year.

Audit Follow-Up Process

Audit follow-up ensures that prompt and responsive action is taken once management decisions are reached on recommendations contained in final audit reports. USDA agencies are required to prepare combined time-phased implementation plans and interim progress reports for all audits that remain open one or more years beyond the management decision date. Time-phased implementation plans are submitted at the end of each quarter. They are updated to include newly reported audits that meet the one-year past management decision criterion. These plans contain corrective action milestones for each recommendation and corresponding estimated completion dates.

Agencies also provide quarterly interim progress reports on the status of corrective action milestones listed in the time-phased implementation plan. These reports show incremental progress toward completion of planned actions, changes in planned actions, actual or revised completion dates and explanations for any revised dates.

Exhibit 83: Audit Follow-Up Definitions

Disallowed Cost	A questioned cost that management sustains or agrees is not chargeable to the government.
Final Action	The completion of all actions that management has concluded is necessary in its management decision with respect to the findings and recommendations included in an audit report. In the event that management concludes no action is necessary, final action occurs when a management decision is made.
Funds To Be Put to Better Use (FTBU)	A recommendation by OIG that funds could be used more efficiently if management took actions to implement and complete the recommendation, including: • Reductions in outlays; • Deobligation of funds from programs or operations; • Withdrawal of interest subsidy costs on loans or loan guarantees, insurance, or bonds; • Costs not incurred by implementing recommended improvements related to the operations of the establishment, a contractor, or grantee; • Avoidance of unnecessary expenditures noted in pre-award reviews of contract or grant agreements; or • Any other savings, which are specifically identified.
Management Decision	Management's evaluation of the audit findings and recommendations, and the issuance of a final decision agreed to by management and OIG concerning its response to the findings and recommendations.

Resolved Audit Inventory

Resolved audits are those for which management decisions have been reached on all recommendations in the audit report.

At the beginning of the fiscal year, USDA agencies and OIG reached management decisions on all recommendations in 227 audits. During the fiscal year, agencies and OIG reached management decisions on an additional 55 audits. Management completed corrective actions on 65 audits. The total resolved audit inventory is 217, which includes 5 audits in appeal status.

Exhibit 84: Decrease in Total Resolved Audit Inventory

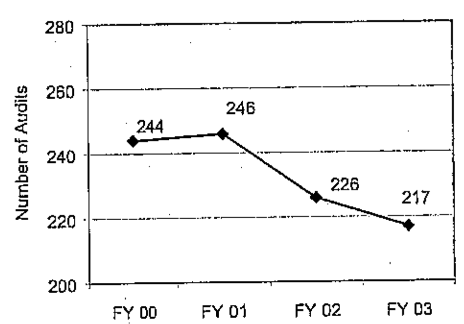
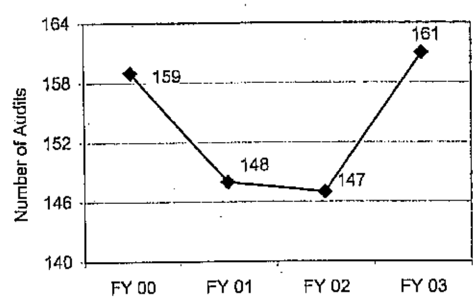


Exhibit 85: Increase in Reportable Audits



The number of reportable audits represents those audits with management decisions but without final action one or more years past the management decision date. Although the number of reportable audits has increased, the percentage of audits behind schedule remained at 60 percent (88 of 147 in FY 02 and 96 of 161 in FY 03.) Agencies have completed corrective actions on 56 audits that only are pending collection of associated disallowed costs. An additional 21 audits are scheduled for completion by September 30, 2003; however, final action documentation will not be evaluated this reporting period.

Beginning and Ending Inventory for Audits with Disallowed Costs and Funds to Be Put to Better Use (FTBU)

Of the 65 audits that achieved final action during the period, 34 audits contained disallowed costs. The number of disallowed cost audits remaining in the inventory at the end of the fiscal year is 97 with a monetary value of $99,386,645.

Exhibit 86: Inventory of Audits With Disallowed Costs

Disallowed Costs	# of Audits	Amount ($)
Beginning Balance	111	$126,636,309
Plus: New Management Decisions	20	$18,189,115
Total Audits Pending Collection	131	144,825,424
Adjustments		(13,783,963)
Revised Subtotal		131,041,461
Less: Final Actions	34	
Disallowed Costs Recovered		(3,654,816)[1]
Property in Lieu of Cash		(28,000,000)
Audits Pending Final Action at the End of the Period	97	99,386,645

[1]This amount does not include $83,019 of interest collected.

Final action occurred on 10 audits that involved funds to be put to better use (FTBU) amounts. USDA projects more efficient use for 99 percent of the amount identified, based on the corrective actions implemented.

The number of FTBU audits remaining in the inventory to date is 44 with a monetary value of $618,691,774.

Exhibit 87: Inventory of Audits With Funds to be Put to Better Use

Funds to be Put to Better Use	# of Audits	Amount ($)
Beginning Balance	45	$586,962,365
Plus New Management Decisions	9	$49,032,556
Total Audits Pending	54	635,994,921
Less: Final Actions	10	
Funds to Be Put to Better Use:		
FTBU Implemented		17,175,794
FTBU Not Implemented		127,353
Total FTBU Amounts		17,303,147
Audits Pending Final Action at The End of The Period	44	618,691,774

Adjustments to Disallowed Costs

For audits with disallowed costs that achieved final action, OIG and management agreed to collect a total of $45,438,779 of which $31,654,816 was recovered. However, OIG and management made adjustments worth $13,783,963 (30 percent of the total) because of: 1) changes in management decision, 2) legal decisions, 3) write-offs, 4) USDA agencies' ability to provide sufficient documentation to substantiate disallowed costs, 5) agency discovery and 6) appeals.

Exhibit 88: Distribution of Adjustments to Disallowed Costs

Category	Amount ($)
Change in Management Decision	267,741
Legal Decision	11,639,005
Write-Off	1,172,512
Agency Documents	455,932
Agency Discovery	33,002
Appeal	215,771
Total	$13,783,963

Reportable Audit Statistics by USDA Agency

Reportable audits are separated into three groups:

- Audits without final action for which corrective action is continuing as planned and deemed to be on schedule;
- Audits behind schedule which have missed their original estimated completion dates; and
- Audits for which all administrative actions have been completed and the only action remaining is the collection of disallowed costs.

Exhibit 89: Distribution of Audits, Disallowed Costs and FTBU by USDA Agency

	Audits On Schedule			Audits Behind Schedule			Audits Under Collection		
Agency	No.	DC($)	FTBU($)	No.	DC($)	FTBU($)	No.	DC($)	FTBU($)
AMS	1	-	-	-	-	-	-	-	-
APHIS	-	-	-	3	-	-	4	8,891,635	-
ARS	-	-	-	1	-	-	-	-	-
CR	1	-	-	-	-	-	-	-	
DA	-	-	-	4	27,259	249,866	-	-	-
FNS	1	41,898	6,145,810	12	8,840	67,220,249	8	9,514,741	499,860
FS	1	2,500,000	-	25	1,350,000	70,269,210	-	-	-
FSA/CCC	-	-	-	8	697,225	208,043,386	32	21,659,558	8,540,768
FSIS	-	-	-	2	-	-	-	-	-
NASS	-	-	-	2	-	-	-	-	-
NRCS	-	-	-	2	-	2,970,003	1	21,033,708	-
OCFO	5	-	-	1	-	-	-	-	-
OCIO	-	-	-	2	-	-	-	-	-
RBS	-	-	-	4	4,202,351	100,000	1	850,000	-
RD	-	-	-	3	-	-	1	264,000	-
RHS	-	-	-	17	1,268,495	189,366,322	2	25,102	-
RMA	-	-	-	9	69,217	23,818	6	1,650,792	13,264,866
RUS	-	-	-	1	-	-	1	35,118	-
Totals	9	2,541,898	6,145,810	96	7,623,387	538,242,854	56	63,924,654	22,305,494

Reportable audits that are behind schedule are listed individually and categorized by the reason final action has not occurred. The categories are:

- Issuance of policy/guidance;
- Conclusion of investigation, negotiation or administrative appeal;
- Receipt and/or processing of final action documentation;
- Systems development, implementation, reconciliation, or enhancement;
- Results of internal monitoring or program review;
- Results of agency request for change in management decision;
- Office of the General Counsel (OGC) or OIG advice;
- Conclusion of external action; and
- Administrative action.

Audits previously reported to Congress are identified by an asterisk.

Exhibit 90: Audits One Year or More Past the Management Decision Date and Behind Schedule

Audits	Date Issued	Estimated Completion Date	Audit Title	Monetary Amount DC (U.S. dollars)	FTBU (U.S. dollars)
(42) Pending issuance of policy/guidance					
03006-1-AT	09/19/95	12/31/03	FSA Management of the Dade County, Florida ASCS Office	684,642	-
03601-15-KC*	03/31/00	10/31/03	FSA Emergency Conservation Program	12,583	2,794,586
03601-36-TE*	06/08/00	03/31/04	FSA Farm Loan Program Guaranteed Loans	-	205,248,800
04099-1-AT	06/01/01	02/28/04	RHS Guaranteed Multi-Family Housing Loans	-	-
04099-1-HQ*	02/01/96	02/28/04	RHS Legislative Proposals to Strengthen the Rural Rental Housing Program	-	-
04099-3-KC	02/25/02	12/31/03	RHS FY 2001 Financial Statement Field Confirmation Review, Nebraska	-	-
04600-5-KC*	09/30/93	02/28/04	RHS Rural Rental Housing Program, Servicing of HUD Section 8/515 Projects	-	4,815,119
04600-47-CH*	09/30/94	02/28/04	RHS Rural Rental Housing Program, Management Operations	-	-
04601-1-KC*	12/16/96	02/28/04	RHS Rural Rental Housing Program, Additional Servicing of Section 8/515 Projects	65,910	33,147,535
04801-4-CH*	02/12/99	01/31/04	RHS Evaluation of Rural Rental Housing Tenant Income Verification Process	-	-
05600-4-TE*	09/30/93	03/30/04	RMA FCIC Crop Year 1991 Claims	-	-
05601-5-TE*	03/15/99	12/31/03	RMA Prevented Plantings of 1996 Insured Crops	69,217	23,818
08001-2-HQ	03/29/02	03/31/04	FS Aviation Security Over Aircraft Facilities	-	-
08002-2-SF*	11/28/00	11/28/03	FS Valuation of Lands Acquired in Congressionally Designated Areas Land Adjustment Program	-	-
08003-2-SF*	08/05/98	11/28/03	FS Toiyabe/Humboldt National Forest Land Adjustment Program	-	27,900,000
08003-5-SF*	12/15/00	12/31/03	FS Land Acquisitions and Urban Lot Management Program	-	10,329,300
08003-6-SF*	07/14/00	11/28/03	FS Zephyr Cove Land Adjustment	1,350,000	18,700,000
08099-6-SF*	03/27/01	12/31/03	FS Security Over USDA Information Technology Resources	-	-
08099-37-AT*	08/24/92	09/30/03	FS FY 1991 Financial Statements	-	-
08099-42-AT*	08/03/93	09/30/03	FS FY 1992 Financial Statements	-	-
08401-4-AT*	07/18/96	12/31/03	FS FY 1995 Financial Statements	-	-
08401-7-AT*	07/13/98	09/30/03	FS FY 1997 Financial Statements	-	-
08401-12-AT	02/26/02	03/31/04	FS FY 2001 Financial Statements	-	-
08601-1-AT*	03/29/96	12/31/03	FS Management of Hazardous Waste at Active or Abandoned Mines	-	1,950,000
08601-7-SF*	05/23/95	11/28/03	FS Controls Over Research Services Provided to External and Forest Service Clients	-	5,024,245
08601-27-SF	03/28/02	11/28/03	FS Review of National Land Ownership Adjustment Team Effectiveness	-	-
08801-3-AT*	06/16/00	09/30/03	FS Real and Personal Property Issues	-	-
08801-6-SF*	01/19/00	11/28/03	FS Land Adjustment Program San Bernadine National Forest & South Zone	-	-
23099-1-FM*	03/30/00	TBD	OCIO Security Over Data Transmission in the Department Needs Improvement	-	-
24601-1-CH*	06/21/00	03/31/04	FSIS Food Safety and Inspection Service Laboratory Testing of Meat and Poultry Products	-	-
27010-11-CH*	08/25/97	09/30/04	FNS National School Lunch Program – Verification of Applications in Illinois	-	31,200,000
27099-13-SF*	03/23/01	12/31/03	FNS Appeal Process	-	-
27600-6-AT*	03/31/95	09/30/04	FNS Day Care Homes Nationwide	-	-
27601-3-CH*	03/22/96	09/30/04	FNS Food Stamp Program—Disqualified Recipient System	-	-
27601-7-SF*	08/23/99	09/30/04	FNS Presidential Initiative: Operation Kiddie Care	-	34,551,576
33601-1-CH*	06/29/96	01/31/04	APHIS Licensing of Animal Exhibitors	-	-

Exhibit 90: Audits One Year or More Past the Management Decision Date and Behind Schedule

Audits	Date Issued	Estimated Completion Date	Audit Title	Monetary Amount DC (U.S. dollars)	Monetary Amount FTBU (U.S. dollars)
34001-1-HQ*	12/17/96	12/31/04	RBS Minority Enterprise Financial Acquisition Corp., Cooperative Agreement, Kansas City, KS	150,000	100,000
34099-2-AT	09/14/01	01/30/04	RBS Business and Industry Loan Program, Fort Gaines, GA	4,052,351	-
34601-1-HY*	07/22/98	12/31/03	RBS Business and Industry Loan Program—Morgantown, West Virginia	-	-
50099-4-HQ	10/16/01	09/30/03	OO USDA's Physical Critical Infrastructure Program	-	-
50801-3-HQ*	09/29/97	08/31/04	FSA Minority Participation in FSA's Farm Loan Program	-	-
85099-1-HQ	09/10/01	12/31/04	RD Cooperative Agreement with the Washington State Department of Community, Trade, and Economic Development	-	-
(6) Pending conclusion of investigation, negotiation or administrative appeal					
04801-3-KC	03/31/99	10/31/03	RHS Bosley Management, Inc. – Sheridan Wyoming	146,690	85,516
04801-6-HY*	03/17/99	09/30/03	RHS Rural Rental Housing Program, Lewiston Properties, Fayetteville, NY	-	-
05099-2-KC*	07/14/98	07/31/04	RMA Quality Control for Crop Insurance Determinations	-	-
23801-1-HQ*	08/20/98	03/31/04	OO Review of Office of Operations Contract with B&G Maintenance, Inc.	-	249,866
27099-22-CH	02/22/02	TBD	FNS Opportunities Industrialization Center of Greater Milwaukee	8,840	1,468,673
34004-5-HY*	02/18/00	TBD	RBS Audit of Procurement Operations, Virginia State Office, Richmond, Virginia	-	-
(16) Pending receipt and/or processing of final action documentation					
04601-2-AT	03/25/99	10/17/03	RHS Guaranteed Rural Housing Loan Program	5,928	139,146,407
04801-9-SF*	01/27/99	12/30/03	RHS Rural Rental Housing Program—DBSI Realty Corporation, Boise, ID	8,794	20,850
04801-11-TE	09/23/99	09/30/03	RHS Calhoun Property Management—Mansfield, Louisiana	1,034,459	11,896,622
05099-1-KC*	03/03/98	11/30/03	RMA Transfer of Catastrophic Risk Protection Policies to Reinsured Companies	-	-
05099-6-KC*	09/30/99	11/30/03	RMA Servicing of Catastrophic Risk Protection Policies	-	-
05401-8-FM	03/30/00	10/31/03	RMA FY 1999 FCIC Financial Statements Report on Management Issues	-	-
08401-9-AT*	02/25/00	09/30/03	FS FY 1999 Financial Statements	-	-
08601-4-AT*	03/31/98	09/30/03	FS Wildlife and Fisheries Habitat Management	-	148,049
08601-25-SF*	06/22/01	09/30/03	FS Working Capital Fund Enterprise Services	-	2,600,000
08801-3-SF*	06/16/00	09/30/03	FS Financial Disclosure and Outside Employment Reporting Requirements	-	-
24601-1-FM	04/04/01	10/30/03	FSIS Review of FSIS Staffing and Budget Management	-	-
50099-3-TE*	07/20/01	10/01/03	NRCS Grants/Agreements with the National Fish and Wildlife Foundation	-	2,970,003
50099-5-HQ	06/27/02	09/30/03	DA Locating New Office and Facilities in Rural Areas	-	-
50099-11-FM*	03/25/98	10/31/03	DA Review of Controls in the Payroll/Personnel and T&A Systems	27,259	-
50601-2-CH*	03/30/01	12/30/03	RD Verification of the Government Performance and Results Act – Program Performance in Rural Development	-	-
85401-6-CH	02/27/02	12/30/03	RD FY 2001 Financial Statement Audit	-	-
(14) Pending systems development, implementation, or enhancement					
02099-1-FM	12/04/01	09/30/05	ARS IT Security	-	-
03099-32-KC*	12/22/99	09/30/03	FSA Controls Over Administrative Payment Operations	-	-
04099-72-FM*	09/28/90	09/30/03	RHS Collection Systems and Other Selected Areas	313	254,273
06401-11-FM	07/13/00	03/31/04	CCC FY 1999 Financial Statements	-	-
06401-14-FM	06/27/01	03/31/04	CCC FY 2000 Financial Statements	-	-

Exhibit 90: Audits One Year or More Past the Management Decision Date and Behind Schedule

Audits	Date Issued	Estimated Completion Date	Audit Title	Monetary Amount DC (U.S. dollars)	Monetary Amount FTBU (U.S. dollars)
08001-1-HQ*	06/28/00	03/31/05	FS Implementation of the Government Performance and Results Act	-	-
09600-5-HQ*	04/01/92	09/30/04	RUS FY 1991 Management Letter	-	-
10099-1-TE	02/01/02	09/30/04	NRCS Security Over IT Resources	-	-
26099-2-FM	03/25/02	09/30/03	NASS Information Technology Security	-	-
27099-4-KC*	01/31/00	10/31/04	FNS Food Stamp Program Participation by Disqualified Retailers	-	-
27099-18-HY*	09/05/01	12/31/03	FNS Security Over Information Technology Resources	-	-
27601-8-CH*	01/21/97	10/31/04	FNS Food Stamp Program—Retailer Monitoring with Store Tracking and Redemption Subsystem	-	-
50401-21-FM*	05/29/98	09/30/06	RHS Audit of the Rural Development Consolidated Financial Statements for FY 1996	-	-
50601-3-CH*	07/23/01	12/30/03	APHIS Assessment of APHIS & FSIS Inspection Activities to Prevent the Entry of Foot and Mouth Disease	-	-
(6) Pending results of internal monitoring or program review					
05099-1-TE*	09/30/97	07/31/04	RMA Reinsured Companies Actual Production History Self-Reviews	-	-
05600-1-TE*	09/28/89	07/31/04	RMA Crop Year 1988 Insurance Contracts with Claims	-	-
26099-1-FM*	05/14/01	09/30/03	NASS Security of NASS Information Technology Resources	-	-
27099-9-HY*	12/14/99	09/30/03	FNS State Option Food Stamp Program	-	-
27401-8-HY*	06/27/97	09/30/05	FNS FY 1996 Financial Statements	-	-
50099-28-FM*	07/18/00	12/31/03	OCIO President's Council on Integrity and Efficiency Critical Infrastructure Protection Review	-	-
(4) Pending results of request for change in management decision					
05099-8-KC*	03/31/00	TBD	RMA Standard Reinsurance Agreement Reporting Requirements	-	-
08099-9-TE	06/22/01	09/30/03	FS Challenge Cost Share Program	-	-
08401-1-AT*	06/20/95	10/31/03	FS FY 1994 Financial Statements	-	-
50099-19-FM	01/02/01	10/31/03	OCFO Review of Controls Over Selected USDA Administrative Systems	-	-
(1) Pending OGC or OIG advice					
33004-1-AT	03/07/00	TBD	APHIS Plant Protection and Quarantine Activities in Florida	-	-
(5) External Action Required					
04004-4-CH*	03/13/98	12/31/03	RHS Evaluation of Rural Rental Housing Tenant Income Verification Process in East Lansing, MI	6,401	-
04801-5-KC*	11/02/98	11/01/03	RHS Rural Rental Housing Program, Brookview Management, Inc., St. Louis, MO	-	-
08601-5-SF*	09/30/93	09/30/05	FS Graduated Rate Fee System	-	3,617,616
08801-4-TE*	02/15/98	11/28/03	FS Collection of Royalties on Oil and Gas Production	-	-
27010-24-SF	01/09/02	10/31/03	FNS Child and Adult Care Food Program Crystal Stairs, Inc.	-	-
(2) Pending Administrative Action					
03099-47-KC	10/31/01	09/30/03	FSA Security Over FSA/CCC IT Resources	-	-
04099-1-HY*	11/07/95	12/31/03	RHS Rural Rental Housing Program, Whistleblower Complaint, San Juan, PR	-	-
Total Number Audits (96)			Total $	7,623,387	538,242,854

FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT REPORT ON MANAGEMENT CONTROLS

Background

USDA has made substantial progress by reducing the number of material deficiencies to eight. This result continues the downward trend that began in FY 2000 when there were 33 material deficiencies. It further demonstrates the Department's commitment to operating its programs efficiently and effectively in accordance with the Federal Managers' Financial Integrity Act (FMFIA). FMFIA requires agencies to provide reasonable assurance that:

- Obligations and costs comply with applicable laws and regulations;
- Federal assets are safeguarded against fraud, waste and mismanagement; and
- Transactions are accounted for and properly recorded.

Additionally, FMFIA requires a separate statement as to whether financial management systems conform to standards, principles and other requirements to ensure that Federal managers have timely, relevant and consistent financial information for decision-making purposes. USDA's goal is to eliminate material internal control weaknesses and financial system nonconformances by the end of FY 2004, which complements the related goal of sustaining an unqualified audit opinion. This will be achieved through the continuous evaluation of USDA programs, operations and financial systems; financial-statement audits, other OIG and GAO audits; management and system reviews; and prompt attention to correcting the causes of identified weaknesses.

Under the Federal Financial Management Improvement Act (FFMIA), agencies are required to report whether financial management systems substantially comply with the Federal financial management systems requirements, Federal accounting standards and the U. S. Government Standard General Ledger at the transaction level. If any agency is not in compliance, it must implement a remediation plan to upgrade its financial management systems. Three USDA component agencies have outstanding FFMIA noncompliances. Remediation plans will be included in the *FY 2003 Five-Year Financial Management Plan*. USDA's administrative systems are FFMIA compliant.

Highlights

The "Message from the Secretary" provides USDA's assurance statement for FMFIA reporting. This message states that USDA complies with the objectives of FMFIA Sections 2 (internal controls) and 4 (financial management systems), except for the weaknesses described in this section. In cooperation with OIG and the Office of the Chief Financial Officer (OCFO), Agency heads and managers have worked diligently to address and correct existing and any newly discovered weaknesses.

USDA agencies provided annual assurance statements and reports on material weaknesses and/or financial management system nonconformances. At that time, a determination was made as to whether the weaknesses were agency-level material deficiencies. OCFO staff reviewed each agency-level material deficiency to determine whether it met the criteria for a Departmental material deficiency. The criteria for reportable, corrected and downgraded material weaknesses and financial management system nonconformances are listed on the next page.

During the fiscal year, USDA reduced the number of material deficiencies by more than half. The Department exceeded its projected target by closing 12 material deficiencies. USDA began the year with 19 material deficiencies and completed or determined that 12 weaknesses were no longer material. The Department also added one new material weakness for a year-end total of eight outstanding material deficiencies. Six material weaknesses and two financial management system nonconformances account for the outstanding material deficiencies. While one material weakness and one financial management system nonconformance scheduled for completion have been delayed until FY 2004, one other material weakness was completed ahead of schedule, and seven were determined to be no longer material. The FY 2004 goal is to eliminate the remaining material deficiencies.

Management Controls Program

USDA's management control program ensures compliance with the requirements of FMFIA and the OMB Circulars A–123 "Management Accountability and Control," and A–127 "Financial Management Systems."

Within USDA, Subcabinet officials, agency heads and heads of staff offices are responsible for ensuring that their programs operate efficiently and effectively, and comply with relevant laws. They also must ensure that financial-management systems conform to applicable laws, standards, principles and related requirements. In conjunction with the OIG, USDA's management works aggressively to determine its material deficiencies' origins and correct them quickly.

USDA Guidelines for Reportable Material Deficiencies

A Departmental material weakness is a deficiency in internal controls that satisfies one or more of the following criteria:

- Merits the attention of the Executive Office of the President and the relevant Congressional oversight committees;
- Violates statutory or regulatory requirements;
- Deprives the public of needed services;
- Significantly weakens safeguards against waste, loss, unauthorized use or misappropriation of funds, property or other assets;
- Significantly impairs fulfillment of the Department's mission;
- Results in a conflict of interest; or
- Is of a nature that omission from the annual *Report on Management Controls* could reflect adversely on the actual or perceived management integrity of the Department.

A Departmental material financial system nonconformance satisfies one or more of the following criteria:

- Merits the attention of the Executive Office of the President and the relevant Congressional oversight committees;
- Prevents USDA's primary financial management system from achieving central control over agency financial transactions and resource balances; or
- Prevents compliance of the primary financial management system with standards published by the OMB Circular A–127, which includes the availability of timely, consistent and relevant financial information for decision-making purposes.

USDA Guidelines for Reporting a Corrected or Downgraded Material Deficiency

To report a material deficiency as corrected or downgraded, USDA must have:

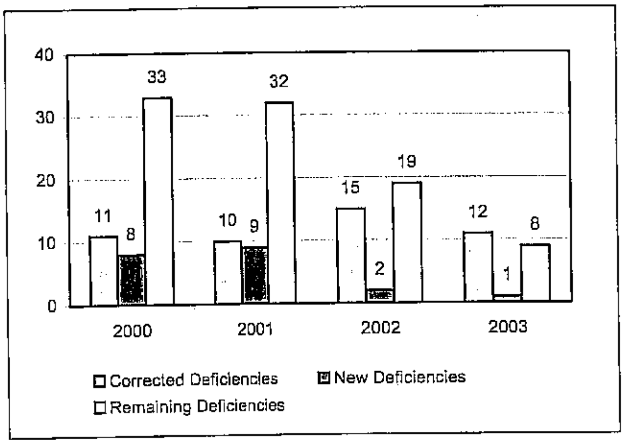
- The demonstrated commitment of senior-level managers to resolve the material deficiency as evidenced by resource deployment and frequent and regular monitoring of corrective action progress;

- Provided substantial and timely documented progress in completing corrective actions for the material deficiency;
- Completed the most significant corrective actions, with the remaining actions being minor in scope and not having a material effect on the program or operation; and
- Implemented corrective actions that have eliminated or minimized the cause(s) of the material deficiency.

Material Weaknesses and Nonconformances Reported in the FMFIA and FFMIA

Information technology (IT) is a major issue for USDA. It impacts the Department's ability to efficiently and effectively deliver its programs and provide meaningful and reliable reporting. While the Department and its agencies continue to improve the security over its IT resources, significant progress is still needed.

Exhibit 91: Material Deficiencies Decline



USDA's ability to protect its assets from fraud, misuse and disruption needs strengthening. The Department, under the direction of the Office of the Chief Information Officer (OCIO), will continue to develop policy, publish guidance and regulations, and provide training in the areas of information system risk assessment and mitigation, physical and logical access controls, disaster recovery and contingency planning, intrusion detection and response, certification and accreditation, and security awareness. The Exhibit on the next page provides a description and a summary of the corrective actions planned for the remaining material deficiencies.

Historical Data on Material Deficiencies

The Department has reduced the number of material deficiencies from a high of 33 in FY 2000 to 8 for FY 2003. This result is a 76-percent decrease in the number of outstanding material deficiencies reported during the past four years. Corrected deficiencies continue to exceed the number of new deficiencies reported.

Exhibit 92: Summary of Outstanding Material Deficiencies and Estimated Completion Dates

Responsible Agency	Material Deficiency Description	Corrective Actions Remaining To Be Taken	Year Identified	Current Estimated Completion Date
	Section 2 Material Weaknesses			
FNS	94-01: Management of the Child and Adult Care Food Program (CACFP): Management and monitoring of weaknesses in the CACFP need strengthening. Sponsoring organizations have been identified as receiving excessive Federal funding for meal service and administration.	Publish the CACFP management improvement regulations. Conduct management evaluations in approximately half of the CACFP SAs. Reassess, revise, and implement training on final regulations.	FY 1994	FY 2004
	99-01: National School Lunch (NSL) and Breakfast Program Eligibility: Data indicate a problem with the integrity of household eligibility determination for free and reduced-price meals.	Develop and implement legislative provisions requiring SAs to collect and report on data verification activities to FNS.	FY 1999	FY 2004
	01-01: Procurement in the Child Nutrition Program: Improper procurement of goods and services have been found to occur in the NSL, School Breakfast and CACFP and Summer Food Service Programs.	Revise procurement guidance and evaluate its effectiveness against improper procurement of goods and services.	FY 2001	FY 2004
FS	03-01: Internal Control Weakness: Overall financial management controls not adequate.	Provide training and issue new policy requiring supervisory review of property transactions and to improve capitalization controls. Finalize the process to certify payroll.	FY 2003	FY 2004
OCIO	00-01: USDA Information Security Weaknesses: Weaknesses have been identified in the Department's ability to protect its assets from fraud, misuse, and disruption.	Improve controls in the Department's information security in the areas of risk assessment and mitigation, physical and logical access controls, disaster recovery and contingency planning, intrusion detection and response, certification and accreditation and security awareness.	FY 2000	FY 2004
RD	96-02: Oversight of the Multi-Family Housing Program (MFH): The MFH Program lacks adequate oversight and internal controls which has led to program abuse by program participants.	Publish Final Rule for Multi-Family Housing Loan Programs.	FY 1992	FY 2004
	Section 4 Financial Management System Nonconformances			
RD	94-01: Direct Loan Servicing and Reporting Subsystem: Direct Loan Servicing and Reporting system not in compliance with OMB Circular A-127, "Financial Management Systems."	Complete incremental implementation of the Rural Utilities Loan Servicing System to replace legacy loan systems.	FY 1994	FY 2004
FSA	00-01: Foreign Credit Reform Systems: Systems are not full automated and integrated into the Commodity Credit Corporation's Core Accounting System (CORE).	Implement new General Sales Manager System to interface directly with the CORE general ledger and replace the Financial Management System accounting structure in the Automated P.L. 480 Umbrella System (APLUS) with the CORE accounting structure.	FY 2000	FY 2004

Exhibit 93: Material Deficiencies Aging Analysis

Fiscal Year Identified	2000 and Prior	2001	2002	2003	Total
Beginning Balance FY 2003	11	6	2	-	19
Add: New Weaknesses Reported in FY 2003	-	-	-	1	1
Deduct: Completed or Deemed Nonmaterial	5	6	1	-	12
Pending Completion	6	0	1	1	8

Summary of Corrected or Downgraded Material Weaknesses

Material deficiencies for corrective actions completed or deemed no longer material as of September 30, 2003, are summarized below.

Exhibit 94: Material Deficiencies Corrected or No Longer Material

Responsible Agency	Number and Title of Material Deficiencies	Year Identified	Status Completed/Downgraded
DA	01-01: USDA's Agencies' Internal Control Purchase Card Management System (PCMS)	2001	Completed
FNS	91-01: Management of Food Stamp Program Recipient Claims	1991	Downgraded
	91-02: Administration of the Food Stamp Program (FSP) at State Agencies	1991	Downgraded
	01-02: Administrative Cost Reimbursement Made to Partner Agencies Operating Food Assistance Programs Under the Auspices of FNS	2001	Downgraded
FS	91-02: Adequacy of Financial Systems	1989	Downgraded
	92-01: Administration of Lands Special Use Permits	1992	Downgraded
	00-01: Performance Reporting	2000	Downgraded
	01-01: Timber Sale Environmental Analysis	2001	Downgraded
FSA	01-01: Reimbursable Claims Not Made for Excess Ocean Freight Payments	2001	Completed
OCFO	01-01: USDA's Financial Statement Preparation is Not Timely or Reliable	2001	Completed
OCIO	01-01: Information Security Weaknesses at the National Information Technology Center (NITC)	2001	Completed
	02-01: Security Weaknesses in USDA's Controls Over Web Site Content	2002	Completed

Material Weaknesses Corrected

DA-01-01: USDA's Agencies' Internal Controls Purchase Card Management System (PCMS)

USDA's Departmental Administration issued revised regulations and policies on PCMS, developed and deployed PCMS software oversight queries and completed ALERTS training for USDA agencies.

FSA-01-01: Reimbursable Claims Not Made for Excess Ocean Freight Payments

The Commodity Credit Corporation (CCC) submitted excess ocean freight billings to the Maritime Administration on the basis of finalized documentation. CCC also established accounts receivable for excess ocean freight for FYs 1994-2002 in the FY 2003 financial statements.

OCFO-01-01: USDA's Financial Statement Preparation is Not Timely or Reliable

USDA deployed the Financial Statements Data Warehouse October 1, 2002, and successfully used it to produce the *FY 2002 USDA Consolidated Financial Statements*. The Department also performed a comprehensive analysis regarding the ability to use Federal Agencies' Centralized Trial Balance System

(FACTS) file formats for interfacing programmatic data. The analysis showed that FACTS is not feasible for interfacing. Thus, USDA deployed a generic interface for summary financial data from the program systems.

OCIO-01-01: Information Security Weaknesses at the National Information Technology Center (NITC)

During FY 2003, NITC issued policy and procedures to require all new resources or services deployed by customer agencies to meet security requirements prior to implementation. Installation and review procedures outline and describe the requirements for all mid-range systems deployment including Operating System hardening procedures as specified by OCIO/Cyber Security. The NITC Foundation for Security Policy maps out a comprehensive "blueprint" for all security directives and policies issued by NITC. NITC established the S/390 Firewall system and completed Phase 2 of the Enterprise Cyber Security Project to separate Public and Intranet traffic. NITC common resources (TN 3270 and FTP) requiring public Internet access were identified and deployed in the Demilitarized Zone (DMZ). A DMZ is a computer host that prevents outside users from obtaining direct access to an organization's data. The encryption of all sensitive data transported in and out of the DMZ through NITC common resources was enabled through the use of Secure Socket Layer for TN 3270/SSL and Secure/FTP. NITC customers are being notified of the encrypted services available from the public Internet and that all unencrypted access from the public Internet will be disallowed as of January 1, 2004.

OCIO-02-01: Security Weaknesses in USDA's Controls over Web Site Content

OCIO published two departmental directives that provide guidance to USDA agencies in evaluating publications prior to being posted on Home pages or Web pages. The directives are designed to determine if any potential Web site content contains sensitive security information. The directives also include criteria for USDA agencies to use to challenge or eliminate such content. USDA maintains an inventory of agency Web sites.

Material Weaknesses Downgraded

A material weakness may have been downgraded for one of two reasons. The control vulnerability is no longer considered to be material or the vulnerability no longer exists based on absent or weakened control(s) that are within the span of the agency's authority to correct. While downgraded as a material weakness, it is still possible for these problems to be reported in other sections of this report (such as improper payments or management challenges). USDA will continue to monitor and assess the downgraded weaknesses.

FNS-91-01: Management of Food Stamp Program Recipient Claims

Over the last several years, the Food Nutrition Service (FNS) has worked with Food Stamp Program State agencies to guide them toward improving claims systems and claims collection. FNS also implemented a review system by which regional offices monitor and evaluate recipient-claims activity in each State. This review is designed to identify systems that are working properly. Any State with significant problems is required to submit an acceptable corrective-action plan and timetable. Regions then monitor progress against the plan in each State. This emphasis has resulted in significant measurable progress:

- Today, the number of States passing review is 39, compared to only 10 in 1998; and
- The amount of Nationwide issuance by these 39 States is 72 percent. This is an increase from 23 percent of Nationwide issuance by States having acceptable claims systems in 1998.

FNS will continue to focus on this area and monitor State progress toward further improvement.

FNS-91-02: Administration of the Food Stamp Program (FSP) at State Agencies

During the past 15 years, FNS has established National control measures to guide State Agencies through error rate reduction efforts. These new measures have demonstrated progress; error rates have been reduced to the lowest in program history. During the fiscal year, FNS implemented a new methodology for a multi-tiered approach to error reduction. This methodology:

- Supported different levels of intervention based upon the size and status of each State;
- Enhanced the Quality Control and Payment Accuracy Extranet to include extensive payment accuracy materials;
- Implemented the revised *FNS Handbook 310* and associated forms;
- Began development of data analysis based on new reporting requirement;
- Implemented a monitoring process that allows for early identification and intervention to help States whose reported error rates are rising; and
- Published the *FSP Accuracy Best Practices Guide.*

FNS-01-02: Administrative Cost Reimbursement Made to Partner Agencies Operating Food Assistance Programs Under the Auspices of FNS

State agencies managing financial aspects of USDA food-assistance programs follow controls established under general Federal and program-specific guidelines when claiming Federal reimbursement for program operations and Automated Data Processing (ADP) acquisitions. During the fiscal year, FNS:

- Developed additional supportive guidance in key areas;
- Evaluated the effectiveness of the revised Special Supplemental Nutrition Program for Women, Infants and Children (WIC) cost allocation guidance;
- Provided training and technical assistance to the States;
- Planned and implemented the National Tracking System for tracking APDs;
- Participated on the ADP Reform Committee that produced decisions to pursue regulations to increase the submission threshold;
- Evaluated Financial Management reviews and single audits; and
- Determined that there were no new trends that indicated new national controls or guidance was necessary.

FS-91-02: Adequacy of Financial Systems

The Forest Service (FS) completed procedures for reconciling FFIS interfaces with subsidiary systems. It also defined the required documentation for reconciliations. FS developed financial statements from a single, official trial balance using USDA's new Financial Statements Data Warehouse. The agency established procedures to validate that the general ledger is in balance for budgetary and proprietary accounts. The procedures include all recorded transactions prior to preparing year-end financial statements. The pilot project for incident accounting was launched to address recommendations from the needs assessment. The project also incorporates new OMB direction. The results of the pilot testing were successful. FS now transfers obligations to FFIS daily. An electronic training package for managers was developed and currently is being reviewed. FS issued 27 CFO Bulletins in FY 2002 and 18 in FY 2003. The CFO Bulletins do not expire and carry the same authority as policy incorporated in the directives system.

FS-92-01: Administration of Lands Special Use Permits

FS continued its efforts to incorporate comments on proposed revisions to categorical exclusions for special uses. OMB classified the proposed rule as non-significant. Field units were trained on the requirements for special uses. The Final Rule is expected to be published October 2003.

FS-00-01: Performance Reporting

FS designated the Associate Chief and Chief Operating Officer as the responsible official for agency performance accountability. This designation includes the development of a Performance and Accountability System (PAS). A comprehensive action plan with milestones was developed for implementing PAS. Agency output measures were refined and linked to output measures in the strategic plan for development of the FY 2005 budget and inclusion in PAS. FS tied its measures to the Budget Formulation and Execution System activities. It also used the measures to assess and report on the performance of Agency programs, and for budget formulation.

FS-01-01: Timber Sale Environmental Analysis

FS drafted manuals and handbooks for standard review procedures of environmental assessments, and implementation of NEPA and other environmental regulations. Standard reviews were completed for 52 sales nationwide.

IV. CONSOLIDATED FINANCIAL STATEMENTS

Department of Agriculture
CONSOLIDATED BALANCE SHEET
As of September 30, 2003 and 2002
(in millions)

	2003	2002 *Restated*
Assets (Note 2):		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	$ 36,480	$ 39,617
Investments (Note 5)	45	96
Accounts Receivable, Net (Note 6)	666	242
Other (Note 10)	7	1
Total Intragovernmental	37,198	39,956
Cash and Other Monetary Assets (Note 4)	141	165
Investments (Note 5)	15	15
Accounts Receivable, Net (Note 6)	1,755	1,866
Loans Receivable and Related Foreclosed Property, Net (Note 7)	73,590	75,543
Inventory and Related Property, Net (Note 8)	278	749
General Property, Plant, and Equipment, Net (Note 9)	4,919	5,040
Other (Note 10)	245	284
Total Assets	118,141	123,618
Liabilities (Note 11):		
Intragovernmental		
Accounts Payable	1,206	571
Debt (Note 12)	76,140	75,933
Other (Note 14)	19,942	21,394
Total Intragovernmental	97,288	97,898
Accounts Payable	3,614	2,774
Loan Guarantee Liability (Note 7)	883	1,077
Debt Held by the Public (Note 12)	80	84
Environmental and Disposal Liabilities (Note 13)	21	22
Other (Notes 14 & 15)	13,860	10,843
Total Liabilities	115,746	112,698
Commitments and Contingencies (Note 16)		
Net Position:		
Unexpended Appropriations	16,810	25,619
Cumulative Results of Operations	(14,415)	(14,699)
Total Net Position	2,395	10,920
Total Liabilities and Net Position	$ 118,141	$ 123,618

The accompanying notes are an integral part of these statements.

Department of Agriculture
CONSOLIDATED STATEMENT OF NET COST
For the Years Ended September 30, 2003 and 2002
(in millions)

	2003	2002 *Restated*
Program Costs (Notes 17, 18, & 19):		
Intragovernmental Gross Costs	$ 7,707	$ 7,897
Less: Intragovernmental Earned Revenues	1,089	983
Intragovernmental Net Costs	6,618	6,914
Gross Costs with the Public:		
Grants	63,099	51,595
Loan Cost Subsidies	(778)	(994)
Indemnities	3,848	4,165
Commodity Program Costs	6,568	5,934
Stewardship Land Acquisition	239	212
Other	14,396	15,053
Total Gross Costs with the Public	87,372	75,965
Less: Earned Revenues from the Public	10,799	10,040
Net Costs with the Public	76,573	65,925
Net Cost of Operations	$ 83,191	$ 72,839

The accompanying notes are an integral part of these statements.

Department of Agriculture
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
For the Years Ended September 30, 2003 and 2002
(in millions)

	2003		2002 *Restated*	
	Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations
Beginning Balances	$ (15,443)	$ 26,196	$ (22,286)	$ 31,849
Prior Period Adjustments (Note 19)	744	(577)	708	(358)
Beginning Balances, as Adjusted	(14,699)	25,619	(21,578)	31,491
Budgetary Financing Sources:				
Appropriations Received		76,572		75,848
Appropriations Transferred In (Out)		(219)		3,068
Other Adjustments (rescissions, etc.)	(16)	(4,812)		(4,514)
Appropriations Used	80,373	(80,350)	80,135	(80,274)
Nonexchange Revenue	6		2	
Donations and Forfeitures of Cash	35			
Transfers In (Out) without Reimbursement	3,790		(379)	
Other Budgetary Financing Sources			(105)	
Other Financing Sources:				
Donations and Forfeitures of Property	1		14	
Transfers In (Out) without Reimbursement	(2,019)		(1,351)	
Imputed Financing from Costs Absorbed by Others	581		1,328	
Other	724		74	
Total Financing Sources	83,475	(8,809)	79,718	(5,872)
Net Cost of Operations	(83,191)		(72,839)	
Ending Balances	$ (14,415)	$ 16,810	$ (14,699)	$ 25,619

The accompanying notes are an integral part of these statements.

Department of Agriculture
COMBINED STATEMENT OF BUDGETARY RESOURCES
For the Years Ended September 30, 2003 and 2002
(in millions)

	2003		2002 *Restated*	
	Budgetary	Non-Budgetary Financing Accounts	Budgetary	Non-Budgetary Financing Accounts
Budgetary Resources:				
Budget Authority:				
Appropriations Received	$ 83,967		$ 84,606	
Borrowing Authority (Note 21 & 22)	49,343	$ 10,257	34,055	$ 9,689
Net Transfers	(189)		(2,171)	
	133,121	10,257	116,490	9,689
Unobligated Balances:				
Beginning of Period (Note 23)	18,627	5,264	24,895	2,341
Net Transfers, Actual	(439)		(58)	
	18,188	5,264	24,837	2,341
Spending Authority From Offsetting Collections:				
Earned				
Collected	24,301	7,721	21,808	7,182
Receivable from Federal Sources	1,596	62	(695)	(762)
Change in Unfilled Customer Orders				
Advance Received	289		148	
Without Advance from Federal Sources	47	57	55	664
	26,233	7,840	21,316	7,084
Recoveries of Prior Year Obligations	3,854	437	2,664	288
Permanently not Available	(57,168)	(4,275)	(52,406)	(1,893)
Total Budgetary Resources	124,228	19,523	112,901	17,509
Status of Budgetary Resources:				
Obligations Incurred (Note 20):				
Direct	70,628	13,721	64,730	12,245
Reimbursable	36,758		29,544	
	107,386	13,721	94,274	12,245
Unobligated Balance:				
Apportioned	5,832	5,343	4,347	4,252
Exempt from Apportionment	328	1	280	
Other Available	9		299	
Unobligated Balance not Available	10,673	458	13,701	1,012
	16,842	5,802	18,627	5,264
Total Status of Budgetary Resources	124,228	19,523	112,901	17,509
Relationship of Obligations to Outlays:				
Obligated Balance, Net, Beginning of Period (Note 23)	19,211	13,762	19,164	10,812
Obligated Balance, Net, End of Period:				
Accounts Receivable	(2,645)	(170)	(1,048)	(107)
Unfilled Customer Orders from Federal Sources	(313)	(732)	(267)	(676)
Undelivered Orders	14,143	15,351	14,517	14,107
Accounts Payable	9,830	422	6,009	438
	21,015	14,871	19,211	13,762
Outlays:				
Disbursements	100,262	12,058	92,239	9,105
Collections	(24,590)	(7,721)	(21,956)	(7,182)
	75,672	4,337	70,283	1,923
Less: Offsetting Receipts	1,550	1,293	862	130
Net Outlays	$ 74,122	$ 3,044	$ 69,421	$ 1,793

The accompanying notes are an integral part of these statements.

Department of Agriculture
CONSOLIDATED STATEMENT OF FINANCING
For the Years Ended September 30, 2003 and 2002
(in millions)

	2003	2002 *Restated*
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations incurred	$ 121,107	$ 106,519
Less: Spending authority from offsetting collections and recoveries	38,364	31,352
Obligations net of offsetting collections and recoveries	82,743	75,167
Less: Offsetting receipts	2,843	992
Net obligations	79,900	74,175
Other Resources		
Donations and forfeitures of property	1	14
Transfers in (out) without reimbursement	(2,019)	(1,351)
Imputed financing from costs absorbed by others	581	1,328
Other	724	74
Net other resources used to finance activities	(713)	65
Total resources used to finance activities	79,187	74,240
Resources Used to Finance Items not Part of the Net Cost of Operations:		
Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided	400	3,100
Resources that fund expenses recognized in prior periods	2,354	3,691
Budgetary offsetting collections and receipts that do not affect net cost of operations		
Credit program collections which increase liabilities for loan guarantees or allowances for subsidy	(14,829)	(12,950)
Other	(11,835)	(10,189)
Resources that finance the acquisition of assets	28,477	26,694
Other resources or adjustments to net obligated resources that do not affect net cost of operations	2,644	131
Total resources used to finance items not part of the net cost of operations	7,211	10,477
Total resources used to finance the net cost of operations	71,976	63,763
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Periods:		
Increase in annual leave liability	42	88
Increase in environmental and disposal liability	1	
Upward/Downward reestimates of credit subsidy expense	(315)	(260)
Decrease in exchange revenue receivable from the public	597	125
Other	2,839	1,272
Total components of Net Cost of Operations that will require or generate resources in future periods (Note 27)	3,164	1,225
Components not Requiring or Generating Resources:		
Depreciation and amortization	522	531
Revaluation of assets or liabilities	(38)	397
Other	7,567	6,923
Total components of Net Cost of Operations that will not require or generate resources	8,051	7,851
Total components of Net Cost of Operations that will not require or generate resources in the current period	11,215	9,076
Net Cost of Operations	$ 83,191	$ 72,839

The accompanying notes are an integral part of these statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As of September 30, 2003 and 2002
(in millions)

Note 1. Significant Accounting Policies

Reporting Entity

The Department provides a wide variety of services in the United States and around the world in seven distinct mission areas: Natural Resources and Environment (NRE); Farm and Foreign Agricultural Services (FFAS); Rural Development (RD); Food, Nutrition, and Consumer Services (FNCS); Food Safety and Inspection Services (FSIS), Research, Education, and Economics (REE); and Marketing and Regulatory Programs (MRP).

Principles of Consolidation

The financial statements are prepared in accordance with generally accepted accounting principles for the Federal Government. The financial statements include the accounts of the Department of Agriculture (USDA) and the following agencies, including four Government corporations:

Forest Service (FS)
Natural Resources and Conservation Service (NRCS)
Farm Service Agency (FSA)
Foreign Agricultural Service (FAS)
Risk Management Agency (RMA)
Federal Crop Insurance Corporation (FCIC)
Commodity Credit Corporation (CCC)
Rural Housing Service (RHS)
Rural Business Service (RBS)
Rural Utilities Service (RUS)
Rural Telephone Bank, a corporation (RTB)
Food and Nutrition Service (FNS)
Food Safety and Inspection Service (FSIS)
Agricultural Research Service (ARS)
Cooperative State Research, Education, and Extension Service (CSREES)
Economic Research Service (ERS)
National Agricultural Statistics Service (NASS)
Agricultural Marketing Service (AMS)
Animal and Plant Health Inspection Service (APHIS)
Grain Inspection, Packers, and Stockyards Administration (GIPSA)
Alternative Agricultural Research and Commercialization Corporation (AARC)

Significant intradepartmental activity and balances have been eliminated, except for the Statement of Budgetary Resources that is presented on a combined basis.

Reclassifications

Certain reclassifications have been made to prior year amounts to conform to the current year presentation.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Revenue and Other Financing Sources

Revenue from exchange transactions is recognized when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, sales price is fixed or determinable, and collection is reasonably assured. In certain cases, the prices charged by the Department are set by law or regulation, which for program and other reasons may not represent full cost. Prices set for products and services offered through the Department's working capital funds are intended to recover the full costs incurred by these activities. Revenue from non-exchange transactions is recognized when a specifically identifiable, legally enforceable claim to resources arises, to the extent that collection is probable and the amount is reasonably estimable. Appropriations are recognized as a financing source when used. An imputed financing source is recognized for costs subsidized by other Government entities.

Investments

The Department is authorized to invest certain funds in excess of its immediate needs in Treasury securities. Investments in non-marketable par value Treasury securities are classified as held to maturity and are carried at cost. Investments in market-based Treasury securities are classified as held to maturity and are carried at amortized cost. The amortized cost of securities is based on the purchase price adjusted for amortization of premiums and accretion of discounts using the straight-line method over the term of the securities.

Accounts Receivable

Accounts receivable are reduced to net realizable value by an allowance for uncollectible accounts. The adequacy of the allowance is determined based on past experience and age of outstanding balances.

Direct Loans and Loan Guarantees

Direct loans obligated and loan guarantees committed after fiscal 1991 are reported based on the present value of the net cash-flows estimated over the life of the loan or guarantee. The difference between the outstanding principal of the loans and the present value of their net cash inflows is recognized as a subsidy cost allowance; the present value of estimated net cash outflows of the loan guarantees is recognized as a liability for loan guarantees. The subsidy expense for direct or guaranteed loans disbursed during the year is the present value of estimated net cash outflows for those loans or guarantees. A subsidy expense also is recognized for modifications made during the year to loans and guarantees outstanding and for reestimates made as of the end of the year to the subsidy allowances or loan guarantee liability for loans and guarantees outstanding.

Direct loans obligated and loan guarantees committed before fiscal 1992 are valued using the present-value method. Under the present-value method, the outstanding principal of direct loans is reduced by an allowance equal to the difference between the outstanding principal and the present value of the expected net cash flows. The liability for loan guarantees is the present value of expected net cash outflows due to the loan guarantees.

Inventories and Related Property

Inventories to be consumed in the production of goods for sale or in the provision of services for a fee are valued on the basis of historical cost using a first-in, first-out method. Operating materials and supplies are valued on the basis of historical cost using a weighted average method. Commodities are valued at the lower of cost or net realizable value using a weighted average method.

Property, Plant and Equipment

Property, plant, and equipment (PP&E) are stated at cost less accumulated depreciation. Depreciation is determined using the straight-line method over the estimated useful lives of the assets. Useful lives for PP&E are disclosed in Note 9. Capitalization thresholds for personal property and real property are $25,000, and $100,000 for internal use software. The capitalization threshold for personal property and real property was changed from $5,000 to $25,000 effective October 1, 2002 and October 1, 2001, respectively.

Pension and Other Retirement Benefits

Pension and other retirement benefits (primarily retirement health care benefits) expense is recognized at the time the employees' services are rendered. The expense is equal to the actuarial present value of benefits attributed by the pension plan's benefit formula, less the amount contributed by the employees. An imputed cost is recognized for the difference between the expense and contributions made by and for employees.

Other Post-employment Benefits

Other post-employment benefits expense for former or inactive (but not retired) employees is recognized when a future outflow or other sacrifice of resources is probable and measurable on the basis of events occurring on or before the reporting date. The liability for long-term other post-employment benefits is the present value of future payments.

Contingencies

Contingent liabilities are recognized when a past event or exchange transaction has occurred, a future outflow or other sacrifice of resources is probable, and the future outflow or sacrifice of resources is measurable.

Note 2. Non-Entity Assets

		FY 2003		FY 2002
Intragovernmental:				
Fund balance with Treasury	$	841	$	1,337
Cash and other monetary assets		76		71
Accounts receivable		112		-
Inventory and related porperty		-		126
Total non-entity assets		1,029		1,534
Total entity assets		117,112		122,084
Total assets	$	118,141	$	123,618

Non-entity assets include proceeds from the sale of timber payable to Treasury, and employer contributions and payroll taxes withheld for agencies serviced by the National Finance Center.

Note 3. Fund Balance with Treasury

		FY 2003		FY 2002
Fund Balances:				
Trust Funds	$	519	$	370
Revolving Funds		7,541		8,943
Appropriated Funds		27,411		29,091
Other Fund Types		1,009		1,212
Total		36,480		39,617
Status of Fund Balance with Treasury:				
Unobligated Balance:				
Available		10,365		14,589
Unavailable		10,544		12,411
Obligated Balance not yet Disbursed		20,448		15,307
Clearing Account Balances		691		1,272
Borrowing Authority not yet Converted to Fund Balance		(5,568)		(3,962)
Total	$	36,480	$	39,617

Other fund types include special, deposit, and clearing accounts.

Note 4. Cash and Other Monetary Assets

		FY 2003		FY 2002
Cash	$	141	$	165

In fiscal 2003, cash includes funds held in escrow to pay property taxes and insurance for single-family housing borrowers of $76 million, funds to be transferred out of $30 million, loan repayment and certain other receipts of $21 million, and interest-bearing deposits of $14 million.

In fiscal 2002, cash includes excess reserves from fee-for-service programs of $86 million and funds held in escrow to pay property taxes and insurance for single-family housing borrowers of $71 million.

Note 5. Investments

FY 2003		Cost	Amortization Method	Unamortized Premium/ (Discount)		Investments, Net		Market Value Disclosure
Intragovernmental Securities:								
Non-marketable:								
Par value	$	42			$	42		
Market-based		3	Straight Line	-		3	$	3
Total		45				45		3
Other Securities:								
AARC		15		-		15		15
Total	$	15			$	15	$	15

FY 2002		Cost	Amortization Method		Unamortized Premium/ (Discount)		Investments, Net		Market Value Disclosure
Intragovernmental Securities:									
Non-marketable:									
Par value	$	63		$	-	$	63		
Market-based		30	Straight Line		3		33	$	33
Total		93			3		96		33
Other Securities:									
AARC		15			-		15		15
Total	$	15		$	-	$	15	$	15

Note 6. Accounts Receivable, Net

FY2003		Accounts Receivable, Gross		Allowance for Uncollectible Accounts		Accounts Receivable, Net
Accounts Receivable						
Intragovernmental	$	855	$	189	$	666
With the Public		1,986		231		1,755
Total	$	2,841	$	420	$	2,421

FY 2002		Accounts Receivable, Gross		Allowance for Uncollectible Accounts		Accounts Receivable, Net
Accounts Receivable						
Intragovernmental	$	243	$	1	$	242
With the Public		2,137		271		1,866
Total	$	2,380	$	272	$	2,108

In fiscal 2003, CCC recognized a receivable of $613 million from the Department of Transportation for current and prior years' transportation costs in accordance with the Cargo Preference provisions of the Food Security Act. As these costs are subject to management determination, an allowance of $188 million was recognized.

Note 7. Direct Loans and Loan Guarantees, Non-Federal Borrowers

Table 1. Total Loans Receivable and Related Foreclosed Property, Net

FY 2003 Direct Loans	Loans Receivable, Gross	Interest Receivable	Foreclosed Property	Present Value Allowance	Value of Assets Related to Direct Loans
Obligated Pre-1992					
Foreign Loans	$ 7,545	$ 75	$ -	$ (4,045)	$ 3,575
Farm Loans	3,375	200	36	(821)	2,790
Home Loans	14,219	123	31	(5,801)	8,572
Utility Loans	17,581	8	-	(2,070)	15,519
Community Loans	2,127	19	-	(355)	1,791
Business and Industry Loans	64	-	-	(30)	34
Pre-1992 Total	44,911	425	67	(13,122)	32,281
Obligated Post-1991					
Foreign Loans	2,981	35	-	(1,747)	1,269
Farm Loans	4,741	129	6	(749)	4,127
Home Loans	13,435	68	30	(1,980)	11,553
Utility Loans	14,478	200	-	(1,162)	13,516
Community Loans	5,565	49	-	(809)	4,805
Business and Industry Loans	525	2	-	(199)	328
Post-1991 Total	41,725	483	36	(6,646)	35,598
Total Direct Loan Program Receivables	86,636	908	103	(19,768)	67,879
Defaulted Guarantee Loans					
Pre-1992					
Foreign Loans	4,943	55	-	(2,203)	2,795
Business and Industry Loans	5	1	-	-	6
Pre-1992 Total	4,948	56	-	(2,203)	2,801
Post-1991					
Foreign Loans	1,800	28	-	(1,161)	667
Business and Industry Loans	189	2	-	(10)	181
Post-1991 Total	1,989	30	-	(1,171)	848
Total Defaulted Guarantee Loans	6,937	86	-	(3,374)	3,649
Loans Exempt from Credit Reform Act:					
Commodity Loans	1,644	119	-	(48)	1,715
Other Foreign Receivables	353	-	-	(6)	347
Total Loans Exempt	1,997	119	-	(54)	2,062
Total Loans Receivable and Related Foreclosed Property, Net					$ 73,590

FY 2002 Direct Loans	Loans Receivable, Gross	Interest Receivable	Foreclosed Property	Present Value Allowance	Value of Assets Related to Direct Loans
Obligated Pre-1992					
Foreign Loans	$ 7,852	$ 90	$ -	$ (4,259)	$ 3,683
Farm Loans	3,976	307	44	(456)	3,871
Home Loans	14,957	108	39	(5,178)	9,925
Utility Loans	20,093	50	-	(1,874)	18,268
Community Loans	2,821	30	-	(22)	2,829
Business and Industry Loans	49	-	-	(11)	38
Pre-1992 Total	49,748	584	84	(11,801)	38,615
Obligated Post-1991					
Foreign Loans	2,978	36	-	(1,702)	1,312
Farm Loans	4,588	109	4	(1,545)	3,157
Home Loans	13,190	64	35	(2,171)	11,119
Utility Loans	11,564	6	-	(572)	10,998
Community Loans	5,055	55	-	(754)	4,356
Business and Industry Loans	524	4	-	(197)	332
Post-1991 Total	37,900	274	40	(6,939)	31,274
Total Direct Loan Program Receivables	87,648	858	123	(18,740)	69,889
Defaulted Guarantee Loans					
Pre-1992					
Foreign Loans	5,171	28	-	(2,566)	2,632
Business and Industry Loans	12	-	-	(9)	3
Pre-1992 Total	5,182	28	-	(2,575)	2,635
Post-1991					
Foreign Loans	1,759	47	-	(770)	1,036
Home Loans	4	-	-	-	4
Business and Industry Loans	180	-	-	(108)	72
Post-1991 Total	1,943	47	-	(878)	1,112
Total Defaulted Guarantee Loans	7,125	75	-	(3,453)	3,747
Loans Exempt from Credit Reform Act:					
Commodity Loans	1,729	-	-	(177)	1,552
Other Foreign Receivables	364	-	-	(10)	354
Total Loans Exempt	2,093	-	-	(187)	1,906
Total Loans Receivable and Related Foreclosed Property, Net					$ 75,543

Table 2. Schedule for Reconciling Subsidy Cost Allowance Balances (Post-1999) Direct Loans

Beginning Balance, Changes, and Ending Balance	FY 2003	FY 2002
Beginning balance of the subsidy cost allowance	$ 7,047	$ 7,909
Add: Subsidy expense for direct loans disbursed during the year by component		
Interest rate differential costs	112	383
Default costs (net of recoveries)	234	143
Fees and other collections	(32)	(77)
Other subsidy costs	220	35
Adjustments		
Loan modifications	58	9
Fees received	14	12
Loans written off	(163)	(188)
Subsidy allowance amortization	(198)	(454)
Other	(103)	197
Ending balance of the subsidy cost allowance before reestimates	7,189	7,970
Add or subtract subsidy reestimates by component:		
Interest rate reestimate	81	20
Technical/default reestimate	(616)	(943)
Total of the above reestimate components	(535)	(923)
Ending balance of the subsidy cost allowance	$ 6,654	$ 7,047

Table 3. Direct Loan Subsidy Expense by Program and Component

FY 2003	Subsidy Expense for New Direct Loans Disbursed									
Direct Loan Programs	Interest Differential	Defaults	Fees and Other Collections	Other	Total	Total Modifications	Rate Reestimates	Technical Reestimates	Total Reestimates	Current Year
P.L. 480, Title I	$ 28	$ 19	$ -	$ 3	$ 50	$ 58	$ (1)	$ 45	$ 44	$ 152
Debt Reduction Fund	-	-	-	-	-	-	-	(83)	(83)	(83)
Food for Progress	-	-	-	-	-	-	-	(81)	(81)	(81)
Farm Storage Facility Loan Program	-	1	-	-	1	-	-	(8)	(8)	(7)
Agriculture Credit Insurance Fund	(28)	185	-	(8)	149	-	(53)	(648)	(701)	(552)
Rural Community Facilities Fund	18	2	-	(1)	19	-	1	(9)	(8)	11
Rural Housing Insurance Fund	11	23	(32)	231	233	-	4	(192)	(188)	45
Rural Electrification Loans	(19)	4	-	(2)	(17)	-	94	359	453	436
Rural Telephone Loans	1	-	-	-	1	-	6	30	36	37
Rural Telephone Bank	1	-	-	-	1	-	-	(6)	(6)	(5)
Rural Water and Waste Disposal Loans	85	1	-	(3)	83	-	40	(37)	3	86
Rural Business and Industry Loans	-	-	-	-	-	-	(3)	10	7	7
Rural Development Loan Fund	12	-	-	-	12	-	(6)	3	(3)	9
Rural Economic Development Loans	3	-	-	-	3	-	-	(1)	(1)	2
Total Subsidy Expense, Direct Loans	$ 112	$ 235	$ (32)	$ 220	$ 535	$ 58	$ 82	$ (618)	$ (536)	$ 57

FY 2002	Subsidy Expense for New Direct Loans Disbursed									
Direct Loan Programs	Interest Differential	Defaults	Fees and Other Collections	Other	Total	Total Modifications	Rate Reestimates	Technical Reestimates	Total Reestimates	Prior Year
P.L. 480, Title I	$ 37	$ 29	$ -	$ 15	$ 80	$ -	$ (138)	$ (210)	$ (348)	$ (268)
Debt Reduction Fund	-	-	-	-	-	9	-	(69)	(69)	(60)
Food for Progress	-	-	-	-	-	-	-	(112)	(112)	(112)
Farm Storage Facility Loan Program	-	1	-	-	1	-	(1)	(6)	(6)	(5)
Apple Loan Program	-	-	-	-	-	-	-	1	1	1
Agriculture Credit Insurance Fund	10	88	(1)	(26)	72	-	(30)	41	11	83
Rural Community Facilities Fund	18	1	(1)	-	18	-	3	(15)	(12)	6
Rural Housing Insurance Fund	220	13	(75)	51	210	-	(47)	(423)	(470)	(260)
Rural Electrification Loans	(2)	2	-	(2)	(2)	-	210	(117)	93	90
Rural Telephone Loans	4	-	-	-	4	-	4	(6)	(2)	2
Rural Telephone Bank	1	-	-	-	1	-	1	(3)	(2)	(2)
Rural Water and Waste Disposal Loans	83	1	-	(3)	80	-	22	(27)	(5)	76
Rural Business and Industry Loans	(6)	8	-	-	2	-	(3)	4	1	2
Rural Development Loan Fund	16	-	-	-	16	-	-	(2)	(2)	15
Rural Economic Development Loans	4	-	-	-	4	-	-	(1)	(1)	3
Total Subsidy Expense, Direct Loans	$ 383	$ 143	$ (77)	$ 35	$ 485	$ 9	$ 20	$ (943)	$ (923)	$ (429)

Table 4. Total Amount of Direct Loans Disbursed (Post-1991)

Direct Loans		FY 2003		FY 2002
Farm and Foreign Agricultural Services Mission Area				
P.L. 480, Title I	$	65	$	122
Farm Storage Facility Loan Program		44		66
Apple Loan Program		-		1
Agriculture Credit Insurance Fund		1,084		963
Mission area total		1,193		1,153
Rural Development Mission Area				
Rural Community Facilities Fund		228		201
Rural Housing Insurance Fund		1,163		1,207
Distance Learning and Telemedicine Loans		44		40
Rural Electrification Loans		3,007		2,080
Rural Telephone Loans		256		329
Rural Telephone Bank		56		60
Rural Water and Waste Disposal Loans		754		643
Rural Business and Industry Loans		2		36
Rural Development Loan Fund		26		33
Rural Economic Development Loans		11		17
Mission area total		5,547		4,646
Total Direct Loans Disbursed	$	6,740	$	5,799

Table 5. Loan Guarantees Outstanding

FY 2003	Pre - 1992 Outstanding Principal, Face Value	Post - 1991 Outstanding Principal, Face Value	Total Outstanding Principal, Face Value	Pre - 1992 Outstanding Principal, Guaranteed	Post - 1991 Outstanding Principal, Guaranteed	Total Outstanding Principal, Guaranteed
Guaranteed Loans						
Farm and Foreign Agricultural Services Mission Area						
Agriculture Credit Insurance Fund	$ 201	$ 10,090	$ 10,291	$ 178	$ 9,061	$ 9,239
Export Credit Guarantee Programs	-	4,820	4,820	-	4,657	4,657
Agricultural Resource Conservation Demonstration	-	24	24	-	24	24
Mission area total	201	14,934	15,135	178	13,742	13,920
Rural Development Mission Area						
Rural Community Facilities Fund	-	373	373	-	319	319
Rural Housing Insurance Fund	12	13,420	13,432	10	12,078	12,088
Rural Electrification Loans	293	224	517	293	224	517
Rural Water and Waste Disposal Loans	-	29	29	-	23	23
Rural Business and Industry Loans	51	4,032	4,083	39	2,976	3,015
Rural Cooperative Development Fund	4	-	4	3	-	3
Mission area total	360	18,078	18,438	345	15,620	15,965
Total Guarantees Disbursed	$ 561	$ 33,012	$ 33,573	$ 523	$ 29,362	$ 29,885

Table 5. Loan Guarantees Outstanding

FY 2002	Pre - 1992 Outstanding Principal, Face Value	Post - 1991 Outstanding Principal, Face Value	Total Outstanding Principal, Face Value	Pre - 1992 Outstanding Principal, Guaranteed	Post - 1991 Outstanding Principal, Guaranteed	Total Outstanding Principal, Guaranteed
Guaranteed Loans						
Farm and Foreign Agricultural Services Mission Area						
Agriculture Credit Insurance Fund	$ 271	$ 9,379	$ 9,650	$ 240	$ 8,421	$ 8,661
Export Credit Guarantee Programs	-	4,917	4,917	-	4,730	4,730
Mission area total	271	14,296	14,567	240	13,151	13,391
Rural Development Mission Area						
Rural Community Facilities Fund	-	301	301	-	249	249
Rural Housing Insurance Fund	16	13,602	13,618	14	12,241	12,256
Rural Electrification Loans	317	199	516	317	199	516
Rural Water and Waste Disposal Loans	-	30	30	-	24	24
Rural Business and Industry Loans	-	3,884	3,884	-	2,862	2,862
Rural Cooperative Development Fund	4	-	4	4	-	4
Rural Development Insurance Fund	80	-	80	57	-	57
Mission area total	417	18,015	18,432	391	15,576	15,968
Total Guarantees Disbursed	$ 688	$ 32,312	$ 33,000	$ 632	$ 28,727	$ 29,359

Table 6. Liability for Loan Guarantees (Present Value Method for Pre-1992 Guarantees)

FY 2003	Liabilities for Losses on Pre-1992 Guarantees Present Value	Liabilities for Loan Guarantees on Post-1991 Guarantees Present Value	Total Liabilities for Loan Guarantees
Liability for Loan Guarantees			
Farm and Foreign Agricultural Services Mission Area			
Export Credit Guarantee Programs	$ -	$ 22	$ 22
Agriculture Credit Insurance Fund	4	130	134
Mission area total	4	152	156
Rural Development Mission Area			
Rural Community Facilities Fund	-	1	1
Rural Housing Insurance Fund	-	399	399
Rural Business and Industry Loans	2	325	327
Mission area total	2	725	727
Total Liability for Loan Guarantees	$ 6	$ 877	$ 883

FY 2002	Liabilities for Losses on Pre-1992 Guarantees Present Value	Liabilities for Loan Guarantees on Post-1991 Guarantees Present Value	Total Liabilities for Loan Guarantees
Liability for Loan Guarantees			
Farm and Foreign Agricultural Services Mission Area			
Export Credit Guarantee Programs	$ -	$ 411	$ 411
Agriculture Credit Insurance Fund	13	144	157
ARCD	-	2	2
Mission area total	13	557	570
Rural Development Mission Area			
Rural Community Facilities Fund	-	5	5
Rural Housing Insurance Fund	3	327	330
Rural Electrification Loans	23	-	23
Rural Business and Industry Loans	-	146	146
Rural Development Insurance Fund	3	-	3
Mission area total	30	477	507
Total Liability for Loan Guarantees	$ 43	$ 1,034	$ 1,077

Table 7. Schedule for Reconciling Loan Guarantee Liability

Beginning Balance, Changes, and Ending Balance	FY 2003	FY 2002
Beginning balance of the loan guarantee liability	$ 1,034	$ 1,066
Add:Subsidy expense for guaranteed loans disbursed during the year by component		
Interest rate differential costs	45	65
Default costs (net of recoveries)	339	294
Fees and other collections	(141)	(76)
Adjustments		
Fees received	96	102
Interest supplements paid	(47)	(62)
Claim payments to lenders	(301)	(204)
Interest accumulation on the liability balance	48	17
Other	(115)	26
Ending balance of the subsidy cost allowance before reestimates	958	1,229
Add or subtract subsidy reestimates by component:		
Interest rate reestimate	32	(392)
Technical/default reestimate	(114)	196
Total of the above reestimate components	(82)	(195)
Ending balance of the loan guarantee liability	$ 876	$ 1,034

Table 8. Guarantee Loan Subsidy Expense by Program and Component

FY 2003 — Subsidy Expense for New Loan Guarantees

Guaranteed Loan Programs	Interest Supplement	Defaults	Fees and Other Collections	Other	Total	Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Current Year
Export Credit Guarantee Programs	$ -	$ 93	$ (8)	$ -	$ 85	$ -	$ 4	$ (205)	$ (201)	$ (116)
Farm Operating—Unsubsidized	-	41	(9)	-	32	-	2	(21)	(19)	13
Farm Operating—Subsidized	39	14	(4)	-	49	-	(4)	(14)	(18)	31
Farm Ownership—Unsubsidized	-	20	(11)	-	9	-	4	(6)	(2)	7
Rural Community Facilities	-	-	(1)	-	(1)	-	-	(2)	(2)	(3)
Rural Housing Insurance Fund	6	129	(98)	-	37	-	13	58	71	108
Rural Business and Industry Loans	-	42	(11)	-	31	-	12	75	87	118
Total Loan Guarantee Subsidy Expense	$ 45	$ 339	$ (142)	$ -	$ 242	$ -	$ 31	$ (115)	$ (84)	$ 158

FY 2002 — Subsidy Expense for New Loan Guarantees

Guaranteed Loan Programs	Interest Supplement	Defaults	Fees and Other Collections	Other	Total	Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Prior Year
Export Credit Guarantee Programs	$ -	$ 120	$ (10)	$ -	$ 110	$ -	$ (588)	$ 514	$ (74)	$ 36
Farm Operating—unsubsidized	-	46	(9)	-	37	-	243	(268)	(25)	11
Farm Operating—subsidized	47	20	-	-	67	-	141	(131)	10	77
Farm Ownership—unsubsidized	-	14	(10)	-	5	-	(78)	64	(13)	(9)
Rural Community Facilities	-	-	-	-	-	-	(2)	6	4	4
Rural Housing Insurance Fund	18	56	(38)	-	37	-	(45)	(47)	(92)	(55)
Rural Business and Industry Loans	-	37	(9)	-	28	-	(75)	71	(4)	24
Rural Business and Industry Loans	-	-	-	-	-	-	13	(12)	-	-
Total Loan Guarantee Subsidy Expense	$ 65	$ 294	$ (76)	$ -	$ 283	$ -	$ (392)	$ 196	$ (195)	$ 88

Table 9. Guaranteed Loans Disbursed

	FY 2003		FY 2002	
	Principal, Face Value Disbursed	Principal, Guaranteed Disbursed	Principal, Face Value Disbursed	Principal, Guaranteed Disbursed
Guaranteed Loans				
Farm and Foreign Agricultural Services Mission Area				
Export Credit Guarantee Programs	$ 2,770	$ 2,529	$ 3,340	$ 3,131
Agriculture Credit Insurance Fund	2,592	2,328	2,551	2,290
Mission area total	5,362	4,857	5,891	5,421
Rural Development Mission Area				
Rural Community Facilities Fund	138	117	59	49
Rural Housing Insurance Fund	2,992	2,693	2,450	2,205
Rural Electrification Loans	-	-	54	54
Rural Water and Waste Disposal Loans	3	2	9	7
Rural Business and Industry Loans	654	513	839	658
Mission area total	3,787	3,325	3,410	2,973
Total Guaranteed Loans Disbursed	$ 9,149	$ 8,182	$ 9,301	$ 8,394

Table 10. Administrative Expenses

Direct Loan Programs	FY 2003	FY 2002
P.L. 480, Title 1	$ 2	$ 2
Agriculture Credit Insurance Fund	277	273
Rural Development	256	178
Total	535	452

Guaranteed Loan Programs		
Export Credit Guarantee Programs	4	4
Rural Development	155	131
Total	$ 159	$ 135

Table 11. Subsidy Rates for Direct Loans (percentage)

FY 2003	Interest Differential	Defaults	Fees and Other Collections	Other	Total
Direct Loan Programs					
Farm Storage Facility Loan Program	(0.88)	2.27	(0.11)	-	1.28
P.L. 480, Title 1	47.24	22.04	-	5.83	75.11
Farm Operating	(4.34)	20.36	-	1.23	17.25
Farm Ownership	(8.17)	27.53	-	(7.75)	11.61
Emergency Disaster	8.48	15.24	-	(3.33)	20.39
Indian Land Acquisition	7.79	8.02	-	(6.86)	8.95
BollWeevil Eradication	(9.56)	8.35	-	(1.49)	(2.70)
Community Facilities Loans	6.80	0.20	-	(0.76)	6.24
Modular Housing Loans	21.03	(0.10)	-	(3.01)	17.92
Section 502 Direct Single Family Housing	(12.90)	2.68	-	29.59	19.37
Section 504 Direct Housing Repair	28.98	2.27	-	(0.23)	31.02
Section 203 Credit Sales (SFH)	(16.51)	1.17	-	5.76	(9.58)
Section 514 Farm Labor Housing	48.64	0.07	-	0.31	49.02
Section 515 Rural Rental Housing	(13.18)	0.03	-	59.78	46.63
Section 524 Housing Site Development	(4.02)	3.92	-	1.19	1.09
Section 523 Self-Help Housing Land	1.15	3.72	-	(0.46)	4.41
Section 209 Credit Sales	(13.12)	0.03	-	59.77	46.68
Electric Municipal	4.46	-	-	(0.43)	4.03
FFB Electric	(1.26)	0.04	-	(0.60)	(1.82)
Direct Electric Hardship	5.84	-	-	(0.13)	5.71
Telephone Treasury	-	0.02	-	0.03	0.05
FFB Telephone	(1.09)	0.13	-	(1.40)	(2.36)
Telephone Hardship	1.71	-	-	-	1.71
Rural Telephone Bank	2.21	0.02	-	(0.85)	1.38
Direct Water and Waste Disposal	11.77	0.10	-	(0.53)	11.34
Intermediary Relending Program	48.32	-	-	(0.06)	48.26
Rural Economic Development	22.46	0.05	-	(1.15)	21.36
Electric Treasury	-	0.03	-	(0.07)	(0.04)
Distance Learning and Telemedicine	0.41	-	-	(1.56)	(1.15)
Broadband	-	5.21	-	(0.05)	5.16

Table 11. Subsidy Rates for Direct Loans (percentage)

FY 2002	Interest Differential	Defaults	Fees and Other Collections	Other	Total
Direct Loan Programs					
Farm Storage Facility Loan Program	0.30	2.24	(0.12)	-	2.42
P.L. 480, Title 1	46.07	30.82	-	4.84	81.73
Farm Operating	0.05	12.43	-	(3.55)	8.93
Farm Ownership	2.04	4.13	-	(3.54)	2.63
Emergency Disaster	9.42	4.12	-	(0.09)	13.45
Indian Land Acquisition	5.95	-	-	(0.03)	5.92
BollWeevil Eradication	(4.42)	2.24	-	-	(2.18)
Community Facilities Loans	4.53	1.18	-	(0.28)	5.43
Modular Housing Loans	17.94	0.03	(1.64)	1.35	17.68
Section 502 Direct Single Family Housing	13.20	1.31	(7.15)	5.80	13.16
Section 504 Direct Housing Repair	29.96	2.30	(5.98)	5.85	32.13
Section 203 Credit Sales (SFH)	(20.20)	4.55	(10.51)	21.34	(4.82)
Section 514 Farm Labor Housing	46.94	0.08	(2.51)	2.80	47.31
Section 515 Rural Rental Housing	50.56	(0.03)	(30.91)	22.70	42.32
Section 524 Housing Site Development	(1.75)	1.77	(9.64)	10.17	0.55
Section 523 Self-Help Housing Land	3.54	1.03	(9.14)	9.65	5.08
Section 209 Credit Sales	50.52	(0.02)	(1.96)	(6.37)	42.17
Electric Municipal	(0.15)	0.03	-	0.03	(0.09)
FFB Electric	(1.12)	0.03	-	(0.04)	(1.13)
Direct Electric Hardship	2.92	0.03	-	0.03	2.98
Telephone Treasury	-	0.04	-	0.06	0.10
FFB Telephone	(0.92)	0.11	-	(0.04)	(0.85)
Telephone Hardship	2.27	0.03	-	0.02	2.32
Rural Telephone Bank	2.29	0.02	-	(0.17)	2.14
Direct Water and Waste Disposal	6.96	0.12	-	(0.20)	6.88
Direct Business and Industry Loans	(30.79)	58.98	-	0.28	28.47
Intermediary Relending Program	43.22	-	-	(0.01)	43.21
Rural Economic Development	24.91	0.05	-	(0.80)	24.16
Electric Treasury	(0.06)	0.03	-	(0.01)	(0.04)
Distance Learning and Telemedicine	-	0.01	-	(0.08)	(0.07)

Table 12. Subsidy Rates for Loan Guarantees (percentage)

FY 2003	Interest Differential	Defaults	Fees and Other Collections	Other	Total
Guaranteed Loan Programs					
Export Credit Guarantee Program	-	7.64	(0.68)	-	6.96
Farm Operating—Unsubsidized	-	4.07	(0.90)	-	3.17
Farm Operating—Subsidized	9.31	3.38	(0.89)	-	11.80
Farm Ownership—Unsubsidized	-	1.64	(0.89)	-	0.75
Rural Community Facilities Loans	-	0.28	(0.82)	-	(0.54)
Section 538 Multiple Family	8.22	-	(3.72)	-	4.50
Section 502 Single Family	-	2.72	(2.00)	-	0.72
NADBANK Loans	-	6.15	(1.59)	-	4.56
Business and Industry Loans	-	5.45	(1.48)	-	3.97
Electric	-	0.08	-	-	0.08
Water and Waste Disposal Loans	-	-	(0.81)	-	(0.81)
Section 502 Single Family - Refinance	-	0.68	(0.50)	-	0.18

FY 2002	Interest Differential	Defaults	Fees and Other Collections	Other	Total
Guaranteed Loan Programs					
Export Credit Guarantee Program	7.41	-	(0.66)	-	6.75
Farm Operating—Unsubsidized	-	4.41	(0.90)	-	3.51
Farm Operating—Subsidized	9.55	4.01	-	-	13.56
Farm Ownership—Unsubsidized	-	1.34	(0.89)	-	0.45
Rural Community Facilities Loans	-	0.12	(0.80)	-	(0.68)
Section 502 Subsidy Repair	-	3.28	(2.00)	-	1.28
Section 539 Multiple Family	8.82	2.24	(7.13)	-	3.93
Section 502 Single Family	-	3.28	(2.00)	-	1.28
NADBANK Loans	-	5.28	(1.60)	-	3.68
Business and Industry Loans	-	5.22	(1.48)	-	3.74
Electric	-	0.08	-	-	0.08
Water and Waste Disposal Loans	-	-	(0.80)	-	(0.80)

Direct Loans

Direct loan obligation or loan guarantee commitments made pre-1992 and the resulting direct loans or loan guarantees are reported at net present value.

Direct loan obligations or loan guarantee commitments made post-1991, and the resulting direct loan or loan guarantees, are governed by the Federal Credit Reform Act of 1990 as amended. 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.

The net present value of Loans Receivable and Related Foreclosed Property, Net is not necessarily representative of the proceeds that might be expected if these loans were sold on the open market.

Loans Receivable and Related Foreclosed Property, Net at the end of fiscal 2003 was $73,590 million compared to $75,543 million at the end of fiscal 2002. Loans exempt from the Federal Credit Reform Act of 1990 represent $2,062 million of the total compared to $1,906 million in fiscal 2002. Table 1 illustrates the overall composition of the Department credit program balance sheet portfolio by mission area and credit program for fiscal 2003 and 2002.

During the fiscal year the gross outstanding balance of the direct loans obligated post-1991 is adjusted by the value of the subsidy cost allowance held against those loans. Current year subsidy expense, modifications, and reestimates all contribute to the change of the subsidy cost allowance through the year. The subsidy cost allowance moved from $7,047 million to $6,654 million during fiscal 2003, a decrease of $393 million. Table 2 shows the reconciliation of subsidy cost allowance balances from fiscal 2002 to fiscal 2003.

Total direct loan subsidy expense is a combination of subsidy expense for new direct loans disbursed in the current year, modifications to existing loans, and interest rate and technical reestimates to existing loans. Total direct loan subsidy expense in fiscal 2003 was $57 million compared to negative $429 million in fiscal 2002. Table 3 illustrates the breakdown of total subsidy expense for fiscal 2003 and 2002 by program.

Direct loan volume increased from $5,799 million in fiscal 2002 to $6,740 million in fiscal 2003. Volume distribution between mission area and program is shown in Table 4.

Guaranteed Loans

Guaranteed loans are administered in coordination with conventional agricultural lenders for up to 95 percent of the principal loan amount. Under the guaranteed loan programs, the lender is responsible for servicing the borrower's account for the life of the loan. The Department, however, is responsible for ensuring borrowers meet certain qualifying criteria to be eligible and monitoring the lender's servicing activities. Borrowers interested in guaranteed loans must apply to a conventional lender, which then arranges for the guarantee with a Department agency. Estimated losses on loan and foreign credit guarantees are reported at net present value as Loan Guarantee Liability. Defaulted guaranteed loans are reported at net present value as Loans Receivable and Related Foreclosed Property, Net.

Guaranteed loans outstanding at the end of fiscal 2003 were $33,573 million in outstanding principal, and $29,885 million in outstanding principal guaranteed, compared to $33,000 and $29,359 million, respectively at the end of fiscal 2002. Table 5 shows the outstanding balances by credit program.

During the fiscal year the value of the guaranteed loans is adjusted by the value of the loan guarantee liability held against those loans. Current year subsidy expense, modification, and reestimates all contribute to the change of the loan guarantee liability through the year. The loan guarantee liability is a combination of the liability for losses on pre-1992 guarantees and post-1991 guarantees. The total liability moved from $1,077 million to $883 million during fiscal 2003, a decrease of $194 million. The post-1991 liability moved from $1,034 million to $877 million, a decrease of $157 million. Table 7 shows the reconciliation of loan guarantee liability post-1991 balances and the total loan guarantee liability.

Total guaranteed loan subsidy expense is a combination of subsidy expense for new guaranteed loans disbursed in the current year, modifications to existing loans, and interest rate and technical reestimates to existing loans. Total guaranteed loan subsidy expense in fiscal 2003 was $158 million compared to $88 million in fiscal 2002. Table 8 illustrates the breakdown of total subsidy expense for fiscal 2003 and 2002 by program.

Guaranteed loan volume decreased from $9,301 million in fiscal 2002 to $9,149 million in fiscal 2003. Volume distribution between mission area and program is shown in Table 9.

Credit Program Discussion and Descriptions

The Department offers direct and guaranteed loans through credit programs in the FFAS mission area through the FSA and the CCC, and in the RD mission area through the RHS, the RBS, and the RUS.

The Farm and Foreign Agricultural Services Mission Area

The FFAS mission area helps keep America's farmers and ranchers in business as they face the uncertainties of weather and markets. FFAS delivers commodity, credit, conservation, disaster, and emergency assistance programs that help improve the strength and stability of the agricultural economy. FFAS contributes to the vitality of the farm sector with programs that encourage the expansion of export markets for U.S. agriculture.

The FSA offers direct and guaranteed loans to farmers who are temporarily unable to obtain private, commercial credit and nonprofit entities that are engaged in the improvement of the nation's agricultural community. Often, FSA borrowers are beginning farmers who cannot qualify for conventional loans due to insufficient financial resources. In addition, the agency helps established farmers who have suffered financial setbacks from natural disasters, or have limited resources to maintain profitable farming operations. FSA officials also provide borrowers with supervision and credit counseling.

FSA's mission is to provide supervised credit. FSA works with each borrower to identify specific strengths and weaknesses in farm production and management, and provides alternatives to address weaknesses. FSA is able to provide certain loan servicing options to assist borrowers whose accounts are distressed or delinquent. These options include reamortization, restructuring, loan deferral, lowering interest rate, acceptance of easements, and debt write-downs. The eventual goal of FSA's farm credit programs is to graduate its borrowers to commercial credit.

CCC's foreign programs provide economic stimulus to both the U.S. and foreign markets, while also giving humanitarian assistance to the most-needy people throughout the world. CCC offers both guarantee credit and direct credit programs for buyers of U.S. exports, suppliers, and sovereign countries in need of food assistance.

CCC permits debtor nations to reschedule debt under the aegis of the Paris Club (The Club). The Club is an internationally recognized organization under the leadership of the French Ministry of Economics and Finance whose sole purpose is to assess, on a case-by-case basis, liquidity problems faced by the world's most severely economically disadvantaged countries. The general premise of the Club's activities is to provide disadvantaged nations short-term liquidity relief to enable them to re-establish their credit worthiness. The Departments of State and Treasury lead the U.S. Delegation and negotiations for all U.S. Agencies.

Farm and Foreign Agricultural Service List of Programs

Farm Service Agency	Commodity Credit Corporation
Direct Farm Ownership	Guaranteed Sales Manager Credit Program
Direct Farm Operating	Supplier Credit Guarantee Program
Direct Emergency Loans	Facility Program Guarantee
Direct Indian Land Acquisition	P.L. 480 Title 1 Program
Direct Boll Weevil Eradication	
Direct Seed Loans to Producers	
Guaranteed Farm Operating Subsidized/Unsubsidized	
Agricultural Resource Demonstration Fund	
Bureau of Reclamation Loan Fund	

The Rural Development Mission Area

Each year, RD programs create or preserve tens of thousands of rural jobs and provide or improve the quality of rural housing. To leverage the impact of its programs, RD is working with state, local and Indian tribal governments, as well as private and nonprofit organizations and user-owned cooperatives.

Through its loan and grant programs, RHS provides affordable housing and essential community facilities to rural communities. RHS programs help finance new or improved housing for moderate, low, and very low-income families each year. RHS program also help rural communities to finance, construct, enlarge or improve fire stations, libraries, hospitals and medical clinics, industrial parks, and other community facilities.

RBS' goal is to promote a dynamic business environment in rural America. RBS works in partnership with the private sector and community based organizations to provide financial assistance and business planning. It also provides technical assistance to rural businesses and cooperatives, conducts research into rural economic issues, and provides cooperative educational materials to the public.

The RUS helps to improve the quality of life in rural America through a variety of loan programs for electric energy, telecommunications, and water and environmental projects. RUS programs leverage scarce Federal funds with private capital for investing in rural infrastructure, technology and development of human resources.

RD agencies are able to provide certain loan servicing options to borrowers whose accounts are distressed or delinquent. These options include reamortization, restructuring, loan deferral, lowering interest rate, acceptance of easements, and debt write-downs. The choice of servicing options depends on the loan program and the individual borrower.

Rural Development List of Programs

Rural Housing Service	Rural Business Service	Rural Utilities Service
Home Ownership Direct Loans	Business and Industry Direct Loans	Water and Environmental Direct Loans
Home Ownership Guaranteed Loans	Business and Industry Guaranteed Loans	Water and Environmental Guaranteed Loans
Home Improvement and Repair Direct Loans	Intermediary Relending Program Direct Loans	Electric Direct Loans
Home Ownership and Home Improvement and Repair Nonprogram Loans	Rural Economic Development Direct Loans	Electric Guaranteed Loans
Rural Housing Site Direct Loans		Telecommunications Direct Loans
Farm Labor Housing Direct Loans		Rural Telephone Bank
Rural Rental and Rural Cooperative Housing Loans		Federal Financing Bank-Telecommunications Guaranteed
Rental Housing Guaranteed Loans		Distance Learning and Telemedicine Direct
Multi-family Housing–Nonprogram–Credit Sales		Broadband Telecommunications Services
Community Facilities Direct Loans		
Community Facilities Guaranteed Loans		

Discussion of Administrative Expenses, Subsidy Costs and Subsidy Rates

Administrative Expenses

Consistent with the Federal Credit Reform Act of 1990 as amended, subsidy cash flows exclude direct Federal administrative expenses. Administrative expenses for fiscal 2003 and 2002 are shown in Table 10.

Reestimates, Default Analysis, and Subsidy Rates

The Federal Credit Reform Act of 1990 as amended governs the proprietary and budgetary accounting treatment of direct and guaranteed loans. The long-term cost to the government for direct loans or loan guarantees is referred to as "subsidy cost." Under the Act, subsidy costs for loans obligated beginning in fiscal 1992 are recognized at the net present value of projected lifetime costs in the year the loan is disbursed. Subsidy costs are revalued annually. Components of subsidy include interest subsidies, defaults, fee offsets, and other cash flows.

Based on sensitivity analysis conducted for each cohort or segment of a loan portfolio, the difference between the budgeted and actual interest for both borrower and Treasury remain the key components for the subsidy formulation and reestimate rates of many USDA direct programs. USDA uses the government-wide interest rate projections provided by the Office of Management and Budget (OMB) in order to do its calculations and analysis.

The Inter-agency Country Risk Assessment System is a Federal interagency effort chaired by OMB under the authority of the Federal Credit Reform Act of 1990 as amended. The system provides standardized risk assessment and budget assumptions for all direct credits and credit guarantees provided by the Government, to foreign borrowers. Sovereign and non-sovereign lending risks are sorted into risk categories, each associated with a default estimate. A revised default methodology developed by OMB was implemented in fiscal 2002. The revised methodology resulted in significantly lower estimated defaults and resulting allowance balances.

The CCC delinquent debt is estimated at 100-percent allowance. When the foreign borrower reschedules their debt and renews their commitment to repay CCC, the allowance is estimated at less than 100 percent.

Subsidy rates are used to compute each year's subsidy expenses as disclosed above. The subsidy rates disclosed in tables 11 and 12 pertain only to the fiscal 2003 and 2002 cohorts. These rates cannot be applied to the direct and guaranteed loans disbursed during the current reporting year to yield the subsidy expense. The subsidy expense for new loans reported in the current year could result from disbursements of loans from both current year cohorts and prior year cohorts. The subsidy expense reported in the current year also includes reestimates.

As a result of new guidance provided by the credit reform Treasury certificate training class, the CCC chose to reflect interest on downward reestimates of $ 246 and $413 million in the Statement of Changes in Net Position as other financing sources for fiscal 2003 and 2002, respectively. The remainder of USDA credit programs chose to reflect downward reestimates in earned revenue on the Statement of Net Cost. Both methodologies are accepted alternatives that have been promulgated by Treasury.

Foreclosed Property

Property is acquired largely through foreclosure and voluntary conveyance. Acquired properties associated with loans are reported at their market value at the time of acquisition. The projected future cash flows associated with acquired properties are used in determining the related allowance (at present value).

As of September 30, 2003 and 2002, foreclosed property consisted of 952 and 1,114 rural single-family housing dwellings, with an average holding period of 22 and 20 months, respectively. As of September 30, 2003 and 2002, FSA-Farm Loan Program properties consist primarily of 169 and 253 farms, respectively. The average holding period for these properties in inventory for fiscal 2003 and 2002 was 62 and 54 months, respectively. At the end of fiscal 2003 and 2002, there were 20,671 and 22,681 borrowers for which foreclosure proceedings were in process, respectively. Certain properties can be leased to eligible individuals.

Non-performing Loans

Non-performing loans are defined as receivables that are in arrears by 90 or more days, or are on rescheduling agreements until such time two consecutive payments have been made following the rescheduling.

RD, FSA, and CCC calculate loan interest income, however, the recognition of revenue is deferred. Late interest is accrued on arrears.

Loan Modifications

The Debt Reduction Fund is used to account for CCC's "modified debt." Debt is considered to be modified if the original debt has been reduced or the interest rate of the agreement changed. In contrast, when debt is "rescheduled" only the date of payment is changed. Rescheduled debt is carried in the original fund until paid. All outstanding CCC modified debt is carried in the Debt Reduction Fund and is governed by the Federal Credit Reform Act of 1990 as amended.

During fiscal 2003, two debts were modified. This resulted in a $22 and $32 million reduction in principal and interest with the remaining amount of debt transferred from CCC's liquidating/financing fund to CCC's Debt Reduction Fund. The discount rates used for calculating the modifications are not available at this time.

During fiscal 2002, two debts were modified. This resulted in a $3 and $11 million reduction in principal with the remaining amount of debt transferred from CCC's liquidating fund to CCC's Debt Reduction Fund. The discount rate used for calculating the modification expense was 6.2971 and 5.4684 percent, respectively.

Interest Credit

Approximately $18,600 and $19,100 million of RHS unpaid loan principal as of September 30, 2003 and 2002 were receiving interest credit, respectively. If those loans receiving interest credit had accrued interest at the full-unreduced rate, interest income would have been approximately $1,100 million higher for fiscal 2003 and 2002.

Restructured Loans

At the end of fiscal 2003 and 2002, the RD portfolio contained approximately 96 thousand and 104 thousand restructured loans with an outstanding unpaid principal balance of $5,900 and $6,200 million, respectively.

Note 8. Inventory and Related Property, Net

	FY 2003		FY 2002	
Inventories	$	2	$	-
Operating Materials and Supplies:				
Items held for Use		-		25
Commodities:	Volume (in millions)		Volume (in millions)	
Corn (In Bushels):				
On hand at the beginning of the year	18	33	22	45
Acquired during the year	20	57	74	165
Disposed of during the year				
Sales	(11)	(31)	(62)	(136)
Donations	(11)	(31)	(14)	(39)
Other	-	1	(2)	(1)
On hand at the end of the year	16	29	18	33
Wheat (In Bushels):				
On hand at the beginning of the year	102	364	118	404
Acquired during the year	84	392	105	371
Disposed of during the year				
Sales	(65)	(280)	(69)	(246)
Donations	(39)	(193)	(52)	(193)
Other	(1)	7	-	28
On hand at the end of the year	81	290	102	364
Nonfat Dry Milk (In Pounds):				
On hand at the beginning of the year	1,332	1,279	857	860
Acquired during the year	634	512	626	563
Disposed of during the year				
Sales	(269)	(257)	(16)	(16)
Donations	(253)	(262)	(121)	(135)
Other	(4)	22	(14)	6
On hand at the end of the year	1,440	1,294	1,332	1,279
Sugar (In Pounds):				
On hand at the beginning of the year	514	101	1,505	329
Acquired during the year	-	-	17	4
Disposed of during the year				
Sales	(462)	(92)	(721)	(176)
Donations	-	-	(13)	(3)
Other	(52)	(9)	(274)	(52)
On hand at the end of the year	-	-	514	101
Tobacco (In Pounds):				
On hand at the beginning of the year	225	599	225	599
Acquired during the year	-	1		
Disposed of during the year			-	-
Sales	-	-	-	-
Donations	-	-	-	-
Other	(129)	(322)	-	-
On hand at the end of the year	96	278	225	599
Other:				
On hand at the beginning of the year		109		39
Acquired during the year		4,023		4,496
Disposed of during the year				
Sales		(3,804)		(4,112)
Donations		(244)		(329)
Other		9		17
On hand at the end of the year		93		110
Allowance for losses		(1,708)		(1,763)
Total Commodities		276		723
Total Inventory and Related Property, Net	$	278	$	749

In fiscal 2003, the Departmental Working Capital Fund began recognizing inventory of supplies to be consumed in the production of goods for sale or in the provision of services for a fee. The inventory mainly consists of copier paper, toner, and other office supplies that are purchased in bulk. In fiscal 2003, the FS changed its method of accounting for operating material and supplies. Previously, FS had capitalized operating materials and supplies when purchased and recognized an expense when consumed in normal operations. Under the new accounting method, operating materials and supplies are expensed when purchased.

In fiscal 2002, operating material and supplies consisted of tree seeds for a variety of tree species, tree seedlings (nursery stock) and Smoky Bear memorabilia. The tree seeds and seedlings are used for reforestation and the Smoky Bear memorabilia promotes forest fire prevention.

Commodity inventory is restricted for the purpose of alleviating distress caused by natural disasters, providing emergency food assistance in developing countries, and providing price support and stabilization. Commodity donations and loan forfeitures are estimated to be $964 and $5 million in fiscal 2004, respectively. Commodity donations and loan forfeitures were estimated to be $548 and $69 million in fiscal 2003, respectively.

Note 9. General Property, Plant, and Equipment, Net

FY 2003 Category	Useful Life (Years)	Cost	Accumulated Depreciation	Net Book Value
Land and Land Rights		$ 77	$ -	$ 77
Improvements to Land	10 - 50	4,872	2,375	2,497
Construction-in-Progress		320	-	320
Buildings, Improvements and Renovations	15 - 30	1,681	859	822
Other Structures and Facilities	15 - 50	1,516	1,048	468
Equipment	5 - 20	1,937	1,402	535
Assets Under Capital Lease	3 - 20	41	17	24
Leasehold Improvements	10	12	8	4
Internal-Use Software	5 - 8	264	130	134
Internal-Use Software in Development		32	-	32
Other General Property, Plant and Equipment	5 - 15	6	-	6
Total		$ 10,758	$ 5,839	$ 4,919

FY 2002 Category	Useful Life (Years)	Cost	Accumulated Depreciation	Net Book Value
Land and Land Rights		$ 77	$ 2	$ 75
Improvements to Land	10-50	4,827	2,337	2,489
Construction-in-Progress		102	-	102
Buildings, Improvements and Renovations	15-30	1,841	839	1,002
Other Structures and Facilities	15-50	1,614	1,004	610
Equipment	5-20	1,921	1,276	644
Leasehold Improvements	10	7	3	4
Internal-Use Software	5-8	172	76	96
Internal-Use Software in Development		13	1	12
Other General Property, Plant and Equipment	5-15	6	-	6
Total		$ 10,578	$ 5,538	$ 5,040

Note 10. Other Assets

		FY 2003		FY 2002
Intragovernmental:				
Advances to Others	$	4	$	1
Prepayments		3		-
Total Intragovernmental		7		1
With the Public:				
Advances to Others		207		243
Prepayments		1		-
Other Assets		37		41
Total Other Asssets	$	252	$	285

In fiscal 2003 and 2002, other assets include investments of $35 million in trust for loan asset sales.

Note 11. Liabilities Not Covered By Budgetary Resources

		FY 2003		FY 2002
Intragovernmental:				
Other	$	346	$	351
Debt held by the public		11		-
Federal employee and veterans' benefits		935		862
Environmental and disposal liabilities		8		7
Other		3,736		3,094
Total liabilities not covered by budgetary resources		5,036		4,314
Total liabilities covered by budgetary resources		110,710		108,384
Total liabilities	$	115,746	$	112,698

In fiscal 2003 and 2002, other liabilities not covered by budgetary resources includes accrued rental payments under the Conservation Reserve Program (CRP) of $1,634 and $1,600 million, unfunded leave of $524 and $494 million, estimated losses on insurance claims of $1,400 and $670 million, and contract dispute claims payable to Treasury's Judgment Fund of $192 and $189 million, respectively.

Note 12. Debt

FY 2003	Beginning Balance	Net Borrowing	Ending Balance
Agency Debt:			
Held by the Public	$ 84	$ (4)	$ 80
Other Debt:			
Debt to the Treasury	53,555	(115)	53,440
Debt to the Federal Financing Bank	22,379	321	22,700
Total Other Debt	75,934	206	76,140
Total Debt	$ 76,018	$ 202	$ 76,220

FY 2002	Beginning Balance	Net Borrowing	Ending Balance
Agency Debt:			
Held by the Public	$ 87	$ (3)	$ 84
Other Debt:			
Debt to the Treasury	55,608	(2,054)	53,554
Debt to the Federal Financing Bank	25,221	(2,842)	22,379
Total Other Debt	80,829	(4,896)	75,933
Total Debt	$ 80,916	$ (4,899)	$ 76,017

Note 13. Environmental and Disposal Liabilities

The Department is subject to the Comprehensive Environmental Response, Compensation, and Liability Act, the Clean Water Act, and the Resource Conservation and Recovery Act for cleanup of hazardous waste. The FS and CCC estimates the liability for total cleanup costs for sites known to contain hazardous waste to be $8 and $13 million in fiscal 2003 and $7 and $15 million in fiscal 2002, respectively, based on actual cleanup costs at similar sites. These estimates will change as new sites are discovered, remedy standards change and new technology is introduced.

Note 14. Other Liabilities

FY 2003		Non-Current		Current		Total
Intragovernmental						
Other Accrued Liabilities	$	16	$	1,030	$	1,046
Employer Contributions and Payroll Taxes		-		26		26
Unfunded FECA Liability		41		123		164
Advances from Others		2		21		23
Liability for Deposit Funds, Clearing Accounts		1		186		187
Resources Payable to Treasury		-		16,981		16,981
Custodial Liability		41		10		51
Other Liabilities		1		1,463		1,464
Total Intragovernmental		102		19,840		19,942
With the Public						
Other Accrued Liabilities		6		5,790		5,796
Accrued Funded Payroll and Leave		(2)		34		32
Employer Contributions and Payroll Taxes Payable		9		-		9
Unfunded Leave		29		495		524
Other Unfunded Employment Related Liability		611		747		1,358
Advances from Others		7		30		37
Deferred Credits		-		275		275
Liability for Deposit Funds, Clearing Accounts		24		975		999
Contingent Liabilities		9		9		18
Capital Lease Liability		-		23		23
Accounts Payable from Canceled Appropriations		5		-		5
Custodial Liability		-		96		96
Other Liabilities		1,327		3,361		4,688
Total Other Liabilities	$	2,127	$	31,675	$	33,802

Note 14. Other Liabilities

FY 2002		Non-Current		Current		Total
Intragovernmental						
Contract Holdbacks						
Other Accrued Liabilities	$	189	$	189	$	378
Employer Contributions and Payroll Taxes		-		16		16
Unfunded FECA Liability		38		120		158
Advances from Others		21		28		49
Liability for Deposit Funds, Clearing Accounts		-		1,018		1,018
Liability for Subsidy Related to Undisbursed Loans		-		990		990
Resources Payable to Treasury		-		18,598		18,598
Custodial Liability		31		23		55
Other Liabilities		-		130		130
Total Intragovernmental		280		21,112		21,393
With the Public						
Contract Holdbacks						
Other Accrued Liabilities		2		2,824		2,826
Accrued Funded Payroll and Leave		-		25		25
Other Post-Employment Benefits Due and Payable		-		8		8
Benefit Premiums Payable to Carriers		-		36		36
Unfunded Leave		19		475		494
Other Unfunded Employment Related Liability		572		52		623
Advances from Others		(21)		35		14
Deferred Credits		-		42		42
Liability for Deposit Funds, Clearing Accounts		31		1,440		1,471
Contingent Liabilities		37		7		44
Custodial Liability		-		225		225
Other Liabilities		22		5,013		5,034
Total Other Liabilities	$	943	$	31,294	$	32,237

In fiscal 2003, other liabilities include estimated losses on insurance claims of $2,803 million, stock payable to RTB borrowers of $1,309 million, amounts payable to Treasury's General Fund due to downward reestimates of $1,454 million, premium subsidy deficiency reserve of $342 million, and underwriting gains due companies of $167 million.

In fiscal 2002, other liabilities include estimated losses on insurance claims of $2,865 million and stock payable to RTB borrowers of $1,343 million.

Note 15. Leases

FY 2003

Capital Leases:		
Summary of Assets Under Capital Leases		
Land and Building	$ 41	
Accumulated Amortization	17	
Future Payments Due:		
	Land & Buildings	Totals
Fiscal Year		
2004	11	11
2005	11	11
2006	11	11
2007	11	11
2008	10	10
After 5 Years	98	98
Total Future Lease Payments	152	152
Less: Imputed Interest	41	41
Less: Executory Costs	24	24
Net Capital Lease Liability	87	87
Lease liabilities covered by budgetary resources		87

Operating Leases:			
Future Payments Due:			
Fiscal Year	Land & Buildings	Machinery & Equipment	Totals
2004	85	1	86
2005	74	1	75
2006	67	-	67
2007	61	-	61
2008	53	-	53
After 5 Years	331	-	331
Total Future Lease Payments	$ 671	$ 2	$ 673

FY 2002

Operating Leases:			
Future Payments Due:			
Fiscal Year	Land & Buildings	Machinery & Equipment	Totals
2003	$ 71	$ 1	$ 72
2004	65	1	66
2005	56	-	56
2006	58	-	58
2007	51	-	51
After 5 Years	239	-	239
Total Future Lease Payments	$ 540	$ 2	$ 542

Note 16. Commitments and Contingencies

The Department is subject to various claims and contingencies related to lawsuits as well as commitments under contractual and other commercial obligations.

For cases in which payment has been deemed probable and for which the amount of potential liability has been estimated, $19 and $38 million has been accrued in the financial statements as of September 30, 2003 and 2002, respectively.

No amounts have been accrued in the financial statements for claims where the amount or probability of judgment is uncertain. The Department's potential liability for these claims is $211 and $1,727 million as of September 30, 2003 and 2002, respectively.

In fiscal 2003 and 2002, commitments under contractual and other commercial obligations were estimated to be $52,000 million, primarily consisting of $20,000 million in rental payments under the CRP, $14,000 and $15,000 million in undelivered orders, $15,000 and $14,000 million in direct loans, and $3,000 million in loan guarantees, respectively.

RD has determined that no adequate funds were accrued to address future maintenance costs for the multiple family housing portfolio for 2003. For the next 5 years, approximately 4,250 properties and 85,000 apartment units will necessitate general modernization and costs are expected in the hundreds of millions of dollars.

In fiscal 2003, one of the FCIC's reinsured companies, American Growers Insurance Company (AGIC) was placed under an order of supervision by the Nebraska Department of Insurance. The FCIC is working with the Nebraska Department of Insurance and AGIC management to ensure that all outstanding policy claims will be paid and service to producers will continue. Approximately $580 million of the estimated $3,000 million losses on insurance claims for the 2002 crop year were related to business written by AGIC. Additional costs may be incurred by FCIC for other administrative costs of AGIC, however these costs are not quantifiable at this time.

Note 17. Suborganization Program Costs/Program Costs by Segment

FY 2003	FNCS	FFAS	NRE	RD	REE	MRP	FSIS	DO	Inter-Mission Area Elimination	Total
Program Costs (Notes 17, 18, & 19):										
Intragovernmental Gross Cost	$ 118	$ 1,193	$ 1,268	$ 3,409	$ 246	$ 1,787	$ 221	$ 285	$ (820)	$ 7,707
Less: Intragovernmental Earned Revenues	2	419	371	322	39	16	3	344	(428)	1,088
Intragovernmental Net Costs	116	774	897	3,087	207	1,771	218	(59)	(392)	6,619
Gross Costs With the Public										
Grants	40,537	19,017	848	1,530	1,055	71	41	—	-	63,099
Loan Cost Subsidies		(1,633)		855					-	(778)
Indemnities	-	3,768	12	8	1	59	-	—	-	3,848
Commodity Program Costs	798	5,770							-	6,568
Stewardship Land Acquisition		48	191						-	239
Other	161	2,483	5,597	2,257	1,348	1,253	697	600	-	14,396
Less: Earned Revenues from the Public	56	5,572	504	3,998	29	516	108	16	-	10,799
Net Costs with the Public	41,441	23,881	6,144	652	2,373	866	630	584	-	76,571
Net Cost of Operations	$ 41,558	$ 24,655	$ 7,041	$ 3,739	$ 2,580	$ 2,638	$ 848	$ 525	$ (392)	$ 83,192

FY 2002	FNCS	FFAS	NRE	RD	REE	MRP	FSIS	DO	Inter-Mission Area Elimination	Total
Program Costs :										
Intragovernmental Gross Costs	$ 910	$ 1,286	$ 1,004	$ 3,558	$ 318	$ 1,118	$ 196	$ 275	$ (768)	$ 7,897
Less: Intragovernmental Earned Revenue	1	370	299	297	57	7	2	333	(384)	983
Intragovernmental Net Costs	909	916	704	3,261	261	1,111	193	(57)	(384)	6,915
Gross Costs With the Public :					-	-				-
Grants	36,036	12,378	678	1,443	974	43	43		-	51,595
Loan Cost Subsidies	-	(620)	-	(373)	-	-	-	-	-	(994)
Indemnities		4,115	12	-		37			-	4,165
Commodity Program Costs	594	5,340	-	-	-		-	-	-	5,934
Stewardship Land Acquisition	-	105	108	-	-	-	-	-	-	212
Other	187	2,891	5,639	3,077	1,137	962	643	516	-	15,053
Less: Earned Revenues from the Public	104	4,794	397	4,047	50	535	101	11	-	10,040
Net Costs with the Public	36,714	19,414	6,038	99	2,061	508	585	505	-	65,925
Net Cost of Operations	$ 37,623	$ 20,330	$ 6,743	$ 3,360	$ 2,322	$ 1,618	$ 779	$ 448	$ (384)	$ 72,840

Note 17. Suborganization Program Costs/Program Costs by Segment

Food, Nutrition and Consumer Service

FY 2003	Child Nutrition	Food Stamp	Food Donations	Women, Infants, and Children	Commodity Assistance	Total
Program Costs :						
Intragovernmental Gross Costs	$ 5	$ 21	$ 91	$ 1	$ -	$ 118
Less: Intragovernmental Earned Revenue	-	-	1	-	-	1
Intragovernmental Net Costs	5	21	90	1	-	117
Gross Costs With the Public :						
Grants	10,375	25,431	85	4,553	93	40,537
Commodity Program Costs	534	152	45	-	67	798
Other	17	25	117	1	1	161
Less: Earned Revenues from the Public	-	55	-	-	-	55
Net Costs with the Public	10,926	25,553	247	4,554	161	41,441
Net Cost of Operations	$ 10,931	$ 25,574	$ 337	$ 4,555	$ 161	$ 41,558

FY 2002	Child Nutrition	Food Stamp	Food Donations	Women, Infants, and Children	Commodity Assistance	Total
Program Costs :						
Intragovernmental Gross Costs	$ 23	$ 56	$ 822	$ 9	$ 1	$ 910
Less: Intragovernmental Earned Revenue		1				1
Intragovernmental Net Costs	22	55	822	9	1	909
Gross Costs With the Public :						
Grants	9,698	21,662	169	4,415	92	36,036
Commodity Program Costs	367	91	56		80	594
Other	52	120	1	14		187
Less: Earned Revenues from the Public	6	78	-	15	5	104
Net Costs with the Public	10,111	21,796	225	4,414	168	36,714
Net Cost of Operations	$ 10,133	$ 21,851	$ 1,047	$ 4,422	$ 169	$ 37,623

Note 17. Suborganization Program Costs/Program Costs by Segment

Farm and Foreign Agricultural Services

FY 2003	Commodity Operations	Income Support	Conservation Programs	Foreign Programs	Farm Loan Programs	Crop Insurance	Other	Intra-Mission Area Elimination	Total
Program Costs :									
Intragovernmental Gross Costs	$ 48	$ 926	$ 201	$ 171	$ 635	$ 49	$ 479	$ (1,315)	$ 1,194
Less: Intragovernmental Earned Revenue	7	8	-	99	221	-	481	(397)	419
Intragovernmental Net Costs	41	918	201	72	414	49	(2)	(918)	775
Gross Costs With the Public :									
Grants	-	16,123	1,984	695	3	-	211		19,016
Loan Cost Subsidies	-	(7)	-	(1,121)	(505)	-	-		(1,633)
Indemnities	-	-	-	-	-	3,768	-		3,768
Commodity Program Costs	5,770	-	-	-	-	-	-		5,770
Stewardship Land Acquisition	-	-	48	-	-	-	-		48
Other	(55)	83	(7)	(365)	773	844	1,210		2,483
Less: Earned Revenues from the Public	3,212	102	(1)	491	659	1,072	36		5,571
Net Costs with the Public	2,503	16,097	2,026	(1,282)	(388)	3,540	1,385		23,881
Net Cost of Operations	$ 2,544	$ 17,015	$ 2,227	$ (1,210)	$ 26	$ 3,589	$ 1,383	$ (918)	$ 24,656

FY 2002	Commodity Operations	Income Support	Conservation Programs	Foreign Programs	Farm Loan Programs	Crop Insurance	Other	Intra-Mission Area Elimination	Total
Program Costs :									
Intragovernmental Gross Costs	$ 69	$ 807	$ 190	$ 1,279	$ 397	$ 61	$ (675)	$ (842)	$ 1,286
Less: Intragovernmental Earned Revenue	528	11	-	140	175	-	(389)	(95)	370
Intragovernmental Net Costs	(459)	796	190	1,139	222	61	(286)	(747)	916
Gross Costs With the Public :									
Grants	-	9,669	2,075	522	3	-	109		12,378
Loan Cost Subsidies	-	(2)	-	(552)	(67)	-	-		(620)
Indemnities	-	-	-	-	-	4,115			4,115
Commodity Program Costs	5,340	-	-	-	-	-	-		5,340
Stewardship Land Acquisition	-		105	-	-	-	-		105
Other	356	776	(3)	(72)	140	710	984		2,891
Less: Earned Revenues from the Public	2,098	87	(1)	572	601	1,419	18		4,794
Net Costs with the Public	3,598	10,356	2,178	(673)	(525)	3,405	1,075		19,414
Net Cost of Operations	$ 3,139	$ 11,153	$ 2,368	$ 466	$ (302)	$ 3,466	$ 789	$ (747)	$ 20,330

Note 17. Suborganization Program Costs/Program Costs by Segment

Natural Resources and Environment

FY 2003	National Forests and Grasslands	Forest Research	State and Private Forestry	Wildland Fire Management	Working Capital Fund	Natural Resources Conservation	Intra-Mission Area Elimination	Total
Program Costs :								
Intragovernmental Gross Costs	$ 843	$ 24	$ 13	$ 210	$ 22	$ 316	$ (160)	$ 1,268
Less: Intragovernmental Earned Revenue	145	48	9	128	158	43	(160)	371
Intragovernmental Net Costs	698	(24)	4	82	(136)	273	-	897
Gross Costs With the Public :								
Grants	421	6	237	7	-	177	-	848
Indemnities	10	-	-	1	-	1	-	12
Stewardship Land Acquisition	191	-	-	-	-	-	-	191
Other	1,988	279	139	1,734	344	1,113	-	5,597
Less: Earned Revenues from the Public	306	28	2	87	67	14	-	504
Net Costs with the Public	2,304	257	374	1,655	277	1,277	-	6,144
Net Cost of Operations	$ 3,002	$ 233	$ 378	$ 1,737	$ 141	$ 1,550	$ -	$ 7,041

FY 2002	National Forests and Grasslands	Forest Research	State and Private Forestry	Wildland Fire Management	Working Capital Fund	Natural Resources Conservation	Intra-Mission Area Elimination	Total
Program Costs :								
Intragovernmental Gross Costs	$ 484	$ 15	$ 13	$ 386	$ (219)	$ 328	$ (4)	$ 1,004
Less: Intragovernmental Earned Revenue	135	20	6	10	-	133	(4)	299
Intragovernmental Net Costs	350	(5)	8	376	(219)	195	-	704
Gross Costs With the Public :								
Grants	376	4	217	10		71	-	678
Indemnities	10			1			-	12
Stewardship Land Acquisition	108	-			-	-	-	108
Other	2,344	231	55	1,790	255	965	-	5,639
Less: Earned Revenues from the Public	313	3		60	-	22	-	397
Net Costs with the Public	2,525	232	272	1,741	255	1,014	-	6,038
Net Cost of Operations	$ 2,875	$ 227	$ 279	$ 2,117	$ 35	$ 1,209	$ -	$ 6,743

Note 17. Suborganization Program Costs/Program Costs by Segment

Rural Development

FY 2003	Mortgage Credit	Housing Assistance	Area and Regional Development	Energy Supply Conservation	Agricultural Research	Total
Program Costs :						
Intragovernmental Gross Costs	$ 1,028	$ 13	$ 644	$ 1,724	$ -	$ 3,409
Less: Intragovernmental Earned Revenue	101	1	142	79	-	323
Intragovernmental Net Costs	927	12	502	1,645	-	3,086
Gross Costs With the Public :						
Grants	1	793	732	-	4	1,530
Loan Cost Subsidies	153	2	226	474	-	855
Indemnities	5	-	2	1	-	8
Other	1,217	27	601	411	-	2,256
Less: Earned Revenues from the Public	1,482	-	607	1,908	-	3,997
Net Costs with the Public	(106)	822	954	(1,022)	4	652
Net Cost of Operations	$ 821	$ 834	$ 1,456	$ 623	$ 4	$ 3,738

FY 2002	Mortgage Credit	Housing Assistance	Area and Regional Development	Energy Supply Conservation	Agricultural Research	Total
Program Costs :						
Intragovernmental Gross Costs	$ 1,172	$ 13	$ 730	$ 1,643	$	$ 3,558
Less: Intragovernmental Earned Revenue	118		113	65		297
Intragovernmental Net Costs	1,054	12	617	1,578		3,261
Gross Costs With the Public :						
Grants	2	728	710	-	2	1,443
Loan Cost Subsidies	(486)	2	51	59	-	(373)
Other	3,458	23	(668)	265		3,077
Less: Earned Revenues from the Public	1,635	-	683	1,730	-	4,047
Net Costs with the Public	1,340	753	(590)	(1,406)	3	99
Net Cost of Operations	$ 2,394	$ 766	$ 26	$ 172	$ 3	$ 3,360

Note 17. Suborganization Program Costs/Program Costs by Segment

Research, Education and Economics

FY 2003	Agricultural Research	Economic Research	National Agricultural Statistics	Cooperative State Research Education and Extension	Intra-Mission Area Elimination	Total
Program Costs :						
Intragovernmental Gross Costs	$ 175	$ 31	$ 49	$ 47	$ (57)	$ 245
Less: Intragovernmental Earned Revenue	71	3	13	10	(57)	40
Intragovernmental Net Costs	104	28	36	37	-	205
Gross Costs With the Public :						
Grants	30	2	-	1,023	-	1,055
Indemnities	1	-	-	-	-	1
Other	1,105	51	115	77	-	1,348
Less: Earned Revenues from the Public	13	(1)	3	15	-	30
Net Costs with the Public	1,123	54	112	1,085	-	2,374
Net Cost of Operations	$ 1,227	$ 82	$ 148	$ 1,122	$ -	$ 2,579

FY 2002	Agricultural Research	Economic Research	National Agricultural Statistics	Cooperative State Research Education and Extension	Intra-Mission Area Elimination	Total
ogram Costs :						
Intragovernmental Gross Costs	$ 230	$ 24	$ 40	$ 39	$ (15)	$ 318
Less: Intragovernmental Earned Revenue	34	3	7	28	(15)	57
Intragovernmental Net Costs	196	21	33	10		261
Gross Costs With the Public :						
Grants	17	2	-	954		974
Other	708	55	92	282		1,137
Less: Earned Revenues from the Public	23	1	5	20		50
Net Costs with the Public	703	56	87	1,215		2,061
Net Cost of Operations	$ 899	$ 78	$ 120	$ 1,225	$ -	$ 2,322

Note 17. Suborganization Program Costs/Program Costs by Segment

Marketing and Regulatory Programs

FY 2003	Agricultural Marketing	Animal and Plant Health Inspection	Grain Inspection, Packers and Stockyards	Intra-Mission Area Elimination	Total
Program Costs :					
Intragovernmental Gross Costs	$ 1,534	$ 242	$ 22	$ (10)	$ 1,788
Less: Intragovernmental Earned Revenue	6	18	2	(10)	16
Intragovernmental Net Costs	1,528	224	20	-	1,772
Gross Costs With the Public :					
Grants	4	67	-	-	71
Indemnities	-	59	-	-	59
Other	241	966	46	-	1,253
Less: Earned Revenues from the Public	177	307	32	-	516
Net Costs with the Public	68	785	14	-	867
Net Cost of Operations	$ 1,596	$ 1,009	$ 34	$ -	$ 2,639

FY 2002	Agricultural Marketing	Animal and Plant Health Inspection	Grain Inspection, Packers and Stockyards	Intra-Mission Area Elimination	Total
Program Costs :					
Intragovernmental Gross Costs	$ 854	$ 242	$ 32	$ (10)	$ 1,118
Less: Intragovernmental Earned Revenue	(7)	22	2	(10)	7
Intragovernmental Net Costs	860	220	30		1,111
Gross Costs With the Public :					-
Grants	2	41	-		43
Indemnities		37			37
Other	119	788	56		962
Less: Earned Revenues from the Public	188	315	32		535
Net Costs with the Public	(67)	551	24		508
Net Cost of Operations	$ 793	$ 771	$ 54	$ -	$ 1,618

Note 18. Gross Cost and Earned Revenue by Budget Functional Classification

FY 2003

Budget Functional Classification		Gross Cost		Earned Revenue		Net Cost
150 International Affairs	$	(159)	$	199	$	(358)
270 Energy		2,610		1,987		623
300 Natural Resources and Environment		7,308		785		6,523
350 Agriculture		76,784		6,384		70,400
370 Commerce and Housing Credit		2,404		1,583		821
450 Community and Regional Development		2,243		750		1,493
550 Health		954		107		847
600 Income Security		2,326		1		2,325
800 General Government		608		91		517
Total		95,078		11,887		83,191

Intragovernmental Total Cost and Earned Revenue by Budget Functional Classification:

Budget Functional Classification		Gross Cost		Earned Revenue		Net Cost
270 Energy		1,724		79		1,645
300 Natural Resources and Environment		1,275		367		908
350 Agriculture		1,334		389		945
370 Commerce and Housing Credit		1,028		101		927
450 Community and Regional Development		646		142		504
550 Health		221		3		218
600 Income Security		1,479		2		1,477
800 General Government		-		6		(6)
Total	$	7,707	$	1,089	$	6,618

FY 2002

Budget Functional Classification		Gross Cost		Earned Revenue		Net Cost
150 International Affairs	$	1,026	$	229	$	797
270 Energy		1,967		1,795		172
300 Natural Resources and Environment		6,948		723		6,225
350 Agriculture		66,844		5,635		61,210
370 Commerce and Housing Credit		4,158		1,765		2,394
450 Community and Regional Development		855		796		59
550 Health		882		103		779
600 Income Security		682		1		681
800 General Government		500		(23)		523
Total	$	83,862	$	11,023	$	72,839

Intragovernmental Total Cost and Earned Revenue by Budget Functional Classification:

Budget Functional Classification		Gross Cost		Earned Revenue		Net Cost
150 International Affairs	$	508	$	-	$	508
270 Energy		1,643		65		1,578
300 Natural Resources and Environment		1,013		303		709
350 Agriculture		1,847		378		1,468
370 Commerce and Housing Credit		1,173		119		1,054
450 Community and Regional Development		732		113		619
550 Health		195		2		193
600 Income Security		785		2		783
Total	$	7,897	$	983	$	6,914

Note 19. Prior Period Adjustments

Restatements

In fiscal 2003, FS corrected its fiscal 2002 financial statements to align budgetary and proprietary account relationships and correct posting errors in the Wildland Fire Management fund, the Knutson-Vandenberg fund and other funds; account for budgetary resources received by trust, special, deposit, and clearing funds that had previously been accounted for as General funds; record revenue from the National Reservation System and Map sales that had been recorded as a liability as of September 30, 2002; and record liabilities that had been incorrectly recognized as reductions of operating costs during the year ended September 30, 2002. Correction of these errors increased the beginning balance of Cumulative Results of Operations by $883 and $1,027 million and decreased the beginning balance of Unexpended Appropriations by $876 and $677 million in fiscal 2003 and 2002, respectively.

In addition, FS recorded $18 million to the Balance Sheet for PP&E received but not accrued as of September 30, 2002; recorded a prior year $110 million expenditure transfer to the Wildland Fire Management fund and the subsequent payback during fiscal 2002 on the Statement of Changes in Net Position; corrected $23 million of errors in recording obligations for the Wildland Fire Management fund and adjusted offsetting receipts by approximately $413 million to reflect only distributed offsetting receipts on the Statement of Budgetary Resources, and excluded certain funds received from the Department of Labor-Job Corps that had previously been included in the Statement of Financing.

In fiscal 2002, FCIC changed its method of accounting for indemnities. Previously, FCIC had recognized subsidy expense when the risk was underwritten. Under the new accounting method, FCIC recognizes subsidy expense when indemnities are paid. The effect of this change was to decrease the beginning balance of the Cumulative Results of Operations and increase the beginning balance of Unexpended Appropriations by $300 and by $318 million in fiscal 2003 and 2002, respectively.

ARS restated PP&E as of September 30, 2002 to properly capitalize construction in progress and certain other real property. Correction of these errors increased the beginning balance of the Cumulative Results of Operations by $159 million in fiscal 2003.

Reclassifications

Certain reclassifications were made to conform to the current year presentation as follows:

FS increased Appropriations Received and decreased Other Adjustments by $3,432 million in the Statement of Changes in Net Position.

CCC decreased Grants and Other by $243 and $284 million respectively and increased Commodity Program Costs by $527 million. RMA increased Indemnities and decreased Earned Revenue from the Public by $220 million in the Statement of Net Cost.

In the Statement of Financing, RD increased Components Requiring or Generating Resources in Future Periods by $3,290 and decreased the Total Resources Used to Finance the Net Cost of Operations by $3,157 million and the Total Components not Requiring or Generating Resources by $133 million, respectively.

Note 20. Apportionment Categories of Obligations Incurred

FY 2003	Direct	Reimbursable	Total
Category A	$ 54,857	$ 930	$ 55,787
Category B	28,096	35,810	63,906
Exempt from Apportionment	1,396	18	1,414
Total Obligations Incurred	$ 84,349	$ 36,758	$ 121,107

FY 2002	Direct	Reimbursable	Total
Category A	$ 32,955	$ 672	$ 33,627
Category B	43,847	28,848	72,695
Exempt from Apportionment	173	24	197
Total Obligations Incurred	$ 76,975	$ 29,544	$ 106,519

Note 21. Available Borrowing Authority, End of Period

Available borrowing authority at September 30, 2003 and 2002 was $27,133 and $25,631 million, respectively.

Note 22. Terms of Borrowing Authority Used

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 nonreimbursed realized losses and debt related to foreign assistance programs. The permanent indefinite borrowing authority 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 the Federal Credit Reform Act of 1990 as amended, 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 in the form of Certificates of Beneficial Ownership (CBO) or loans executed directly between the borrower and FFB with an unconditional USDA repayment guarantee. CBO's outstanding with the FFB and private investors are generally secured by unpaid loan principal balances. CBO's outstanding are related to pre-credit reform loans and no longer used for program financing.

FFB's CBO's 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 a penalty; however, they cannot be made on FFB CBO's, without a 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.

Note 23. Adjustments to Beginning Balance of Budgetary Resources

	FY 2003		FY 2002	
	Obligated	Unobligated	Obligated	Unobligated
Beginning balances	$ 33,300	$ 23,801	$ 31,102	$ 26,294
Adjustments	(327)	90	(1,126)	942
Beginning balances, as adjusted	$ 32,973	$ 23,891	$ 29,976	$ 27,236

In fiscal 2003, FNS corrected errors in amounts previously reported. The effect of these corrections decreased obligated balances $532 and $460 million and increased unobligated balances $460 million in fiscal 2003 and 2002, respectively.

In fiscal 2003, FS corrected errors in amounts previously reported. The effect of these corrections increased obligated balances $204 million and decreased unobligated balances $370 million. In fiscal 2002, unobligated balances decreased $62 million.

In fiscal 2002, FCIC changed its method of accounting for indemnities. Previously, FCIC had recognized expended appropriations when the risk was underwritten. Under the new accounting method, FCIC recognizes expended appropriations when indemnities are paid. The effect of this change was to decrease obligated balances and increase unobligated balances $708 million.

In fiscal 2002, the Department changed its method of accounting for allocations of appropriation transfers. Previously, the Department reported activity in its Statement of Budgetary Resources related to allocations received from other Federal agencies. Under the new accounting method, the Department excludes the appropriation and related budgetary activity in its Statement of Budgetary Resources. The effect of this change was to decrease obligated and unobligated balances $30 million and $111 million, respectively.

Other adjustments for correction of errors increased obligated balances $72 million and decreased unobligated balances $53 million in fiscal 2002.

Note 24. 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 FS 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 FS programs are used to fund Recreation Fee Collection Costs, Brush Disposal, License programs, Smokey Bear and Woodsy Owl, Restoration of Forest Lands and Improvements, Roads and Trails for States, National Forest Fund, Timber Roads, Purchaser Elections, Timber Salvage Sales and Operations, and Maintenance of Quarters. Each of these permanent indefinite appropriations is funded by receipts made available by law, and is available until expended.

Note 25. Legal Arrangements Affecting Use of Unobligated Balances

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 is specifically stated by program and fiscal year in the appropriation language or in the alternative provisions section at the end of the appropriations act.

Note 26. Differences Between the Statement of Budgetary Resources and the Budget of the United States Government

FY 2002

	Budgetary Resources	Outlays
Combined Statement of Budgetary Resources	$ 130,410	$ 72,206
Reconciling Items:		
Expired accounts	(12,246)	(104)
Audit adjustments	(635)	-
Agricultural Quarantine Inspection user fees	(185)	(171)
Department of Homeland Secuirty transfers	(44)	(11)
Native American Institution Endowment Fund	(32)	-
Milk Market Orders Assessment Fund	81	-
Food Stamp Program	28	-
Fund for Rural America	-	11
Other	40	9
Budget of the United States Government	$ 117,417	$ 71,940

The differences between the fiscal 2002 Statement of Budgetary Resources and the fiscal 2002 actual numbers presented in the fiscal 2004 Budget of the United States Government (Budget) are summarized above.

The Budget excludes expired accounts that are no longer available for new obligations. Audit adjustments were made subsequent to the Budget submission. The Budget includes a portion of the Agricultural Quarantine Inspection user fees appropriated whereas the Statement of Budgetary Resources reflects the total of user fees collected. The Budget reflects transfers to the Department of Homeland Security for comparability even though the transfers did not occur until fiscal 2003. Unavailable collections for the Native American Institution Endowment Fund were included as budgetary resources in the Statement of Budgetary Resources. The Budget includes the Milk Market Orders Assessment Fund since employees of the Milk Market Administrators participate in the Federal retirement system, though these funds are not available for use by the Department. Actual reimbursable authority from offsetting collections earned from the Food Stamp Program varied from estimates made at the time the Budget was submitted. The 2002 Farm Bill repealed the Fund for Rural America that is excluded from the Statement of Budgetary Resources. Other items mainly consist of balances in suspense accounts that are excluded from the Budget.

A comparison between the fiscal 2003 Statement of Budgetary Resources and the fiscal 2003 actual numbers presented in the fiscal 2005 Budget cannot be performed as the fiscal 2005 Budget is not yet available. The fiscal 2005 Budget is expected to be published in February 2004 and will be available from the Government Printing Office.

Note 27. Relationship Between Liabilities Not Covered by Budgetary Resources on the Balance Sheet and the Change in Components Requiring or Generating Resources in Future Periods

	FY 2003		FY 2002
Current year liabilities not covered by budgetary resources, as disclosed in Note 11	5,036	$	4,314
Prior year liabilities not covered by budgetary resources	(4,314)		(3,158)
Increase (Decrease) in liabilities not covered by budgetary resources	722		1,156
Upward/Downward Reestimates of Credit Subsidy Expense	(315)		(260)
Decrease in Exchange Revenue Receivable from the Public	597		125
Other	2,160		204
Components requiring or generating resources in future periods, as reported on the Statement of Financing	3,164	$	1,225

The change in liabilities not covered by budgetary resources should be the same as the change in components requiring or generating resources in future periods, except for other components requiring or generating resources in future periods that are reported separately. The components requiring or generating resources in future periods as reported on the Statement of Financing differ from the components requiring or generating resources in future periods reflected above for the portion of liabilities not covered by budgetary resources.

Note 28. Description of Transfers that Appear as a Reconciling Item on the Statement of Financing

Allocation transfers that appear as reconciling items on the Statement of Financing include funds received from the Department of Labor for training underemployed youths; the Department of Transportation for maintenance and upkeep of federal highways traversing National Forest System lands; the Appalachian Regional Commission and Economic Development Administration for accounting services; and funds transferred to the Agency for International Development for transportation in connection with foreign commodity donations.

Note 29. Incidental Custodial Collections

	FY 2003	FY 2002
Revenue Activity:		
Sources of Collections:		
Miscellaneous	$ 126	$ 256
Total Cash Collections	126	256
Accrual Adjustments	(13)	11
Total Custodial Revenue	113	267
Disposition of Collections:		
Transferred to Others:		
Treasury	(10)	(240)
States and Counties	(22)	-
Increase in Amounts Yet to be Transferred	(80)	(27)
Retained by the Reporting Entity	(1)	-
Net Custodial Activity	$ -	$ -

The majority of custodial collections represent National Forest Fund receipts from the sale of timber and other forest products. The balance represents miscellaneous general fund receipts such as collections on accounts receivable related to canceled year appropriations, civil monetary penalties and interest, and commercial fines and penalties. Custodial collection activities are considered immaterial and incidental to the mission of the Department.

REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION

USDA has stewardship responsibility for certain resources entrusted to it that do not meet the criteria for recognition in the financial statements. Information about these resources is important to understanding USDA's mission, 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 financial statements in the year the costs are incurred. However, these costs and resultant resources are intended to provide long-term benefits to the public and are included as required supplementary stewardship reporting to highlight their long-term benefit nature and to demonstrate accountability over them.

Stewardship resources are categorized into two major groups as follows:

Stewardship Property, Plant and Equipment

Stewardship PP&E consists of assets whose physical properties resemble those of general PP&E that are traditionally capitalized in financial statements. However, due to the nature of these assets, (1) valuation would be difficult and (2) matching costs with specific periods would not be meaningful. Stewardship PP&E includes heritage assets and stewardship land.

Stewardship Investments

Stewardship investments are substantial investments made by the Federal Government for the benefit of the nation but are not physical assets owned by the Federal Government. Such investments are measured in terms of expenses incurred for non-federal physical property, human capital, and research and development.

Heritage Assets

Category	FY 2002 Sites	Condition
Total Heritage Assets	308,431	Poor-Fair
Eligible for the National Register of Historic Places	51,630	Poor-Fair
Listed on the National Register	2,834	Fair
Sites with structures listed on the National Register	1,083	Poor-Fair
National Historic Landmarks	17	Fair

The FS estimates that over 300 thousand heritage assets are on land that it manages. This information was estimated from the nine FS regions and annual Department of the Interior Report to Congress. Some of these assets are listed on the National Register of Historic Places and some are designated as National Historic Landmarks. The number of sites for fiscal 2003 was not available at time of publication. Heritage assets include the following:

Historic Structures

Constructed works consciously created to serve some human purpose. They include buildings, monuments, logging and mining camps, and ruins.

National Historic Landmarks

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

National Register of Historic Places

Includes properties, buildings, and structures that are significant in U.S. history, architecture, and archaeology, and the cultural foundation of the Nation.

Eligible for the National Register

Those sites formally determined as eligible for the National Register through the Keeper of the National Register or documented by consultation with State Historic Preservation Offices.

Stewardship Land

Description	FY 2003 Balance	Additions (+)	Withdrawals (-)	FY 2002 Balance
National Forest System Land (In acres):				
National Forests	143,843,276	46,593	-	143,796,683
Wilderness Areas	34,828,502	39,194	-	34,789,308
Primitive Areas	173,762	-	-	173,762
Wild and Scenic River Areas	947,999	1,621	-	946,378
Recreation Areas	2,911,239	875	-	2,910,364
Scenic-Research Areas	137,072	1,257	-	135,815
Game Refuges and Wildlife Preserve Areas	1,198,099	-	-	1,198,099
Monument Areas	3,833,941	-	(6,641)	3,840,582
National Grasslands	3,839,167	2,590	-	3,836,577
Purchase Units	359,351	2,298	-	357,053
Land Utilization Projects	1,876	-	-	1,876
Other Areas	450,401	-	(860)	451,261
Total National Forest System Land	192,524,685	94,428	(7,501)	192,437,758
Conservation Easements (In acres):				
Commodity Credit Corporation				
Wetlands Reserve Program	1,099,335	127,655	-	971,680
Natural Resources Conservation Service				
Emergency Wetlands Reserve Program	92,159	-	-	92,159
Emergency Watershed Protection Program	94,099	6,079	-	88,020
Total Conservation Easements	1,285,593	133,734	-	1,151,859

Description	FY 2002 Balance	Additions (+)	Withdrawals (-)	FY 2001 Balance
National Forest System Land (In acres):				
National Forests	143,796,683	-	(52,114)	143,848,797
Wilderness Areas	34,789,308	-	(23,349)	34,812,657
Primitive Areas	173,762	-	-	173,762
Wild and Scenic River Areas	946,378	1,223	-	945,155
Recreation Areas	2,910,364	-	-	2,910,364
Scenic-Research Areas	135,815	-	-	135,815
Game Refuges and Wildlife Preserve Areas	1,198,099	31,725	-	1,166,374
Monument Areas	3,840,582	-	-	3,840,582
National Grasslands	3,836,577	10	-	3,836,567
Purchase Units	357,053	6,452	-	350,601
Land Utilization Projects	1,876	-	-	1,876
Other Areas	451,261	89,716	-	361,545
Total National Forest System Land	192,437,758	129,126	(75,463)	192,384,095
Conservation Easements (In acres):				
Commodity Credit Corporation				
Wetlands Reserve Program	971,680	342,615	-	629,065
Natural Resources Conservation Service				
Emergency Wetlands Reserve Program	92,159	-	-	92,159
Emergency Watershed Protection Program	88,020	-	-	88,020
Total Conservation Easements	1,151,859	342,615	-	809,244

National Forest System

The FS manages over 192 million acres of public land, the majority of which is classified as stewardship land. Stewardship land is valued for its environmental resources, recreational and scenic value, cultural and paleontological resources, vast open spaces, and resource commodities and revenue provided to the Federal government, states and counties. The National Forest System (NFS) is comprised of the following:

National Forests

A unit formerly established and permanently set-aside and reserved for National Forest purposes. The following categories of NFS lands have been set-aside for specific purposes in designated areas:

- Wilderness Areas: Areas designated by Congress as part of the National Wilderness Preservation System.
- Primitive Areas: Areas designated by the Chief of the Forest Service as primitive areas. They are administered in the same manner as wilderness areas, pending studies to determine sustainability as a component of the National Wilderness Preservation System.
- Wild and Scenic River Areas: Areas designated by Congress as part of the National Wild and Scenic River System.
- Recreation Areas: Areas established by Congress for the purpose of assuring and implementing the protection and management of public outdoor recreation opportunities.
- 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 areas for research and scientific purposes.
- Game Refuges and Wildlife Preserve Areas: Areas designated by Presidential Proclamation or by Congress for the protection of wildlife.
- Monument Areas: Areas including historic landmarks, historic and prehistoric structures, and other objects for historic or scientific interest, declared by Presidential Proclamation or by Congress.

National Grasslands

A unit designated by the Secretary of Agriculture and permanently held by the USDA under Title III of the Bankhead-Jones Tenent Act.

Purchase Units

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. The law authorizes the federal government to purchase lands for stream-flow protection, and maintain the acquired lands as national forests.

Land Utilization Projects

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

Other Areas

Areas administered by the FS that are not included in one of the above groups.

Condition of NFS Lands

The FS monitors the condition of NFS lands based on information compiled by two national inventory and monitoring programs. Annual inventories of forest status and trends are conducted by the Forest Inventory and Analysis program in 48 States covering 70 percent of the forested lands of the U.S. The Forest Health Monitoring program is active in 50 states providing surveys and evaluations of forest health conditions and trends. While most of the 149 million acres of forestland on NFS lands continue to produce valuable benefits (i.e. clean air, clean water, habitat for wildlife, and products for human use), significant portions are at risk to pest outbreaks and/or catastrophic fires.

About 33 million acres of NFS forestland are at risk to future mortality from insects and diseases (based on the current Insect and Disease Risk Map). Nearly 73 million acres of NFS forestland are prone to catastrophic fire based on current condition and departure from historic fire regimes (Fire Regimes 1&2 and Condition Classes 2&3). Based on these two maps, approximately 9.5 million acres are at risk to both pest caused mortality and fire. Invasive species of insects, diseases and plants continue to impact our native ecosystems by causing mortality to, or displacement of native vegetation. The National Fire Plan has enhanced our efforts to prevent and suppress future fires adequately and restore acres that are at risk. Risk to fires was reduced by fuel hazard treatments on 1.4 million acres of NFS lands in fiscal 2003. Insect and disease prevention and suppression treatments were completed on 1.5 million acres of NFS lands in fiscal 2003.

At the time of submission of this information the net change values include the net effects of FS land transactions, except for the Southwestern region. Land that is needed to protect critical wildlife habitat, cultural and historic values, support the purposes of congressional designation, and satisfy recreation and conservation purposes is acquired through purchase or exchange.

Conservation Easements

Wetlands Reserve Program

The Wetlands Reserve Program (WRP) is a voluntary program established to restore, protect, and enhance wetlands on agricultural land. Participants in the program may sell a conservation easement or enter into a cost-share restoration agreement with CCC/NRCS 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 suitable for wildlife benefits. Once land is enrolled in the program, the landowner continues to control access to the land—and may lease the land—for hunting, fishing, and other undeveloped recreational activities. Once enrolled, the land is monitored to ensure compliance with program requirements. At any time, a landowner may request the evaluation of additional activities (such as cutting hay, grazing livestock, or harvesting wood products) to determine if there are other compatible uses for the site. Compatible uses are allowed if it is fully consistent with the protection and enhancement of the wetland. The condition of the land is immaterial as long as the easement on the land meets the eligibility requirements of the program.

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

year easement payment is 75 percent of what would be provided for a permanent easement on the same site and 75 percent of the restoration cost.

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

In fiscal 2002, funding responsibility for WRP returned to NRCS; however, CCC remains responsible for easements using funding prior to the signing of the 2002 Farm Bill. Additionally, CCC acres acquired during fiscal 2003 were purchased with CCC funds, as in the past.

Emergency Wetlands Reserve Program

The Emergency Wetlands Reserve Program (EWRP) administered by NRCS 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 restoring agricultural production lands that previously were wetlands. The program is patterned after the WRP. 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 that 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 in 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 restoring the wetland. There are no provisions in the easement to terminate the purchase.

Emergency Watershed Protection Program

The Emergency Watershed Protection Program (EWP) Floodplain Easements is administered by NRCS. A floodplain easement is purchased on flood prone lands to provide a more permanent solution to repetitive disaster assistance payments and achieve greater environmental benefits where the situation warrants when 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 in 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 floodplain 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.

Stewardship Investments

(in millions)

Program	FY 2003 Expense	FY 2002 Expense	FY 2001 Expense	FY 2000 Expense
Non-Federal Physical Property:				
Food and Nutrition Service				
Food Stamp Program	$ 39	$ -	$ 41	$ 28
Special Supplemental Nutrition Program	16	-	18	29
Cooperative State Research, Education, and Extension Service				
Extension 1890 Facilities Program	15	14	12	12
Total Non-Federal Property	$ 70	$ 14	$ 71	$ 69
Human Capital:				
Cooperative State Research, Education, and Extension Service				
Higher Education and Extension Programs	$ 511	$ 532	$ 479	$ 466
Food and Nutrition Service				
Food Stamp Program	99	-	57	156
Forest Service				
Job Corps Program	118	104	101	94
Agricultural Research Service				
National Agricultural Library	21	20	21	19
Risk Management Agency				
Risk Management Education	4	-	-	1
Total Human Capital	$ 753	$ 656	$ 658	$ 736
Research and Development:				
Agricultural Research Service				
Plant Sciences	$ 394	$ 384	$ 324	$ 296
Commodity Conversion and Delivery	185	182	194	172
Animal Sciences	194	102	146	133
Soil, Water, and Air Sciences	110	100	98	89
Human Nutrition	78	80	77	72
Integration of Agricultural Systems	43	40	34	31
Collaborative Research Program	6	11	11	-
Cooperative State Research, Education, and Extension Service				
Land-grant University System	601	542	495	476
Forest Service				
Natural Resource Management	233	227	200	255
Economic Research Service				
Economic and Social Science	69	67	66	64
National Agricultural Statistics Service				
Statistical	5	5	4	4
Total Research and Development	$ 1,918	$ 1,740	$ 1,649	$ 1,592

Non-Federal Physical Property

Food and Nutrition Service

FNS' nonfederal physical property consists of computer systems and other equipment obtained by the State and local governments for the purpose of administering the Food Stamp Program. The total Food Stamp Program Expense for ADP Equipment & Systems has been reported as of the date of FNS' financial statements. FNS' nonfederal physical property also consists of computer systems and other equipment obtained by the State and local governments for the purpose of administering the Special Supplemental Nutrition Program for Women, Infants and Children.

Cooperative State Research, Education and Extension Service

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 African-American land-grant universities.

Human Capital

Cooperative State Research, Education and Extension Service

The Higher Education programs include graduate fellowship grants, competitive challenge grants, Secondary/2-year Post Secondary grants, Hispanic serving institutions education grants, a multicultural scholars program, a Native American institutions program, a Native American institutions endowment fund, an Alaska Native Serving and Native Hawaiian Serving institutions program, and a capacity building program at the 1890 institutions. 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. CSREES also supports extension-related work at 1862 and 1890 land-grant institutions throughout the country through formula and competitive programs. CSREES supported the Outreach and Assistance for Disadvantaged Farmers program for the first time in fiscal 2003. The purpose is to enhance the ability of minority and small farmers and ranchers to operate farming or ranching enterprises independently to assure adequate income and maintain reasonable lifestyles.

Food and Nutrition Service

FNS' human capital consists of employment and training (E&T) for the Food Stamp Program. The E&T program requires recipients of food stamp benefits to participate in an employment and training program as a condition for food stamp eligibility.

Outcome data for the E&T program is only available through the third quarter. As of this period, FNS' E&T program has placed 769,535 work registrants subject to the 3-month Food Stamp Program participant limit and 503,200 work registrants not subject to the limit in either job-search, job-training, job-workfare, education, or work experience.

Forest Service

In partnership with the U.S. Department of Labor (DOL), the FS operates 18 Job Corps Civilian Conservation Centers. Job Corps is the only Federal residential employment and education training program for economically challenged young people, ages 16-24. The purpose of the program is to provide young adults with the skills necessary to become employable, independent, and productive citizens. Job Corps is funded from DOL annually on a program year beginning on July 1 and ending on June 30 of each year.

During fiscal 2003 (July 1st to June 30th), there were 8,277 participants with 3,291 placements. The average starting hourly wage for FS Job Corps students was $8.52, which is 50 cents above the DOL national average rate. Approximately, 1,931 women students received training in nontraditional vocations. There were 1,075 students enrolled in the GED program, 431 students enrolled in High School programs, and 62 ex-Job Corps students working at 18 Centers. Over 2,000 Job Corps students and 300 staff assisted the agency in its fire fighting efforts. The students also accomplished conservation work on National Forest lands appraised at $14.6 million. All the Job Corps Centers were studied under the A-76 Streamlined Competitive Sourcing process. All 18 centers won the competition and the center operations will remain in house.

Established in 1964, Job Corps has trained and educated about 227,000 young men and women. The program is administered in a structured, coeducational, and residential environment that provides education, vocational and life-skills training, counseling, medical care, work experience, placement assistance and follow-up, recreational opportunities, and biweekly monetary stipends. Job corps students can choose from a wide variety of careers such as urban forestry, heavy equipment operations and maintenance, business clerical, carpentry, culinary arts, painting, cement and brick masonry, welding, auto mechanics, health services, building and apartment maintenances, warehousing, and plastering.

Agricultural Research Service

As the Nation's primary source for agricultural information, the National Agricultural Library (NAL) has a mission to increase the availability and utilization of agricultural information for researchers, educators, policymakers, consumers of agricultural products, and the public. The NAL is one of the world's largest and most accessible agricultural research libraries and plays a vital role in supporting research, education, and applied agriculture.

The NAL was created as the departmental library for USDA in 1862 and became a national library in 1962. One of four national libraries of the U.S. (with the Library of Congress, the National Library of Medicine, and the National Library of Education), it is also the coordinator for a national network of State land-grant and USDA field libraries. In its international role, the NAL serves as the U.S. center for the international agricultural information system, coordinating and sharing resources and enhancing global access to agricultural data. The NAL collection of over 3.5 million items and its leadership role in information services and technology applications combine to make it the foremost agricultural library in the world.

Risk Management Agency

In response to the Secretary's 1996 Risk Management Education (RME) initiative, and as mandated by the 1996 Act, the FCIC has formed new partnerships with CSREES, the Commodity Futures Trading Commission, the USDA National Office of Outreach, Economic Research Service, and private industry to leverage the Federal 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 RME Summit that raised awareness of the tools and resources needed by farmers and ranchers to manage their risks. RMA has built on this foundation during fiscal year 2003 by expanding State and Regional education partnerships; encouraging the development of information and technology decision aids; supporting the National Future Farmers of America foundation with an annual essay contest; facilitating local training workshops; and supporting cooperative agreements with educational and outreach organizations.

One of the directives of Agricultural Risk Protection Act is to expedite the FCIC's educational and outreach efforts in certain areas of the country that have been historically underserved by the Federal crop insurance program. The Secretary determined that fifteen states met the underserved criteria. These states are Maine, Massachusetts, Connecticut, Wyoming, New Jersey, New York, Delaware, Nevada, Pennsylvania, Vermont, Maryland, Utah, Rhode Island, New Hampshire and West Virginia.

Research and Development

Agricultural Research Service

ARS is the principal in-house research agency of USDA. Its mission is to conduct research to develop the following program activities:

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 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 improving productivity.

Commodity Conversion and Delivery

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

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. Additionally, the research includes the development of systems and technologies to better manage and utilize animal wastes.

Soil, Water, and Air Sciences

The research program is directed to managing and conserving the nation's soil, water, and air resources to maintain 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.

Human Nutrition

The research program emphasis is on promoting optimum human health and well-being through improved nutrition. Research is directed to defining the nutrient requirements of humans at all stages of the life cycle. The research also focuses on determining the nutrient content of agricultural products and processed foods consumed, 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 resources management and facilitate the transfer of technology to users.

Collaborative Research Program

Funds from the U.S. Agency for International Development allow USDA to provide short-term scientific exchanges with the new independent states of the former Soviet Union to develop market-based agricultural systems necessary to meet the food needs of their populations and develop and strengthen trade linkages between their countries and related agribusiness and agricultural enterprise in the United States.

The NAL also provides support to ARS' research programs.

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 USDA. 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.

Forest Service

FS research and development provides reliable science based information that is incorporated into natural resource decision-making. Efforts consist of developing new technology, and then adapting and transferring this technology to facilitate more effective resource management. Some major research areas include:

- Vegetation Management and Protection;
- Wildlife, Fish, Watershed, and Air;
- Resource Valuation and Use Research; and
- Forest Resources Inventory and Monitoring.

Research staff is involved in all areas of the FS supporting agency goals by providing more efficient and effective methods where applicable.

A representative summary of accomplishments include:

- Estimated 316 new interagency agreements and contracts;
- Estimated 221 interagency agreements and contracts continued;
- Estimated 1,326 articles published in journals;
- Estimated 1,829 articles published in all other publications;
- Six patents granted; and
- Eighteen rights to inventions established.

Economic Research Service

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.

National Agricultural Statistics Service

Statistical research and service is conducted to improve the statistical methods and related technologies used in developing U.S. agricultural statistics. The highest priority of the research agenda is to aid the NASS estimation program through development of better estimators at lower cost and with less respondent burden. This means greater efficiency in sampling and data collection coupled with higher quality data upon which to base the official estimates. In addition, new products for data users are being developed with the use of technologies such as remote sensing and geographic information systems. Continued service to users will be increasingly dependent upon methodological and technological efficiencies.

REQUIRED SUPPLEMENTARY INFORMATION

Statement of Budgetary Resources

FY 2003	FFAS		RD		FNCS	FSIS	MRP	NRE	REE	DO	Total	Total
	Budgetary	Non-Budgetary Credit Program Financing Accounts	Budgetary	Non-Budgetary Credit Program Financing Accounts	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Non-Budgetary Credit Program Financing Accounts
Budgetary Resources:												
Budget Authority:												
Appropriations Received	$ 25,338		$ 3,545		$ 37,148	$ 764	$ 7,074	$ 6,873	$ 2,667	$ 560	$ 83,969	-
Borrowing Authority (Note 21 & 22)	49,343	$ 2,881	-	$ 7,376	-	-	-	-	-	-	49,343	$ 10,257
Net Transfers	(2,091)	-	82	-	4,819	-	(4,299)	1,326	(30)	5	(188)	-
Unobligated Balances:												
Beginning of Period (Note 26)	2,477	4,188	1,487	1,076	12,216	58	626	1,010	562	192	18,628	5,264
Net Transfers, Actual	(315)	-	-	-	-	-	-	(116)	(9)	-	(440)	-
Spending Authority From Offsetting Collections:												
Earned												
Collected	16,248	3,250	6,382	4,471	102	107	170	784	112	397	24,302	7,721
Receivable from Federal Sources	1,467	58	69	4	-	1	(8)	82	(18)	3	1,596	62
Advance Received	292	-	-	-	-	-	(1)	(1)	(1)	-	289	-
Without Advance from Federal Sources	2	8	-	48	-	-	-	(50)	18	76	46	56
Subtotal	18,009	3,316	6,451	4,523	101	107	162	816	110	476	26,232	7,839
Recoveries of Prior Year Obligations	1,416	91	193	346	470	80	282	354	978	82	3,855	437
Permanently not Available	(48,413)	(2,408)	(4,101)	(1,866)	(4,572)	(6)	(14)	(34)	(25)	(6)	(57,171)	(4,274)
Total Budgetary Resources	$ 45,764	$ 8,068	$ 7,657	$ 11,455	$ 50,182	$ 1,003	$ 3,831	$ 10,229	$ 4,253	$ 1,309	$ 124,228	$ 19,523

FY 2003	FFAS		RD		FNCS	FSIS	MRP	NRE	REE	DO	Total	Total
	Budgetary	Non-Budgetary Credit Program Financing Accounts	Budgetary	Non-Budgetary Credit Program Financing Accounts	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Non-Budgetary Credit Program Financing Accounts
Status of Budgetary Resources:												
Obligations Incurred (Note 20):												
Direct	$ 7,832	$ 3,658	$ 4,872	$ 10,064	$ 42,044	$ 836	$ 3,053	$ 7,971	$ 3,427	$ 591	$ 70,626	$ 13,722
Reimbursable	34,504	-	487	-	61	102	195	769	158	485	36,761	-
Subtotal	42,336	3,658	5,359	10,064	42,105	938	3,248	8,740	3,585	1,076	107,387	13,722
Unobligated Balance:												
Apportioned	2,738	4,300	317	1,043	760	25	317	964	564	147	5,832	5,343
Exempt from Apportionment	11	1	-	-	-	1	246	35	32	3	328	1
Other Available	9	-	-	-	-	-	-	-	-	-	9	-
Unobligated Balance not Available	670	109	1,981	348	7,317	39	20	490	72	83	10,672	457
Total Status of Budgetary Resources	45,764	8,068	7,657	11,455	50,182	1,003	3,831	10,229	4,253	1,309	124,228	19,523
Relationship of Obligations to Outlays:												
Obligated Balance, Net, Beginning of Perioc	5,937	604	6,774	13,158	2,354	73	325	2,150	1,494	104	19,211	13,762
Accounts Receivable	(2,091)	(166)	(94)	(4)	-	(24)	(50)	(273)	(50)	(64)	(2,646)	(170)
Unfilled Customer Orders from Federal S:	(8)	(18)	-	(714)	-	-	-	(106)	(96)	(104)	(314)	(732)
Undelivered Orders	2,552	247	6,599	15,105	435	91	478	2,107	1,669	213	14,144	15,352
Accounts Payable	5,879	419	411	2	2,360	21	67	979	59	54	9,830	421
Outlays:												
Disbursements	39,056	3,623	4,954	8,434	41,194	842	2,804	7,796	2,519	1,098	100,263	12,057
Collections	(16,541)	(3,250)	(6,382)	(4,471)	(102)	(107)	(169)	(783)	(110)	(398)	(24,592)	(7,721)
Subtotal	22,515	373	(1,428)	3,963	41,092	735	2,635	7,013	2,409	700	75,671	4,336
Less: Offsetting Receipts	351	1,293	790	-	-	1	5	405	-	-	1,552	1,293
Net Outlays	$ 22,164	$ (920)	$ (2,218)	$ 3,963	$ 41,092	$ 734	$ 2,630	$ 6,608	$ 2,409	$ 700	$ 74,119	$ 3,043

FY 2002	FFAS		RD		FNCS	FSIS	MRP	NRE	REE	DO	Total	Total
	Budgetary	Non-Budgetary Credit Program Financing Accounts	Budgetary	Non-Budgetary Credit Program Financing Accounts	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Non-Budgetary Credit Program Financing Accounts
Budgetary Resources:												
Budget authority:												
Appropriations received	$ 30,037	$ -	$ 4,618	$ -	$ 32,806	$ 734	$ 7,260	$ 6,132	$ 2,511	$ 509	$ 84,607	-
Borrowing authority	34,054	1,586	1	8,103	-	-	-	-	-	-	34,055	$ 9,689
Net transfers	(3,501)	-	588	-	5,173	-	(5,046)	580	15	21	(2,171)	-
Beginning of period	5,443	1,728	1,159	612	16,001	45	488	1,303	338	118	24,896	2,341
Net transfers, actual	(7)	-	-	-	20	-	2	(73)	-	-	(57)	-
Spending authority from offsetting collections:												-
Earned												-
Collected	13,762	3,548	5,877	3,634	143	101	162	1,299	81	383	21,808	7,183
Receivable from Federal sources	(479)	(68)	(12)	(694)	-	2	17	(216)	12	(20)	(695)	(762)
Advance received	209	-	-	-	(15)	-	-	(48)	2	-	148	-
Without advance from Federal sources	(3)	(2)	-	666		-	-	26	10	22	55	664
Subtotal	13,489	3,478	5,866	3,606	128	103	179	1,061	105	385	21,317	7,084
Recoveries of prior year obligations	472	78	268	210	712	73	176	125	778	60	2,664	288
Permanently not available	(42,135)	(597)	(5,290)	(1,296)	(4,931)	(1)	(10)	(22)	(15)	(4)	(52,407)	(1,893)
Total Budgetary Resources (Note)	$ 37,852	$ 6,273	$ 7,210	$ 11,236	$ 49,910	$ 954	$ 3,050	$ 9,106	$ 3,732	$ 1,089	$ 112,902	$ 17,509

FY 2002	FFAS		RD		FNCS	FSIS	MRP	NRE	REE	DO	Total	Total
	Budgetary	Non-Budgetary Credit Program Financing Accounts	Budgetary	Non-Budgetary Credit Program Financing Accounts	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Non-Budgetary Credit Program Financing Accounts
Status of Budgetary Resources:												
Obligations incurred (Note):												
Direct	$ 8,419	$ 2,085	$ 5,242	$ 10,160	$ 37,614	$ 795	$ 2,006	$ 7,113	$ 3,021	$ 519	$ 64,730	$ 12,245
Reimbursable	26,956	-	481	-	79	102	418	983	149	377	29,545	
Subtotal	35,375	2,085	5,723	10,160	37,693	897	2,424	8,096	3,170	896	94,274	12,245
Unobligated balance												
Apportioned	1,834	3,978	207	274	517	43	432	823	409	80	4,346	4,252
Exempt from apportionment	42		-	-	-	1	172	10	56		281	
Other available	299	-	-	-	-	-	-	-	-	-	299	
Unobligated balance not available	301	210	1,279	802	11,699	13	21	177	97	112	13,702	1,012
Total Status of Budgetary Resources	37,852	6,273	7,210	11,236	49,910	954	3,050	9,106	3,732	1,089	112,902	17,509
Relationship of Obligations to Outlays:												
Obligated balance, net, beginning of period	5,890	580	6,729	10,232	2,598	73	360	1,968	1,464	81	19,164	10,812
Accounts receivable	(654)	(107)	(24)	-	-	(23)	(58)	(156)	(68)	(64)	(1,048)	(107)
Unfilled customer orders from Federal sources	(6)	(10)	-	(666)	-	-	-	(156)	(77)	(28)	(267)	(676)
Undelivered orders	4,041	284	6,360	13,823	340	80	265	1,715	1,584	132	14,517	14,107
Accounts payable	2,556	437	438	-	2,014	17	118	746	56	64	6,008	437
Outlays:												
Disbursements	35,339	2,053	5,422	7,053	37,226	821	2,296	7,979	2,340	816	92,239	9,105
Collections	(13,972)	(3,548)	(5,877)	(3,634)	(128)	(101)	(162)	(1,251)	(83)	(383)	(21,956)	(7,183)
Subtotal	21,368	(1,495)	(455)	3,418	37,098	720	2,134	6,728	2,258	433	70,283	1,923
Less: Offsetting Receipts	57	130	356	-	-	1	10	439	-	-	862	130
Net Outlays	$ 21,311	$ (1,625)	$ (811)	$ 3,418	$ 37,098	$ 720	$ 2,124	$ 6,289	$ 2,257	$ 433	$ 69,421	$ 1,793

Deferred Maintenance

FY 2003	Cost to Return to Acceptable Condition	Cost of Critical Maintenance	Cost of Non-critical Maintenance
Asset Class			
Forest Service			
Roads, Bridges, and Major Culverts	$ 3,851	$ 696	$ 3,155
Buildings	421	128	293
Developed Recreation Sites	189	55	134
Dams	29	10	19
Range Structures	490	490	-
Wildlife, Fish, and Threatened and Endangered Species Structures	5	3	2
Trails	120	42	78
Heritage Assets	83	45	38
Total Forest Service	$ 5,188	$ 1,469	$ 3,719

FY 2002	Cost to Return to Acceptable Condition	Cost of Critical Maintenance	Cost of Non-critical Maintenance
Asset Class			
Forest Service			
Roads, Bridges, and Major Culverts	$ 4,955	$ 1,161	$ 3,794
Buildings	518	189	329
Developed Recreation Sites	291	99	192
Dams	30	9	21
Range Structures	491	491	-
Wildlife, Fish, and Threatened and Endangered Species Structures	4	3	1
Trails	138	51	87
Heritage Assets	73	42	31
Total Forest Service	$ 6,501	$ 2,047	$ 4,454

Deferred maintenance is maintenance that was scheduled to be performed and delayed until a future period. Deferred maintenance 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 preventative maintenance, normal repairs, replacement of parts and structural components, and other activities needed to preserve the asset so that it continues to provide acceptable service and achieve 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 PP&E, stewardship assets, and heritage assets. It is also reported separately for critical and non-critical amounts of maintenance needed to return each class of asset to its acceptable operating condition.

The FS uses condition surveys to estimate deferred maintenance on all major classes of PP&E. There is no deferred maintenance for fleet vehicles and computers that are managed through the Agency's working capital fund. Each fleet vehicle is maintained according to schedule. The cost of maintaining the remaining classes of equipment is expensed.

Condition of Administrative Facilities

The condition of administrative facilities ranges from poor to good. Approximately half of these buildings are obsolete or in poor condition needing major repair or renovation. Approximately one fourth is in fair condition and the remaining is in good condition.

Condition of Dams

The overall condition of dams is below acceptable. The condition of dams is acceptable when current design standards are met and no deficiencies that threaten the safety of the structure or public are detected.

Condition of General Property, Plant and Equipment

The standards for acceptable operating condition for various classes of general PP&E, stewardship and heritage assets are:

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.

Roads and Bridges

Conditions of the National Forest System Road system are measured by various standards that include applicable regulations for the Highway Safety Act developed by the Federal Highway Administration, best management practices for road construction and maintenance developed by the Environmental Protection Agency and the states to implement the non-point source provisions of the Clean Water Act, road management objectives developed through the forest planning process prescribed by the National Forest Management Act, and the requirements of Forest Service Manuals and Handbooks.

Developed Recreation Sites

This category includes campgrounds, trailheads, trails, wastewater facilities, 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, Publicly Managed Recreation Opportunities) 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, settings, safety and security, responsiveness, and the condition of facility.

Range Structures

The condition assessment is based on: 1) a determination by knowledgeable range specialists or other district personnel that the structure performs as intended, and 2) a determination through the use of a protocol system to assess conditions based on age. A long-range methodology is used to gather this data.

Dams

Managed according to Forest Service Manual 7500, Water Storage and Transmission, and Forest Service Handbook 7509.11, Dams Management as determined by condition surveys.

Wildlife, Fish and Threatened and Endangered Species Structures

Field biologists at the forest used their professional judgment to determine deferred maintenance. Deferred maintenance was considered as upkeep that had not occurred on a regular basis. The amount was considered 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, Trail, River, and Similar Recreation Opportunities) and the Forest Service Trails Management Handbook (FSH 2309.18).

Heritage Assets

These assets include archaeological sites that require determinations of National Register of Historic Places status, National Historic Landmarks, and significant historic properties. Some heritage assets may have historical significance, but their primary function within the agency is as visitation or recreation sites and, therefore, may not fall under the management responsibility of the heritage program.

Intragovernmental Amounts

Assets

FY 2003	Fund Balance with Treasury	Investments	Accounts Receivable	Other
Trading Partner (Code)				
Unknown (00)	$ -	$ 4	$ 67	$ 5
Department of Interior (14)	-	-	9	-
Department of Justice (15)	-	-	1	-
Department of Labor (16)	-	-	4	-
Department of the Navy (17)	-	-	1	-
U.S. Postal Service (18)	-	-	1	3
Department of State (19)	36,480	-	(1)	-
Department of the Treasury (20)	-	41	67	-
Department of the Army (21)	-	-	7	-
Office of Personnel Management (24)	-	-	1	-
General Services Administration (47)	-	-	6	-
Federal Deposit Insurance Corporation (51)	-	-	1	-
Federal Emergency Management Agency (58)	-	-	7	-
Department of Transportation (69)	-	-	428	(1)
Agency for International Development (72)	-	-	33	-
Department of Health and Human Services (75)	-	-	13	-
Department of Energy (89)	-	-	3	-
U.S. Army Corps of Engineers (96)	-	-	1	-
Office of the Secretary of Defense-Defense Agencies (97)	-	-	10	-
Treasury General Fund (99)	-	-	7	-
Total Assets	$ 36,480	$ 45	$ 666	$ 7

FY 2002	Fund Balance with Treasury	Investments	Accounts Receivable	Other
Trading Partner (Code)				
Unknown (00)	$ -	$ 5	$ 169	$ 2
Department of Interior (14)	-	-	4	-
Department of Justice (15)	-	-	1	-
Department of Labor (16)	-	-	7	-
Department of State (19)	-	-	1	-
Department of the Treasury (20)	39,617	91	13	-
Department of the Army (21)	-	-	7	-
Office of Personnel Management (24)	-	-	2	-
General Services Administration (47)	-	-	7	-
Department of the Air Force (57)	-	-	1	-
Environmental Protection Agency (68)	-	-	3	-
Department of Transportation (69)	-	-	1	(1)
Department of Health and Human Services (75)	-	-	5	-
National Aeronautics and Space Administration (80)	-	-	1	-
Department of Energy (89)	-	-	17	-
U.S. Army Corps of Engineers (96)	-	-	1	-
Office of the Secretary of Defense-Defense Agencies (9	-	-	3	-
Total Assets	$ 39,617	$ 96	$ 242	$ 1

Liabilities

FY 2003	Accounts Payable	Debt	Resources Payable to Treasury	Other
Trading Partner (Code)				
Unknown (00)	$ 4	$ -	$ -	$ 313
Government Printing Office (04)	-	-	-	(2)
Department of Commerce (13)	-	-	-	2
Department of Interior (14)	-	-	-	17
Department of Justice (15)	-	-	-	24
Department of Labor (16)	-	-	-	186
Department of the Navy (17)	-	-	-	(1)
Department of State (19)	-	-	-	(4)
Department of the Treasury (20)	-	76,140	-	242
Department of the Army (21)	-	-	-	4
Office of Personnel Management (24)	-	-	-	28
General Services Administration (47)	-	-	-	22
Federal Emergency Management Agency (58)	-	-	-	1
Agency for International Development (72)	1,202	-	-	4
U.S. Army Corps of Engineers (96)	-	-	-	(100)
Office of the Secretary of Defense-Defense Agencies (9	-	-	-	1
Treasury General Fund (99)	-	-	16,981	2,224
Total Liabilities	$ 1,206	$ 76,140	$ 16,981	$ 2,961

FY 2002	Accounts Payable	Debt	Resources Payable to Treasury	Other
Trading Partner (Code)				
Unknown (00)	$ (17)	$ -	$ -	$ 212
Department of Commerce (13)	-	-	-	1
Department of Interior (14)	-	-	-	68
Department of Justice (15)	-	-	-	8
Department of Labor (16)	-	-	-	94
Department of the Navy (17)	-	-	-	(1)
Department of State (19)	-	-	-	(4)
Department of the Treasury (20)	47	75,933	-	1,063
Department of the Army (21)	-	-	-	1
Office of Personnel Management (24)	-	-	-	20
General Services Administration (47)	-	-	-	11
Department of Transportation (69)	-	-	-	7
Agency for International Development (72)	541	-	-	4
Department of Health and Human Services (75)	-	-	-	1
National Aeronautics and Space Administration (80)	-	-	-	(1)
Department of Energy (89)	-	-	-	5
U.S. Army Corps of Engineers (96)	1	-	-	(66)
Treasury General Fund (99)	-	-	18,598	1,372
Total Liabilities	$ 572	$ 75,933	$ 18,598	$ 2,795

Earned Revenue, Federal

	FY 2003 Earned Revenue Federal	FY 2002 Earned Revenue Federal
Earned Revenue Federal:		
Trading Partner (Code)		
Unknown (00)	$ 14	$ 97
Library of Congress (03)	1	1
General Accounting Office (05)	1	1
Executive Office of the President (11)	1	-
Department of Commerce (13)	6	5
Department of Interior (14)	80	47
Department of Justice (15)	16	15
Department of Labor (16)	27	57
Department of the Navy (17)	2	-
U.S. Postal Service (18)	1	1
Department of State (19)	4	2
Department of the Treasury (20)	658	567
Department of the Army (21)	19	17
Office of Personnel Management (24)	2	5
Smithsonian Institution (33)	1	1
Department of Veterans Affairs (36)	1	-
Appalachian Regional Commission (46)	-	11
General Services Administration (47)	53	73
Federal Deposit Insurance Corporation (51)	2	1
Department of the Air Force (57)	(4)	2
Federal Emergency Management Agency (58)	114	(5)
Environmental Protection Agency (68)	7	12
Department of Transportation (69)	20	16
Agency for International Development (72)	9	8
Small Business Administration (73)	-	1
Department of Health and Human Services (75)	5	8
National Aeronautics and Space Administration (80)	2	2
Department of Housing and Urban Development (86)	2	2
Department of Energy (89)	17	-
Selective Service System (90)	-	25
U.S. Army Corps of Engineers (96)	15	7
Office of the Secretary of Defense-Defense Agencies (97)	13	6
Total Earned Revenue Federal	$ 1,089	$ 983

Cost to Generate Earned Revenue Federal:

	FY 2003	FY 2002
Federal and Non-Federal		
Functional Classification		
350 Agriculture	$ 630	$ 440
Total Cost to Generate Revenue	$ 630	$ 440

Cost, Federal

	FY 2003 Cost Federal	FY 2002 Cost Federal
Trading Partner (Code)		
Unknown (00)	$ 1,474	$ 2,007
Library of Congress (03)	1	1
Government Printing Office (04)	17	12
General Accounting Office (05)	-	1
Department of Commerce (13)	21	11
Department of Interior (14)	109	73
Department of Justice (15)	15	26
Department of Labor (16)	153	67
Department of the Navy (17)	7	6
U.S. Postal Service (18)	19	17
Department of State (19)	36	18
Department of the Treasury (20)	3,927	4,129
Department of the Army (21)	7	2
Office of Personnel Management (24)	1,502	1,343
Social Security Administration (28)	10	8
Department of Veterans Affairs (36)	1	1
General Services Administration (47)	378	138
Office of Special Counsel (62)	-	1
Tennessee Valley Authority (64)	1	-
Environmental Protection Agency (68)	1	1
Department of Transportation (69)	11	-
Department of Homeland Security (70)	-39	-
Department of Health and Human Services (75)	24	11
National Aeronautics and Space Administration (80)	6	3
Department of Energy (89)	7	13
Department of Education (91)	1	-
Federal Mediation and Conciliation Service (93)	1	-
Independent Agencies (95)	1	2
U.S. Army Corps of Engineers (96)	8	3
Office of the Secretary of Defense-Defense Agencies (97)	5	4
Treasury General Fund (99)	3	-
Total Cost Federal	$ 7,707	$ 7,897

Non-exchange Revenue Federal

	FY 2003		FY 2002	
	Transfers-In	Transfers-Out	Transfers-In	Transfers-Out
Trading Partner (Code)				
Unknown (00)	$ 2,189	$ (1,843)	$ 1,751	$ (243)
Department of Commerce (13)	3	-	-	-
Department of Interior (14)	-	-	-	(200)
Department of Labor (16)	108	-	-	-
Department of State (19)	6	-	-	-
Department of the Treasury (20)	-	-	2,619	(3,101)
Appalachian Regional Commission (46)	16	-	-	-
Department of Homeland Security (70)	-	(151)	-	-
Agency for International Development (72)	-	(1,196)	-	(611)
Department of Health and Human Services (75)	58	-	-	-
Treasury General Fund (99)	6,954	(4,592)	-	(1,945)
Total Non-exchange Revenue Federal	$ 9,334	$ (7,782)	$ 4,370	$ (6,100)

Segment Information

The Departmental Working Capital Fund and the FS Working Capital Fund are not separately reported in the consolidated financial statements. The following information summarizes the working capital funds' financial condition and results of operations as of and for the fiscal years ending September 30, 2003, and 2002.

FY 2003	Departmental Working Capital Fund	Forest Service Working Capital Fund	Total Working Capital Funds
Condensed Information			
Fund Balance	$ 86	$ 134	$ 220
Accounts Receivable	17	1	18
Property, Plant, and Equipment	47	275	322
Other Assets	4	0	4
Total Assets	154	410	564
Liabilities and Net Position			
Accounts Payable	2	1	3
Other Liabilities	55	34	89
Unexpended Appropriations	44	0	44
Cumulative Results of Operations	53	375	428
Total Liabilities and Net Position	154	410	564

FY 2003	Cost of Goods and Services Provided	Related Exchange Revenue	Excess of Costs Over Exchange Revenue
Product or Business Line			
Departmental Working Capital Fund:			
Finance and Management	222	203	19
Communications	6	6	0
Information Technology	89	87	2
Administration	33	28	5
Executive Secretariat	2	2	0
Total Departmental Working Capital Fund	352	326	26
Forest Service Working Capital Fund:			
Other	369	224	145
Total Working Capital Funds	$ 721	$ 550	$ 171

FY 2002	Departmental Working Capital Fund	Forest Service Working Capital Fund	Total Working Capital Funds
Condensed Information			
Fund Balance	$ 74	$ 108	$ 182
Accounts Receivable	28	1	29
Property, Plant, and Equipment	50	338	388
Other Assets	3	22	25
Total Assets	155	469	624
Liabilities and Net Position			
Accounts Payable	3	17	20
Other Liabilities	52	26	78
Unexpended Appropriations	26	-	26
Cumulative Results of Operations	74	426	500
Total Liabilities and Net Position	$ 155	$ 469	$ 624

FY 2002	Cost of Goods and Services Provided	Related Exchange Revenue	Excess of Costs Over Exchange Revenue
Product or Business Line			
Departmental Working Capital Fund:			
Finance and Management	$ 185	$ 204	$ (19)
Communications	5	5	-
Information Technology	74	81	(7)
Administration	26	29	(3)
Executive Secretariat	2	2	-
Total Departmental Working Capital Fund	292	321	(29)
Forest Service Working Capital Fund:			
Other	253	218	35
Total Working Capital Funds	$ 545	$ 539	$ 6

Departmental Working Capital Fund

Services provided by the Departmental Working Capital include the following:

- Administrative and Supply Services;
- Video, Teleconferencing, Graphic and Exhibit Services;
- Payroll, Accounting and Administrative Services and Thrift Saving Plan Support;
- ADP Services, Application Development, and Telecommunications Services; and
- Executive correspondence control and tracking.

Major customers of the fund are the FS and the Thrift Investment Board.

Forest Service Working Capital Fund

Services provided by the FS Working Capital Fund include the following:

- Fleet services, rental, and maintenance;
- Aircraft services, operation, and maintenance;
- Supply services; and
- Computer services.

Major customers of the fund are FS units.

V. REPORT OF THE OFFICE OF INSPECTOR GENERAL AND MANAGEMENT'S RESPONSE

Pages 224 through 254 have been intentionally removed.

The above referenced report is located at the beginning of this document.

USDA

United States
Department of
Agriculture

Office of the Chief
Financial Officer

1400 Independence
Avenue, SW

Washington, DC
20250

JAN 26 2004

Phyllis K. Fong
Inspector General
United States Department of Agriculture
Office of Inspector General
Washington, DC 20250

Dear Ms. Fong:

This letter responds to the Office of Inspector General opinion on the Department of Agriculture's fiscal year 2003 consolidated financial statements, Report Internal Control Structure, and the Report on Compliance with Laws and Regulations. We concur with your findings and recommendations.

We are pleased that your report reflects an unqualified, or "clean," audit opinion for the Department.

We appreciate that the report documents that the Department has made notable progress in improving its overall financial management during fiscal year 2003. As you recommend, we will continue to implement our long-term plans to address the remaining weaknesses in the Department's financial management accountabilities.

I would like to thank your office for its continuing professionalism during the course of the audit.

Please direct any questions on our comments to Jon Holladay, Acting Associate Chief Financial Officer, Financial Policy and Planning at (202) 720-8345.

Sincerely,

Patricia E. Healy
Acting Chief Financial Officer

APPENDICES

APPENDIX A – MANAGEMENT CHALLENGES

INSPECTOR GENERAL'S STATEMENT

USDA

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

MEMORANDUM FOR THE SECRETARY

FROM: Phyllis K. Fong
Inspector General

SEP 12 2003

SUBJECT: Management Challenges

The Reports Consolidation Act of 2000 requires the Department of Agriculture (USDA), Office of Inspector General (OIG) to identify and report annually the most serious management challenges the Department and its agencies face. To identify these management challenges, we (1) examined previously issued audit reports where corrective actions have not been implemented, (2) assessed ongoing audit and investigative work to identify issues where significant vulnerabilities have been identified, and (3) analyzed new programs and activities, which could pose significant challenges due to their breadth and complexity. We discussed these challenges with USDA officials to obtain their input.

This year, we have summarized USDA's most serious management challenges by issue area, rather than by mission. USDA's major management challenges frequently cross organizational lines within the Department and should be dealt with on a coordinated basis. The management challenges OIG identified last year fall under one or more of the general issue areas we have identified this year. While progress has been made in each challenge facing USDA, more can be done to strengthen management controls, ensure USDA benefits go to those intended, and protect the integrity of USDA's programs and activities. Also, we have identified three new emerging issues that either mandate new requirements or that have not been effectively dealt with on a Department-wide coordinated basis. OIG has identified 10 Department-wide and 2 agency-specific challenges we believe are the most significant management issues facing USDA.

While the Department has begun actions to address these challenges, OIG audits and investigations have shown that additional actions are necessary. We look forward to working with the Department to evaluate actions taken to address these weaknesses and will make recommendations, where necessary, for further improvements.

If you have any questions or would like to discuss these management challenges, please contact me at 720-8001, or have a member of your staff contact Richard D. Long, Assistant Inspector General for Audit, at 720-6945.

Attachment

cc:
Deputy Secretary
Secretary's Subcabinet
Chief Financial Officer
Agency Administrators

OFFICE OF INSPECTOR GENERAL
MAJOR USDA MANAGEMENT CHALLENGES
(September 2003)

DEPARTMENT-WIDE CHALLENGES

1. HOMELAND SECURITY CONSIDERATIONS SHOULD BE INCORPORATED INTO PROGRAM DESIGN AND IMPLEMENTATION

The events of September 11, 2001, and subsequent heightened concern about potential terrorist attacks and threats have added a new dimension to the Department's missions and priorities. At issue are USDA's missions to ensure the safety and abundance of the Nation's food supply, from the farm to the table, and to protect the health of American agriculture from the introduction of foreign animal and plant pests and diseases. USDA must now readily identify its assets, perform security risk assessments, and design and implement appropriate safeguards to prevent or deter deliberate acts to contaminate the food supply, disrupt or destroy American agriculture, or harm U.S. citizens. At the same time, USDA and the Department of Homeland Security (DHS) must also ensure that the current inspection and safeguard processes for the unintentional introduction of pests, diseases, and contaminants on imported products is not overlooked. While the Department has been both proactive and responsive to specific vulnerabilities identified by OIG, it is still challenged in its efforts to: shift from a focus on safety goals to both safety and security in each of its mission areas; foster effective coordination and communication across jurisdictional lines to better define roles and responsibilities; and increase Departmental oversight of, and accountability by, USDA agencies.

The Department, in response to our audit recommendations, has taken significant steps to incorporate these approaches in restructuring some of its mission activities. However, more needs to be done to provide assurance that established policies and procedures are consistently implemented and that effective inter- and intra-agency coordination and communication continues.

This year, there was a significant transfer of responsibilities and personnel from USDA to DHS. A major challenge now faced by USDA is timely and effective coordination and communication, not only within USDA, but also with DHS. Prior audits disclosed material weaknesses within USDA when certain functions were solely the responsibility of USDA. Therefore, it is imperative that USDA continue to work with DHS to design the appropriate control systems and processes to ensure timely communication and coordination.

2. INCREASED OVERSIGHT AND MONITORING OF FOOD SAFETY INSPECTION SYSTEMS ARE NEEDED TO MEET HACCP'S GOALS

In 1998, the Department, through the Food Safety and Inspection Service (FSIS), implemented a major change to its food safety system and created a new regulatory system for meat and poultry safety within the meat and poultry plants it regulates. The Pathogen Reduction and Hazard Analysis and Critical Control Point (HACCP) rule is the centerpiece of the new regulatory approach because it mandates HACCP, sets certain food safety performance standards, establishes testing programs to ensure those standards are met, and assigns new tasks to inspectors to enable them to ensure regulatory performance standards are met. In 2000, OIG reported on FSIS' implementation of HACCP, concluding that while FSIS had taken positive steps in its implementation of the science-based HACCP system, HACCP plans were not always complete; FSIS needed to place greater emphasis on pathogen testing; and it needed to define its oversight role in the HACCP system, and hold plants accountable for noncompliance. During 2002, USDA experienced some of the largest recalls in its history. OIG's reviews of two of these recalls in the past year indicate that FSIS still faces significant challenges to ensure the successful implementation of HACCP. Most critical to this process are: FSIS' assessment of plant HACCP plans and resolution of any deficiencies; establishment of management controls to accumulate and analyze data to monitor and assess the adequacy of food safety systems; establishment of criteria to initiate enforcement actions; baseline studies to define the goals, objectives, and performance measurements for pathogen testing programs; and better supervision and oversight of field inspection processes. Also, FSIS must reassess its recall process, including traceback policies, to identify the product source, and improve monitoring to ensure timely notification of the recall and maximum recovery of the product. While FSIS has generally been responsive to these issues and has made some changes to its inspection policies and procedures, complete corrective actions and estimated timeframes for addressing these weaknesses are not yet known.

An additional challenge for FSIS is to complete its proposed actions in response to OIG's prior audit of the imported meat and inspection process. OIG's followup review reinforced the need for FSIS to complete an in-depth assessment of its organizational structure and establish a system of control objectives and processes to ensure the goals of the import inspection process are achieved.

3. RISK MUST BE EXAMINED AND IMPROPER PAYMENTS MINIMIZED WITHIN USDA – EMERGING ISSUE

USDA faces a new management challenge with the implementation of the Improper Payments Information Act of 2002 (Public Law 107-300). The Act requires each Federal agency head to: (1) review all programs and activities and identify those which are susceptible to significant improper payments; (2) statistically estimate the annual amount of improper payments; (3) implement a plan to reduce improper payments; and (4) annually report the estimates and progress made in reducing improper payments. Compliance with this Act will require sustained intensive effort and commitment by the Department. Successful implementation will require a strong internal control structure, to include management commitment and the necessary resources, quality control processes, and information systems to measure the extent of erroneous payments. The ultimate challenge will be to design internal control systems to detect and prevent improper payments before "they go out the door." The challenges we reported last year relating to ineligible payments in the food assistance programs, as well as in the crop insurance program (lack of an effective quality control process over reinsurance companies in the determination of indemnities for losses), should be corrected when the requirements of this Act are fully implemented and measures have been taken to reduce improper payments to an acceptable level.

4. FINANCIAL MANAGEMENT – IMPROVEMENTS MADE BUT ADDITIONAL ACTIONS STILL NEEDED

In the fiscal year (FY) 2002 financial statements, USDA reported assets of over $123 billion and program costs of over $72 billion. Actions taken by the USDA Office of the Chief Financial Officer (OCFO) and the agencies' financial management staff resulted in the Department achieving its first unqualified audit opinion on the FY 2002 Consolidated Financial Statements. While the achievement of an unqualified opinion represents a major accomplishment, USDA needs to continue to improve its underlying financial management systems, with less reliance on extensive ad hoc efforts to produce timely financial data. Also, USDA should continue to review its legacy systems, and consolidate and update the systems, as appropriate, to meet present accounting standards and management needs. This is especially critical in light of the accelerated timeframes for producing audited financial statements, as well as for directing limited resources to other critical needs. OCFO has initiatives underway to (1) renovate the Department's corporate administrative systems, (2) establish and implement cost accounting principles and methodologies, (3) improve the process for accounting for real and personal property, and (4) enhance overall financial management accountability and control. These are significant actions that demonstrate USDA's recognition of the challenge it faces.

5. INFORMATION TECHNOLOGY SECURITY – MUCH ACCOMPLISHED, MORE NEEDED

USDA depends on information technology (IT) to efficiently and effectively deliver its programs and provide meaningful and reliable financial reporting. One of the more significant dangers USDA faces is a cyber attack on its IT infrastructure, whether by terrorists seeking to destroy unique databases or criminals seeking economic gains. While the Department and its agencies continue to strive to improve the security over IT resources, significant progress is still needed toward establishing an effective security program. Specifically, increased management involvement and commitment at the agency level is needed to effectively implement a strong IT security program. Despite the efforts of OIG and the Office of the Chief Information Officer (OCIO) during the past several years to heighten awareness of security issues, our reviews in 10 agencies during this year continue to show that the Department and its agencies are not yet in compliance with Office of Management and Budget (OMB) Circular A-130, Appendix III. This noncompliance includes preparing security plans for all major applications, conducting risk assessments, establishing disaster recovery plans, and implementing a system certification/ authorization process. We also continue to find that agencies do not have strong physical and logical access controls over IT resources and have not yet effectively used the vulnerability scanning tools provided by the Department to identify and mitigate known security vulnerabilities in their systems.

6. CONTROLS OVER GERMPLASM STORAGE MATERIAL AND GENETICALLY ENGINEERED ORGANISM FIELD TESTING ARE CRITICAL TO U.S. MARKETS – EMERGING ISSUE

The use of biotechnology-derived or genetically engineered crops has grown significantly over the past decade, particularly in the United States. In 2001, approximately 88 million acres of such crops were planted in the United States. For the 2003 crop year, as much as 80 percent of the planned 73.2 million acres for soybeans and approximately 38 percent of the planned 79 million acres for corn were planted with genetically engineered seeds. These two crops constitute a major portion of American exports of agricultural production. The acceptance of genetically engineered crops in the world market, however, is mixed. The loss of these major export markets could seriously impact the American agricultural economy. Critics have questioned the effect of long-term consumption of such genetically engineered crops on the health of humans and livestock, but so far, the evidence to support such a determination is still pending. Countering such criticisms are the benefits of such genetically engineered crops: boosting yields; lowering costs; reducing pesticide use; and making crops more resistant to disease, pests, and drought.

USDA plays a major role in regulating and monitoring genetically engineered crops – from the storing of germplasm used to produce seeds for such crops, to approving field testing of genetically engineered crops, to providing assistance for export of American agricultural production. The Department must balance the goals of: (1) maintaining adequate accountability and integrity of genetically engineered versus non-genetically engineered seeds and crops; (2) ensuring the health and safety of the American food supply; and (3) maintaining the export levels of American agricultural production against the added costs to implement such controls and the uncertainty of the effects of genetically engineered crops. In our recent review of the Department's germplasm storage system, we found the need for increased accountability and tracking controls over genetically engineered germplasm if USDA is to provide assurance to other markets. USDA must also address public concerns that field-testing applications have been properly reviewed, field testing is adequately monitored, and proper surveillance is in place to preclude such crops from entering the human food process.

7. CIVIL RIGHTS COMPLAINTS PROCESSING STILL A CONCERN AT USDA

In March 2000, OIG reported that minimal progress had been made in overcoming inefficiencies in processing civil rights program and employment complaints. Deficiencies disclosed in OIG's five prior audit reports had not been corrected. The March 2000 report noted that the Office of Civil Rights (CR) did not reengineer its complaint resolution process, its database and file room remained poorly managed, and a large backlog of cases was stalled in the "intend-to-file" category and/or may not have received due care. To correct these long-standing problems, OIG recommended that CR implement a management plan that would address effective leadership, change the organizational culture, focus on customers, and reengineer its processes. Until that plan is fully implemented, resolving civil rights complaints will remain a management challenge for USDA. In September 2002, the General Accounting Office reported that the processing of program complaints continued to exceed required timeframes. The Department has demonstrated the importance it places on civil rights when the first Assistant Secretary for Civil Rights was sworn into office on April 1, 2003. OIG will continue to work with the Department to strengthen the operations of the civil rights program.

8. RESEARCH MISCONDUCT POLICY NOT CONSISTENTLY IMPLEMENTED – EMERGING ISSUE

USDA plays a major role in U.S. agricultural research activities, providing well over $1 billion annually for research to increase American agriculture production and to protect and treat American agricultural crops against foreign plants and animal pests and diseases. Research integrity is critical to the mission of USDA. In December 2000, the President's Office of Science and Technology Policy issued a Federal policy to establish uniformity among Federal agency definitions and treatment of research misconduct. USDA, however, has not implemented a coordinated Department-wide policy or procedures for the treatment of research misconduct; responsibility for implementing the Federal policy was delegated to each agency within USDA. In an ongoing OIG review, we found that most USDA agencies have not implemented any research misconduct policies and procedures. In those agencies that had implemented a policy, procedures were inconsistent and relied primarily on in-house resources to review allegations of research misconduct. In the absence of consistent policies, USDA has no assurance that potential research misconduct involving USDA funds is being timely referred, independently adjudicated, and appropriately resolved, including determining whether criminal investigation is warranted.

9. USDA FACES MAJOR CHALLENGES IN IMPLEMENTING THE 2002 FARM BILL AND DISASTER ASSISTANCE LEGISLATION

The multi-billion dollar Farm Bill, the Farm Security and Rural Investment Act of 2002 (Act), enacted new or reauthorized existing farm income, commodity support, and conservation programs for crop years 2002 through 2007. This Act made significant changes in the support of production agriculture. Efficient and effective performance and management of these programs are critical to the missions of the Farm Service Agency (FSA) and the Department and necessitated by the magnitude of funding for the programs (program outlays for the Commodity and Conservation provisions are estimated to be about $63 billion over the duration of the Act). For example, new Direct and Counter-Cyclical Program payments through 2007 are based on one-time base and yield options that producers selected by April 1, 2003. If errors and irregularities in the bases and yields are not prevented or timely detected, resultant improper payments may be perpetuated throughout the 6-year life of the program.

The Agricultural Assistance Act of 2003 provided $3.1 billion for qualifying 2001 or 2002 disaster losses of crops, livestock, and grazing in addition to the "regular" farm program assistance under the Farm Bill. Such ad hoc disaster assistance programs are particularly susceptible to fraud, waste, or abuse in that they are not implemented timely to coincide with the physical evidence of loss and greater reliance must be placed on producers' self-certifications of qualifying damage or loss. Prior audits of similar ad hoc disaster assistance programs have identified ongoing concerns with payments to ineligible recipients or for ineligible or overstated losses.

USDA's challenge is to effectively work across organizational lines to ensure that data is shared, discrepancies are resolved in automated systems, and problems found in internal reviews and audits are coordinated and analyzed for their impact on program payments in each affected agency.

10. INTEGRITY OF THE FEDERAL CROP INSURANCE PROGRAMS POLICYHOLDERS' DATABASE MUST BE STRENGTHENED

The Federal crop insurance programs, administered by the Federal Crop Insurance Corporation (FCIC) in conjunction with the Risk Management Agency (RMA), have become the American producers' primary "safety net." Over the years, as Congress mandated changes to the programs, the Federal crop insurance programs have grown significantly, particularly after the passage of the Agricultural Risk Protection Act of 2000 (ARPA). Under ARPA, Congress encouraged participation by American producers by increasing the level of subsidized premiums. By crop year 2002, crop insurance coverage increased to 216 million acres with a total Government insurance liability of over $37 billion. However, indemnity payments and subsidy reimbursements have also increased: for the 2000 crop year, indemnity payments totaled approximately $4 billion, while the Government's subsidized share of the insurance premium totaled approximately $1.7 billion. At the same time, RMA has not been able to determine the level of improper or erroneous payments under its programs. To ensure the integrity of its program payments, RMA must continue to improve and strengthen its policyholders' database by effectively implementing all of the provisions under ARPA, and improving its Data Acceptance System (DAS). ARPA mandated that additional methods of ensuring Federal crop insurance program compliance integrity be developed and implemented, including a plan for FSA to assist RMA in the ongoing monitoring of crop insurance programs. RMA has not yet fully implemented the required data reconciliation between FSA records and RMA records. Data mining was also stipulated under ARPA; RMA has acknowledged that data mining has provided constructive feedback to the agency. RMA's DAS is intended to perform as a series of edits on information submitted by the insurance companies before it is incorporated into RMA's electronic Policyholder Database. Audit results, however, have shown that the information contained in the system and used to drive RMA's accounting system may not be reliable and/or compliant with OMB core and Federal financial system requirements.

AGENCY-SPECIFIC CHALLENGES

11. STRONG INTERNAL CONTROL STRUCTURE IS CRITICAL TO THE DELIVERY OF FOREST SERVICE PROGRAMS

The Forest Service (FS) needs to continue to improve its system of internal controls to ensure the agency is accountable for the efficient and effective delivery of its programs. The decentralized organizational structure of the FS makes it imperative that a well-defined system of controls be in place and effectively operating. For example, a strong internal control structure is essential to FS's challenge of implementing the National Fire Plan to deal with recent catastrophic fires. Our initial work found that controls were not adequate to ensure that funds were spent as intended and budget estimates provided by the agency for the implementation of the fire plan accurately reflected its needs. These issues are consistent with the control weaknesses found in other programs administered by FS, such as grant award and administration, timber environmental analyses, and the agency's implementation of the Government Performance and Results Act. FS has begun actions to resolve individual issues; however, a comprehensive evaluation of its systems of internal controls has not been completed. These weaknesses have impeded FS' ability to effectively prioritize its work and fund those projects most essential to its mission.

12. IMPROVEMENTS AND SAFEGUARDS NEEDED FOR RURAL MULTI-FAMILY HOUSING PROGRAM

A substantial portion of the Rural Housing Service's (RHS) current Rural Rental Housing (RRH) loan portfolio involves properties over 20 years old. RHS faces a major challenge to maintain its portfolio in good repair so that it will continue to provide safe, decent, and affordable housing for low to moderate income rural residents. RHS needs to address several challenges in its management of the Multi-Family Housing (MFH) program. RHS needs to: inspect and repair its aging portfolio; accurately report to Congress the units built in its guaranteed MFH program; plan for future increases in rental assistance costs; implement wage matching to identify excessive rental assistance costs; fairly use equity incentives to keep RRH projects in the program; and continue to implement regulatory and other internal controls to address deficiencies that have been identified in the program.

MANAGEMENT'S RESPONSE TO THE OIG REPORT ON MAJOR USDA MANAGEMENT CHALLENGES (SEPTEMBER 2003)

USDA has made many significant accomplishments to address weaknesses identified by the Office of Inspector General (OIG) during FY 2002. In some instances, the challenges identified in the prior OIG report remained a challenge for the Department during FY 2003. USDA is working with other Federal Government departments, Congress and the General Accounting Office to eliminate or reduce the risk associated with each challenge. The following are management responses to challenges identified by USDA's OIG during FY 2003. Each challenge is followed by management's accomplishments and planned actions to address each issue. Additional accomplishments are listed in the next section of this report.

Department-wide Challenges

1. Homeland Security Considerations Should be Incorporated Into Program Design and Implementation

Management's Response:
One of the most important steps taken to secure American agricultural production and the food supply was the "Select Agents Rule" mandated by the Agriculture Bioterrorism Protection Act of 2002. USDA and the U.S. Department of Health and Human Services (HHS) issued complementary regulations that established new safeguards for the possession, use and transfer of certain toxins and biological agents. These safeguards reduce the chance of terrorists acquiring dangerous pathogens and toxins.

USDA has begun a pilot version of a National Animal Health Laboratory Network (NAHLN). NAHLN is a network of Federal and State resources intended to enable a rapid and sufficient response to animal-health emergencies, including foot and mouth disease and other exotic animal diseases. It reconfigures the Nation's animal-health diagnostic services by positioning the National Veterinary Services Laboratories in Ames, Iowa, to be the lead animal-health laboratory. NAHLN also allows certain State-operated laboratories and some universities to cooperate in exotic animal-disease surveillance and related services. Such an arrangement enhances the Nation's animal-health diagnostic services, speeds response efforts should an exotic animal disease be detected in the U.S. and lends greater credibility to the Department's animal-health export certifications. A similar effort is underway to build a laboratory network for plants.

USDA has developed guidance documents for distribution to farmers and ranchers to advise them on how to secure their operations. Information was posted on the USDA Web site and distributed through the Department's Extension system to reach constituents throughout the Nation.

The Department conducted vulnerability assessments for domestic and imported food, and threat assessments to ensure the security of food. The assessments also addressed food purchased by USDA for Federal feeding programs, shipping procedures and storage.

Two of USDA's highest homeland security priorities are the improvement of communication channels between the Department and the intelligence community, and the development of a more sophisticated way of communicating sensitive information to the private sector. Thus, when there are incidents, warnings or threats, the private sector can assist the Department in preventing or mitigating a problem. USDA is working with the Department of Homeland Security (DHS) to coordinate its communications programs to better protect agricultural production and the food supply. One such joint effort is the DHS-USDA-HHS project to organize the food and agriculture sectors. An organized sector can provide assistance to the industry by suggesting guidelines and best practices, and providing a means for sharing information.

2. Increased Oversight and Monitoring of Food Safety Inspection Systems Are Needed to Meet HACCP's Goals

Management's Response:
The Food Safety and Inspection Service will:

- Update Directive 10010.1 "Microbiological Testing Program For Escheria Coli 0157:H7" to provide direction in the collection and processing of traceback samples;
- Update Directive 6420.1 "Livestock Post-Moretum Inspection Activities-Enforcing the Zero Tolerances for Fecal Material, Ingesta and Milk" with explicit instructions for handling and re-inspecting contaminated carcasses;
- Implement revised *Listeria monocytogenes* rule for Ready-to-Eat products;
- Update industry guidance on planning for recalls; and
- Conduct baseline studies to determine the nationwide levels of various pathogenic microorganisms in raw meat and poultry.

3. Risk Must be Examined and Improper Payments Minimized Within USDA – Emerging Issue

Management's Response:
On August 11, 2003, the Department's Chief Financial Officer issued a policy memorandum to all USDA agencies. The memorandum provided instructions for implementing program reviews to identify erroneous payments. USDA's component agencies will develop statistically valid estimates for all programs identified as susceptible to significant erroneous payments. They also will implement an action plan to reduce erroneous payments. Additionally, agencies will report erroneous payment estimates and reduction goals to the President and Congress in USDA's *Performance and Accountability Report* beginning in FY 2004 and annually thereafter.

Specific erroneous payment reduction initiatives are included in the Management Discussion and Analysis section and Appendix B of this report.

4. Financial Management – Improvement Made but Additional Actions Still Needed

Management's Response:
In FY 2003, USDA received a clean opinion on five stand-alone audits and the FY 2002 Consolidated Financial Statements. USDA has provided timely and accurate quarterly financial statements to the Office of Management and Budget, which met the accelerated time frames for financial statements. The Department completed implementation and conversion of all USDA agencies to a standard and compliant administrative financial-management system. USDA is using data warehousing technology to provide consolidated reporting to meet the integrated financial system requirements at USDA for both administrative and program data.

The Office of the Chief Financial Officer will establish effective funds control and work with USDA agencies to prevent Anti-Deficiency Act violations. Key performance standards have been established for accounting operations. These standards are monitored against actual performance regularly. The Department will obtain a clean audit opinion for all agencies and USDA on a consolidated basis in FY 2004 and beyond. USDA will continue successful completion of the feeder system renovation initiative and implementation of the new Integrated Acquisition System and Corporate Property Automated Information System.

5. Information Technology Security – Much Accomplished, More Needed

Management's Response:
During FY 2004, the USDA's Office of the Chief Information Officer (OCIO) will receive copies of the agencies' scan reports monthly to monitor their system/network vulnerabilities. OCIO plans to continue to expand and improve the Department's Intrusion Detection System, conduct annual Federal Information Security Management Act (FISMA) self-assessments and develop plans of action for any weaknesses found. To secure sensitive data and improve contingency planning, configuration management and physical security, OCIO will certify and accredit USDA's major systems. To comply with Federal Security guidance, the OCIO will engage the Department of Homeland Security to conduct a project review. USDA will continue to assess its risk to critical information-technology systems by engaging contractors to perform independent risk assessments and annual FISMA self-assessments. The OCIO will issue policy for background checks of information-technology personnel.

6. Controls Over Germplasm Storage Material and Genetically Engineered Organism Field Testing Are Critical to U.S. Markets – Emerging Issue

Management's Response:
There are 450,000 samples managed by the National Plant Germplasm System (NPGS) maintained in relatively small quantities (i.e., individual small envelopes and bags) in genebanks. These small quantities help conserve crop genetic diversity and encourage the use of that diversity by crop researchers and breeders. These samples are distributed for research and educational purposes to researchers, breeders and other requesters in "research quantities." These quantities generally are about 100 seeds, or significantly fewer cuttings or roots per sample. These materials are for the most part specialized research tools like special genetic lines. The materials also could be noncommercial materials like traditional farmers' varieties. Both primarily are useful to only scientists or breeders. A small proportion also may be legal vouchers of commercial, elite lines. These lines are maintained (but generally not distributed) in the high-security National Center for Genetic Resource Preservation in Fort Collins, Colorado, at the request of USDA's Agricultural Marketing Service's Plant Variety Protection Office. Germplasm in the NPGS is disseminated in completely different distribution channels than commercial seeds for planting or bulk commodity grain shipments. The recipients of NPGS germplasm generally maintain them as research tools separate from any commercial materials that would enter the marketplace.

Associated with these samples are identification information and descriptive evaluation data. This data are maintained in an extensive on-line database known as the Germplasm Resource Information Network (GRIN). While the amount of information associated with each sample is highly variable, it generally is extensive for advanced genetic stocks or elite germplasm maintained as legal vouchers. The less-than-10 percent of total NPGS inventory samples that usually are genetically-engineered generally belong to the preceding categories. Because many of these are legal vouchers, an even smaller percentage of the total is distributed to requesters. Since detailed information, which could include pedigrees, accompanies the material, a knowledgeable requestor and germplasm curator can determine whether or not the materials are genetically-engineered. All distributions of NPGS germplasm, whether genetically engineered or not, are tracked by the GRIN database. Thus, the information is readily retrievable. Additionally, genetically engineered materials that are research tools are distributed only to requesters who hold valid USDA Animal and Plant Health Inspection Service permits. These permits authorize them to maintain and conduct experiments with that material.

7. Civil Rights Complaints Processing Still a Concern at USDA

Management's Response:

Four initiatives have been proposed to address concerns about complaint processing:

- **Complaint Inventory Reduction (Program and Employment).** This initiative will reduce the total number of open complaints and implement significant institutional changes to prevent excess inventories in the future. The strategy supporting this initiative relies on the estimation of and planning for incoming complaints. It also depends on the aggressive use of Alternative Dispute Resolution (ADR) techniques, when appropriate, in an attempt to resolve complaints at the informal stage.

- **Increasing Informal Equal Employment Opportunity Complaint Resolution Rates.** This initiative expands the use of ADR, when appropriate, as an integral part of USDA's informal equal-employment opportunity complaint-resolution process. Interim policy guidance is expected to be issued by December 1, 2003, with implementation commencing January 1, 2004. Agencies will begin reporting the impact of this initiative by February 15, 2004. A final policy reflecting the results of the initiative will be issued March 1, 2004.

- **Prevention of Program Complaints.** The Office of Civil Rights plans to develop, implement and evaluate a proactive approach to prevent program-delivery complaints. This initiative ensures that all USDA customers, particularly those who are socially and economically disadvantaged, receive timely and meaningful technical assistance regarding program benefits and application requirements. The Department will conduct a series of hands-on technical assistance and training workshops conducted throughout FY 2004. This initiative began in October 2003, with the forming of an implementation team. The evaluation phase of this initiative ends September 30, 2004.

- **Prevention of Equal Employment Opportunity Complaints.** This initiative will reduce the number of complaints filed annually by employees and job applicants. The goal is to enhance USDA's image as an *"employer of choice."* The Department also wants to reduce the complaints inventory to a more manageable level. USDA will assess the work force, identifying actual and perceived barriers to equal-employment opportunities. It also will recommend management actions to alleviate, mitigate and preclude management actions that impact adversely or generate a negative image of USDA as an equal-opportunity employer. Implementation of this initiative began in October 2003, with the formation of an implementation team. The evaluation phase of this initiative begins April 5, 2004, and ends June 30, 2004.

8. Research Misconduct Policy Not Consistently Implemented – Emerging Issue

Management's Response:
In December 2000, the President's Office of Science and Technology Policy (OSTP) issued a Federal policy to establish uniformity among agency definitions and treatment of research misconduct. Implementation of the Federal policy was delegated to each USDA agency. USDA's Agricultural Research Service (ARS) worked closely with OSTP in developing the Federal policy. The policy was patterned after the Agency's written policies and procedures, which have been in place for more than 10 years. On June 10, 2003, ARS updates *Research Misconduct Policies and Procedures* maintaining the agency's compliance with the Federal policy.

9. USDA Faces Major Challenges in Implementing the 2002 Farm Bill and Disaster Assistance Legislation

Management's Response:
To help ensure efficient and effective program performance and management, USDA's Farm Service Agency (FSA) has:

- Provided queries and procedures to State and county offices in August 2003. The offices then conducted spot checks of production evidence when Direct Counter-Cyclical Payment (DCP) yields were established based on actual yields;
- Instituted daily reports to monitor progress of DCP enrollments in counties;
- Evaluated the accuracy of certifications of Average Adjusted Gross Income certificates as part of payment-limitation eligibility end-of-year reviews;
- Posted critical program information and deadlines on USDA and FSA Web sites;
- Made program fact sheets available online and at county offices; and
- Developed queries to calculate the quality of 2001/2002 Crop Disaster Program for peanuts and cotton.

USDA planned actions include:

- Developing *FSA Handbook 4-RM.* This handbook deals with Federal Crop Insurance Corporation program integrity. It is being amended to require FSA State and county offices to notify and provide information to the Risk Management Agency (RMA) dealing with concerns raised through both internal and external audits. The procedure will instruct State and county FSA offices to provide details of case-specific information or overall program administration concerns, as applicable, to the Regional RMA Compliance Office; and
- Generating letters to producers who have not filed acreage reports of all cropland on the farm as required by the Farm Security and Rural Investment Act of 2002.

RMA has issued procedures and instructions outlining how problems found in internal reviews and audits are to be communicated to FSA.

10. Integrity of the Federal Crop Insurance Programs Policyholders' Database Must be Strengthened

Management's Response:
RMA control processes and oversight responsibilities of insurance providers are outlined in Manual-14, Guidelines and Expectation for the Delivery of the Federal Crop Insurance Program,

FCIC-14010. Manual-14, issued in September 1997, needs to be updated to incorporate changes required by the passage of the Agricultural Risk Protection Act. RMA recognizes the need for a more efficient and effective process. Thus, it has contracted to update Manual-14. The contract is for the development of a quality-assurance and performance-measurement system for evaluating an insurance provider's effectiveness of program delivery. The system will include a system of sanctions and incentives.

RMA has implemented the majority of provisions relative to Agricultural Risk Protection Act. The remaining major initiatives include Renegotiating the Standard Reinsurance Agreement (SRA) and Reconciling Producer Information. RMA expects to complete SRA renegotiation by July 2004. The Deputy Undersecretary for Farm and Foreign Agricultural Services, and the RMA and FSA Administrators have established a cross-functional team to implement a Common Information System (CIS). CIS will eliminate the need for producers to report the same information to FSA and reinsured companies. This will create efficiencies for producers, the agencies and reinsured companies. It also will reduce the need for data reconciliation. CIS will begin as a pilot in 2004 in selected areas where the common land unit has been certified by FSA.

11. Strong Internal Control Structure is Critical to the Delivery of Forest Service Programs

Management's Response:
The Forest Service (FS) is implementing a two-step process. This process involves conducting agency risk assessments to evaluate high-risk processes within FS and reaffirming the agency's internal review process. The key milestones include:

- Conducting an agency risk assessment by June 2004;
- Issuing new policy and procedures by September 2005;
- Conducting a minimum of two "Chief Reviews" annually;
- Conducting Financial Compliance and Internal Control reviews based on the agency's highest priorities annually;
- Conducting program/activity reviews annually; and
- Conducting acquisition internal control reviews annually.

Additional planned actions include:
- Publishing final policies and procedures;
- Implementing a four-year review cycle that will cover all regions/stations;
- Participating in a requirements session for an automated solution for Grants & Agreement administration and accounting;
- Monitoring all planned actions in the Administrative Control Plan;
- Finalizing a partnership guide for communities, non-Governmental organizations and others who want to partner with the agency;
- Developing an assessment tool for the field units to assist them in determining if they have the necessary resources, personnel and skills to enter into partnerships;
- Implementing requirements for line officer/manager certification of reported accomplishments;
- Reviewing a representative sample of rehabilitation and restoration projects that regions select for National Fire Plan (NFP) funding to ensure they meet the project selection criteria;

- Reviewing and clarifying direction regarding NFP;
- Continuing to implement the Performance and Accountability System;
- Creating a system design;
- Beginning alignment and integration with other key systems; and
- Implementing the new system.

12. Improvements and Safeguards Needed for Rural Multi-Family Housing Program

Management's Response:
During FY 2004, the Rural Housing Service (RHS) plans to perform a comprehensive property assessment to determine the condition of its portfolio. The assessment is designed, at the very least, to determine the property's financial health, decide whether to continue rental housing and analyze prepayment potential. It also will assess future capital reserves and analyze prepayment incentive costs to retain properties/use restrictions. USDA created a Multifamily Advisory Group to oversee the completion of the property assessment.

OIG recommended that RHS clarify its performance measure. Thus, the current performance measure is reported as "number of units selected for funding" rather than "units built." This clarification took effect with the March 2003 publishing of the *FY 2002 Annual Performance Report.*

To enhance the proficiency of forecasting rental assistance needs and budget requests, Rural Development has taken steps to improve the rental assistance projections through a number of initiatives, including:

- Reviewing all of more than 17,000 contracts for consistency in contract language to determine if funds must continue with the contract until fully disbursed;
- Automatically computing rental assistance based on a five-year term with a fixed number of renewal units;
- Participating in the development of the forecasting model to infuse new ideas for how rental-assistance funding needs should be projected;
- Working with the General Accounting Office in its review of unliquidated obligations; and
- Publishing of Proposed Rule 3560, to assist in developing efficiency and consistency in administering rental assistance from state to state.

One of several innovations that USDA has undertaken in its Multi-Family Housing Program is the collaboration between Rural Development and States. This partnership offers a wage and benefit matching program to detect unreported and underreported income. The Department sought Memoranda of Understanding between USDA and those States offering the wage-matching program.

The Office of Rental Housing Preservation in the Portfolio Management Division continues to pursue opportunities for leveraging the limited amount of financial resources available to retain properties in the portfolio. Incentives offered to owners to continue in the Section 515 program include:

- Providing an equity loan;
- Increasing rental assistance;
- Increasing return on investment;

- Releasing excess reserve funds; and
- Reducing loan interest rates through an interest credit provision.

Multi-Family Housing is developing operating manuals for each of its discrete processes. The manuals will cover rental-assistance allocation and processing, prepayment and preservation management, and inventory property disposition. Servicing goals have been established for each State office. Through technology and regular reporting, the Portfolio Management Division is monitoring activities related to the portfolio. Information technology systems have improved over the last year. Reporting systems from the portfolio properties directly to the Financial Management Division will ensure that subsidy-voucher requests are verified and processed independently.

The development and implementation of a Web-based subsidy voucher computer program, and the Management Interface Connectivity Network, will enable property owners and managers to input subsidy voucher requests online. The Network also will allow them to link directly to USDA's financial-management center in St. Louis, Missouri. The computerized system will eliminate most manual entries and insert additional internal controls by providing an automatic payment-validation process.

STATUS OF FY 2002 MAJOR MANAGEMENT CHALLENGES AND PROGRAM RISKS

Source: GAO REPORT entitled "Major Management Challenges and Program Risks":GAO-03-96 (January 2003)
OIG Major USDA Management Challenges (November 8, 2002)

The following table provides FY 2003 accomplishments by USDA agencies on major management challenges identified by the above sources. There will be no further reporting on challenges not repeated in the Office of Inspector General's (OIG) September 2003 report.

An asterisk (*) beside the challenge title indicates that this is a prior year management challenge that is repeated or consolidated into a Department-wide issue in the new OIG Major Management Challenges Report dated September 2003. Future plans for these challenges are included in the previous section.

Challenges and Program Risk	Accomplishments for the Period October 1, 2002 - September, 30, 2003 (and Planned Actions, if applicable)
Biosecurity and Biosafety controls at USDA-funded laboratories (APHIS) Minimal or no guidance involving biosecurity at USDA funded laboratories (OIG)	• Provided guidance by communicating the "disease status" change for Canada from non-affected to "BSE-affected," to all Department of Homeland Security, Customs and Border Protection personnel. The Center for Veterinary Biologics and the National Veterinary Services Laboratories continued to answer inquiries from interested parties. Information provided includes documentation of registration, permit and inspection processes as well as instruction in bio-agent security. • Published Departmental Manuals on USDA Security Policies and Procedures for Biosafety Level 3 (BSL-3) Facilities, as well as, Laboratories and Technical Facilities (excluding BSL–3 facilities). • Conducted two risk assessments and developed corrective-action plans based on the results. The plans include: restricted access for high-consequence pathogen laboratories; identification of a threat list of pathogens of concern consisting of agents with a high risk for illicit use; continued requirements for background and security checks of personnel who need access to biological agents; updated physical security at laboratories; and appropriate containment, storage and handling of the biological agents. There will be no further reporting on this challenge.
Protection against Importing Animal Diseases (APHIS, FSIS)* • Coordination and timeliness of providing guidance to protect against the possible introduction of foot and mouth disease (GAO and OIG) • Preventing entry of contaminated food products into the United States (GAO and OIG)	• Transferred APHIS' Agriculture Quarantine Inspectors to the newly created Department of Homeland Security, Customs and Border Protection to create a consolidated border inspection agency. Agreements on (1) Cooperation & Reciprocity, (2) Regulatory Coordination, and (3) Separation of Functions all have been signed. • APHIS and the Department of Homeland Security have clarified roles and designated functions, areas of responsibility and regulatory-coordination responsibilities concerning agricultural inspections. • APHIS will continue to perform risk analyses and investigate activities to identify problems that present a viable threat to the Nation's agriculture.

Challenges and Program Risk	Accomplishments for the Period October 1, 2002 - September, 30, 2003 (and Planned Actions, if applicable)
Security of Biological Agents at USDA Laboratories (Homeland Security Staff) • Lack of department level policies to manage and secure facilities (GAO and OIG) **Security of Biological Agents at USDA Laboratories** (Continued) • Inaccurate recording of inventory (GAO) • Lack of centralized and consolidated databases (GAO) • No alarm systems, security fences and surveillance cameras (GAO) • Lack of controlled access to biological agents by unauthorized personnel (GAO and OIG)	• Published Departmental Manuals on *USDA Security Policies and Procedures for Biosafety Level 3 (BSL-3) Facilities* and *Laboratories and Technical Facilities (excluding BSL–3 facilities).* • Established a National Pathogen Inventory for all ARS, FSIS and AMS pathogens. Data were entered and validated by all locations during April and May 2003. • Completed security assessments on all non-BSL-3 ARS Laboratories and Research facilities. • Began physical security upgrades as funding permitted and based on order of priority of BSL-3, Select Agent BSL-2, mission critical and all other laboratories and technical facilities. • Addressed access to biological agents in Departmental manuals and various other USDA guidance. Systems are in place for public risk-level assessments on all BSL-3 positions (Government and non-Government) with appropriate background investigations. A *Federal Register Notice* has been drafted to permit similar risk determinations and background investigations for non-USDA personnel working in USDA facilities. • Validated the National Pathogen Inventory is validated annually. BSL-3 facility inventories are updated every month. Non-BSL-3 facility inventories are updated quarterly.
Resolving Discrimination Complaints (Civil Rights) * Untimely processing of discrimination complaints (GAO and OIG)	• Created a sub-cabinet-level position to oversee civil rights issues. • Conducted a post-OIG audit inspection of Equal Employment Opportunity complaint files and submitted a report of its finding to OIG. A complete file review is planned. • Developed final Standard Operating Procedures (SOP) for conducting agency civil rights evaluations in March 2003. • In cooperation with OIG, the Office of Civil Rights proposed changes to the Delegations of Authority for the Assistant Secretary of Civil Rights found at 7 CFR Part 2. These proposed changes address the negotiation of settlement agreements in program discrimination complaints and include the vetting of settlement agreements by OIG. The revised delegations should be completed by January 2004.

Challenges and Program Risk	Accomplishments for the Period October 1, 2002 - September, 30, 2003 (and Planned Actions, if applicable)
Food Assistance Programs (FNS) • Ineligible recipients (OIG and GAO) • Trafficking by authorized and unauthorized retailers (OIG and GAO) • Implementation of the Electronic Benefits Transfer (EBT) system (OIG and GAO)	• Created a national team of experts to monitor and evaluate payment-accuracy progress, analyze error-rate data and exchange information on payment-accuracy best practices and program-improvement strategies. • Announced FY 2002 Error Rates. • Continued to exchange best practice information through the State Exchange Program and Extranet site. • Co-sponsored, with the California State Agency, seminars for California county welfare office personnel on various aspects of payment accuracy. • Established and updated performance tiers for States (based on error-rate performance) to support effective and consistent intervention and technical assistance. • Conducted quarterly national payment accuracy work group meetings to facilitate the dissemination and use of error reduction strategies. • Co-hosted and played a major role in a Midwest annual error reduction seminar (Big Ten Conference). • Met with California officials to discuss strategy for FY 2004 error-reduction seminars. • Implemented the Watch List Computer system, which strengthened FNS' ability to account for manage critical compliance-related data concerning retailers. • Developed new standardized training material to assist retailers in complying with program requirements. • Operated EBT systems in 52 of 53 States and U.S. Territories have an operational EBT system. Forty-nine States have State-wide systems.
National School Lunch and School Breakfast Programs (FNS) * Eligibility determination and verification process (OIG)	• Received comments on proposed regulatory changes to improve State and local reporting on certification accuracy. Final Rule published September 2003. • Completed fieldwork and data-gathering activities for two studies for: 1) Fifteen large school districts and the current verification process; and 2) verification outcomes from 21 school food authorities involved in testing new procedures. Reports on these studies have not been finalized. • Proposed approaches to reduce certification errors through the Child Nutrition Program legislative reauthorization process.
Management and Program Delivery Issues (FS) * • Lack of an adequate internal control system to ensure compliance at field units (OIG) • Improper administration of grants to State and nonprofit organizations (OIG) • Inefficient controls over the environmental-analyses process for timber sales (OIG) • Development of policies for partnerships with private parties (OIG) Lack of appropriate goals and objectives and accurate performance measures (OIG)	• Reviewed three regions to ensure compliance with agency policy and direction issued in the Quality Assurance Desk Guide (*CFO Bulletin 2003-7*). • Made presentations on partnership issues to Grants and Agreements Specialists at the National Grants and Agreements Conference. • Scheduled three quality assurance reviews to focus on internal controls. • Implemented proper controls to ensure program integrity, program planning and accountability. Developed a new more comprehensive internal review process to produce more effective results. The process was piloted in Region 3 and the Northeastern Area with positive results. • Established (through an agreement between the FS and the National Forest Foundation) the Partnership Resource Center Web site that contains the latest information on partnerships and authorities and instruments available to FS and partners to achieve goals. • Proposed legislation as part of the FY 2004 budget to clarify and expand partnership authorities. • Drafted FS Handbooks and Manuals for standard review procedures of environmental assessments and for implementing the National Environmental Policy Act (NEPA). • Completed review of 52 sales Nationwide. Each region has prepared a NEPA improvement plan and implemented a timber sale review process. • Linked annual performance goals and objectives to the annual budget. Finalized a set outcome based performance measures for inclusion in the FY 2005 budget formulation process.

Challenges and Program Risk	Accomplishments for the Period October 1, 2002 - September, 30, 2003 (and Planned Actions, if applicable)
National Fire Plan (FS) * Waste and misuse of project funds (OIG)	• Used improved performance measures identified in the 10-year plan for FY 2004 with FY 2003 as a baseline for new data requirements. • Established project criteria for Rehabilitation & Restoration projects. All costs now are included in the fire model.
Improving Performance and Accountability at the Forest Service (FS) • Accountability of funds expended (GAO) • Lack of good performance measures and linkage to the budget (GAO) • Coordination with other federal agencies (GAO)	• Refined agency output measures and developed linkages to the output measures in the strategic plan for development of the FY 2005 budget and inclusion in the Agency Performance and Accountability System. • Implemented a new work-planning system that will be used in current-year work planning with consistent work activities. • Developed the budget using the Budget Formulation and Execution System (BFES). The budget is tied to specific performance measures for each BFES activity and is linked to strategic objectives and priority areas.
Grant and Agreement Administration (FS) * • Grants not used for purposes intended (OIG) • Federal funds not matched with required private funding (OIG) • Unauthorized expenditures paid with Federal funds (OIG) • Conformance with the Federal Grants and Cooperative Agreements Act or to the Office of Management and Budget and departmental regulations (OIG) • Mismanagement of accounting records (OIG)	• Issued national bulletins to clarify FFIS Project Cost Accounting (PCAS) procedures and to require use of PCAS for reimbursable agreements. These bulletins improved internal controls over grants. • Completed a financial- and acquisition-management review for Region 3, which covered grant administration issues. This review begins a four-year review cycle that will encompass all regions and stations.

Challenges and Program Risk	Accomplishments for the Period October 1, 2002 - September, 30, 2003 (and Planned Actions, if applicable)
Security of Aircraft (FS) • Lack of security standards (GAO) • Lack of security on air bases (GAO) • Lack of risk assessments to identify threats and misuse of aircraft by terrorists (GAO and OIG)	• Conducted consultation and coordination with the Transportation Security Administration regarding aviation security policy and procedures. • Issued a firefighter travel-safety alert that addressed security screening and travel requirements. • Initiated development of aviation security technology review and assessment procedures. Additionally, continued review of FS policy handbooks and manuals to implement changes related to aviation security. • Developed National Aviation Security Policy that contains security standards for all aviation facilities and links agency response actions to the Homeland Security Advisory System. • Developed contingency plans to implement needed security improvements at the highest priority facilities. • At each region, developed security procedures to respond to changes in the Homeland Security Advisory System threat levels. • Reclassified all pilot positions, both Government and contract, from "Low Risk" to "Moderate Risk Public Trust" positions, requiring a higher background-check level. • Developed an evaluation protocol at the Missoula Technology Development Center for security technology with aircraft. The evaluation will enable the use of new technologies to enhance security. • Finalized the National Aviation Security Policy to include a formal methodology requiring all regions to conduct risk and vulnerability assessments for all aircraft. It also requires semi-annual reviews of these assessments.
Farm Security and Rural Investment Act of 2002 (FSA) * • Ensure program integrity (OIG) • Strengthen monitoring and oversight activities (OIG) • Resources for farm and conservation programs (OIG)	• Established program compliance activities, National Internal Reviews of farm loan programs and the County Operations Review Program (CORP) to monitor program delivery and program management. • As of September 15, 2003, FSA completed 1,040 CORP target reviews, which examined specific program or administrative areas; and four comprehensive CORP reviews, which examined the majority of program and administrative operations in the county office being reviewed.

Challenges and Program Risk	Accomplishments for the Period October 1, 2002 - September, 30, 2003 (and Planned Actions, if applicable)
Food Safety (FSIS) * • Inspection and re-inspection of imported foods (GAO and OIG) • Ineffective implementation and enforcement of the Hazard Analysis and Critical Control Point (GAO and OIG)	• Updated the *Import Inspection Manual* with guidelines on "Automated Import Information System (AIIS) Contingency Plan". • Migrated the following information systems: LSFS/MARCIS, LEARN, and AIIS to the mainframe system, SYBASE platform. The system integration increases performance and decreases the response time between systems. • Updated time requirements and management control processes for reviewing and processing certification information in AIIS. • Completed Food Safety and Systems Correlation reviews for 10 districts. • Revised Directive 5000.1, which provides specific guidance to FSIS field personnel on properly verifying an establishment's compliance with the pathogen reduction, sanitation and HACCP regulations. • Initiated Food Safety Regulatory Essentials (FSRE) training. Eight-hundred employees completed this training. • Updated, issued and implemented procedures for annual re-certification of international meat and poultry establishments. • Implemented new procedures to verify that data exchanges between the Laboratory Sample Flow System, the Microbiological and Residue Computer Information System database and AIIS-3 are performed successfully. • Issued revised Directive 7335.1, Use of Sample Seals for Laboratory Samples and Other Applications, which provides detailed instructions to the inspectors on proper sample sealing procedures. • Issued Notice 55-02, Use of Microbial Pathogen Computer Modeling in HACCP Plans. • Issued Federal Register Notice 62325, E. coli 0157:H7 Contamination of Beef Products, to direct establishments to reassess their HACCP plans. • Established a Food Safety Risk Assessment Committee to enhance coordination and communication among USDA agencies in planning and conducting risk assessments. • Established a Technology Office to review new technologies that companies employ to ensure the usage is consistent with Agency regulations and will not adversely affect product safety, inspection procedures, or the safety of FSIS inspectors. • Established new regional training centers to bring comprehensive workforce training programs to the Agency's field employees. • Reissued Directive 7160.3 Revision 1 – Advanced Meat Recovery Using Beef Vertebral Raw Materials, to define more fully the range of follow-up actions available to the Agency when product from the Advanced Meat Recovery (AMR) system contains spinal cord tissue. • Conducted a public meeting on pre-harvest food safety issues to support publishing a best management practices document, which will help food producers reduce foodborne pathogens in beef cattle.
Information Security (OCIO)* • Agencies networks and systems are vulnerable to intrusion (GAO) • Sensitive data not protected (GAO and OIG) • Inappropriate security training (GAO) • Lack of contingency plans, physical security of facilities, and configuration management (GAO)	• Developed risk assessment tools for a wide range of platforms and operating systems. OCIO developed 12 checklists covering platforms, such as mainframes, AS/400's, Personal Electronic Devises and operating systems, such as Window 2000, Window XP and UNIX. • Provided scanning tools and training to assist agencies to identify security weaknesses. More than 150 licenses have been distributed to USDA agencies that are required to perform monthly scans and submit resulting reports. • Awarded 24 contracts for program and system assessments and awarded several contracts for security plans. • Developed guidance regarding Encryption Sensitive but Unclassified Information, Annual Security Plans, and identification and handling of sensitive information. • Site-assessment teams conducted on-site risk assessments at several key USDA computer facilities. • In conjunction with NFC and NITC, selected a Configuration Management (CM) tool for managing mainframe environmental software. Created a work group to establish a CM as a Department-wide program, established a CM tool section and configuration control board hierarchy. • Issued a Security Features User Guide. • Issued Telework and Remote Access guidance.

Challenges and Program Risk	Accomplishments for the Period October 1, 2002 - September, 30, 2003 (and Planned Actions, if applicable)
Information Security (Continued)	• Provided scanning tools to monitor networks to all agencies. • Implemented Department-wide contract through which agencies can purchase security patch management tools. • Held training for use and management of security patch management tools on June 12-13, 2003. • Awarded contract to populate USDA Security Architecture with tested and approved products. • Operated Department-wide Intrusion Detection System. Developed and operated a 24 x 7 capability that monitors USDA's entire backbone network system. New sensors, signatures and IDS tools were added and upgraded throughout the year. • Issued guidance for planning Computer Security Awareness and Training. • Issued guidance to provide survey of Security Awareness vendors and products. • Awarded contract to provide support for development of Department-wide Security Awareness and Training Program. Department obtained five computer security awareness training courses from the Presidential eLearning Initiative's GoLearn Project. • Conducted Certification and Accreditation Training and issued guidance to USDA component agencies. • Awarded contract for support of Disaster Recovery and Business Resumption Planning activities. • Issued guidance regarding Disaster Recovery and Business Resumption Plans. • With participation from the Office of Management and Budget, conducted a USDA Disaster Recovery and Business Resumption Kickoff Meeting. • Conducted pilot of Disaster Recovery and Business Resumption software. • Issued guidance to establish a Trusted Facility Manual. • Developed and tested disaster recovery plans for 12 major USDA systems. • Issued and drafted a number of information technology security-related policies, including: (1) mainframe security, (2) incident reporting, (3) security plan guidance, (4) security requirements for the use of private Internet access providers, (5) user ID and password requirements, (6) privacy policy on the use of customer information (i.e. cookies) and (7) server and firewall security, use of network protocol analyzers, and (8) physical security standards and use of configuration management.
Information Resource Management (OCIO)* • Noncompliance with OMB Circular A-130 and Presidential Decision Directive 63 (OIG) • Inadequate physical and logical access controls to verify authorized users (OIG) • Incomplete program risk assessment of systems and plans to eliminate or mitigate risks (OIG) Inadequate oversight of security clearances and **In-**	• Received final draft of IT Certification and Accreditation Methodology developed to prepare agencies to certify systems and become compliant with OMB guidance. • Received agencies' annual security plans according to OCIO guidance for security plans that comply with OMB guidance. • Worked with contractors to perform independent risk assessments of systems and programs. • Issued a follow-up contract for the support of Federal Information Security Management Act Action Plan process. • Submitted quarterly Government Information Security Reform Act security status report to OMB. • Developed security checklists for Novell and Windows EP operating systems. • Issued Risk Assessment Methodology guidance. • Conducted security self-assessments for FY 2003 Federal Information Security Act, and developed plans of actions to mitigate deficiencies. • Established department-wide policy guidance based on related guidance developed by OMB and NIST. Guidance includes: OCIO's Contingency Planning Guidance, Security Planning Guidance, Capital Planning Guide for Security, IT Certification and Accreditation Guide and Risk Assessment Methodology Guide.

Challenges and Program Risk	Accomplishments for the Period October 1, 2002 - September, 30, 2003 (and Planned Actions, if applicable)
formation Resource Management (OCIO)*(Cont.) • background checks for contractors (OIG)	• Awarded more than 35 contracts through an OCIO blanket purchase agreement that provides for independent risk assessment of information-technology systems within USDA. These contracts have resulted in detailed risk assessments of dozens of individual agency systems. • Completed the third annual assessment of USDA's Information Technology Security Program required by the Government Information Security Reform Act and the Federal Information Security Management Act. Currently, OCIO is tracking 264 individual security deficiencies and more than 4,000 action items designed to address them.
Business and Industry Loan-making and Servicing Procedures (RBS) Loan-making and servicing procedures not properly administered by some State and field office program staff (OIG)	• Entered into contract and began work with the Farm Credit Administration (FCA) to evaluate the safety and soundness of Business & Industry Guaranteed Loan Program and assure compliance with applicable laws and RBS regulations. • Completed three Business Programs Assessment Reviews and initiated several Business & Industry management control reviews. FCA will provide training to USDA's RBS staff in the examination process. There will be no further reporting on this challenge.
Waivers of Internal Controls (RBS) Granting improper and undocumented waivers to business and industry loan regulations (OIG)	• Established internal instructions regarding the waiver of loan regulation processes. • Continued rewrite of the servicing and processing regulations to define agency/lender responsibilities. There will be no further reporting on this challenge.
Federal Crop Insurance (RMA)* • Implementation of the Agricultural Risk Protection Act (OIG) • Oversight by insurance companies and the Risk Management Agency (OIG)	• Continued to initiate contracts and partnership agreements for new products mandated by the Agricultural Risk Protection Act. • Continued to work with contractors on the development of a more effective quality control review process.

Challenges and Program Risk	Accomplishments for the Period October 1, 2002 - September, 30, 2003 (and Planned Actions, if applicable)
Rural Rental Housing (RRH) Portfolio Management (RHS)* Maintain current portfolio in good repair to ensure safe, decent and affordable housing for rural Americans (OIG)	Published Proposed Rule June 2003 to completely restructure loan and grant programs, improve the ability to ensure properties are maintained and provide decent, safe and sanitary rental and farm labor housing. Nearly 3,000 comments were received. The estimated publication of the Final Rule is June 2004.
Guaranteed RRH Program (RHS)* Implement sufficient controls to ensure accurate reporting of units built (OIG)	Revised performance and results reported under the section 538 guaranteed rental program to clarify that units reported are those for which funds have been obligated to build new construction projects and the resulting units.
RRH Rental Assistance (RHS)* Development of plans for increased funding requirements (OIG)	Requested additional funding needed for the Rental Assistance program in FY 2004. Began development of a rental assistance automated program that will calculate renewal needs.
RRH Projects Leaving the Program (RHS)* Monitor incentive payments and ensure project owners continue to meet the conditions of the incentive payment (OIG)	• Improved preservation administration by implementing preservation incentive underwriting, thereby ensuring that incentive payments are fair. • Enhanced the tracking systems to determine the status of prepayments. • Implemented additional tracking systems for loans entering into the prepayment process. Improved the Agency's ability to determine the status of loans proposing prepayment and those that have been prepaid. Improved agency's ability to plan and implement preservation incentives.
RRH Unallowable and Excessive Expenses Charged to RRH Projects (RHS)* Monitor implementation of new regulation to address consistency and better controls for the RRH program and open OIG audit recommendations (OIG)	Under current agency procedures, identified unallowable and excessive expenses; made restitution. Referred cases to appropriate agency officials and OIG for action.

Challenges and Program Risk	Accomplishments for the Period October 1, 2002 - September, 30, 2003 (and Planned Actions, if applicable)
Improving the Delivery of Services to Farmers (NRCS, FSA, RD) • Lack of fully integrated program applications (GAO) • Lack of adequate staffing at the service centers to meet farmers' needs (GAO)	• Streamlined and improved the efficiency of servicing activities for its Direct Homeownership Program through the establishment of the Centralized Servicing Center in 1996. • Worked with the Farm Service Agency (FSA) to explore how the agency also may benefit through centralization either internally or through use of Rural Development's Centralized Servicing Center. • Rural Development's Centralized Servicing Center hosted a visit from Farm Credit - Canada. Farm Credit - Canada is looking to centralize servicing activities and purchase a state-of-the-art servicing system like the one used by Rural Development. Rural Development and Farm and Foreign Services are working to develop a plan on how the Agencies can further enhance program delivery. Signed a joint report which will be sent to the Deputy Secretary. • Made progress toward establishing a "common computing environment" within the department that is assisting Service Center agencies in complying with congressionally mandated E-Government goals. All three USDA Service Center Agencies (FSA, NRCS, and RD) have been trained and certified in accessing and using the system. • Implemented the "Common Customer" computer database known as the Service Center Information Management System (SCIMS). • Worked to deploy an operational nationwide FSA Geographic Information System. This system is particularly important because the majority of FSA's business data is geospatial in nature or referenced to a geographical location such as land records, field locations, boundaries and soil types. This critical component of the implementation is the digitization of farm field boundaries called Common Land Units (CLU). FSA has completed implementation in more than 900 counties and put in place a plan to accelerate CLU completion across the entire nation. • Continued efforts to deploy modernized Web-based application software to support FSA needs. • Established the USDA Real Estate for Sale Web site. This site allows the public to search in their local counties for either farms or houses that are being sold by the government. The site also advertises properties that will be offered at foreclosure sale by the Government. This site can be accessed from either the FSA or Rural Development home pages or the Firstgov.gov mail portal. • Staffed FSA's Federal and county offices to the maximum extent based on current appropriated funding levels. Continued to realign staffing and resources to support workload and workforce imbalances impacting program delivery on a case-by-case basis. • Began implementing the Technical Service Provider provisions of the Farm Bill. NRCS has developed final and interim rules for Technical Service Providers. An automated Technical Service Provider registry system is operating with over 700 Technical Service Providers already certified. Technical Service Providers are individuals, private groups, local Government employees and State Government employees.
USDA's Ability to Account for Its Financial Activities (OCFO)* Inability to assure that the consolidated financial statements are reliable and presented in accordance with generally accepted accounting principles (GAO and OIG)	• Received an unqualified audit opinion on five USDA stand-alone audits and on the FY 2002 Consolidated Financial Statements. • Produced timely and accurate quarterly financial statements to OMB to meet accelerated timeframes for reporting. • Completed departmental implementation of a standard and compliant administrative financial system. • Began using data warehousing technology to provide consolidated reporting to meet integrated financial system requirements for both administrative and program data. • Completed a draft of the new *Debt Collection Regulations* which contain provisions for the optional DCIA tool of administrative wage garnishment, and published proposed rule 7 CFR Part 3, Debt Management, in the *Federal Register* with a 60- day comment period.

APPENDIX B – ERRONEOUS PAYMENT DETAILS

Food Stamp Program

Exhibit 95: Food Stamp Program Estimates

Section 1a. - Program-wide Estimates (Dollars in Millions)[1]										
Food Stamp Program	FY Actuals							FY Targets		
	2000		2001		2002		2003	2004	2005	2006
	Dollars	Rate	Dollars	Rate	Dollars	Rate	Rate	Rate	Rate	Rate
Total Payments	$14,989		$15,535		$18,244					
Underpayments	$360	2.40%	$340		$384		TBD[2]	1.97%	1.97%	1.97%
Overpayments	$975	6.51%	$1,005	6.47%	$1,123	6.16%	TBD[2]	5.83%	5.83%	5.83%
Total Erroneous Payments	$1,335	8.91%	$1,345	8.66%	$1,507	8.26%	TBD[2]	7.80%	7.80%	7.80%

[1]Confidence level is 95 percent. Confidence interval is +/- .35. Data are based upon statistical sampling of the universe of payments.
[2]The data will be available in June 2004.

The Food and Nutrition Service (FNS) has pioneered efforts to monitor and reduce improper payments under the Food Stamp Program (FSP). Thus, the payment-error rate dropped from 8.91 percent in 2000 to 8.26 percent in 2002. This decrease saved taxpayers millions of dollars. Targets have been established to reduce the error rate to 7.8 percent in 2004 and in future years. FSP's quality-control system measures the accuracy of household certifications based on a statistically valid process initially established in 1970. The system is mandated by the Food Stamp Act and further defined in program regulations and agency guidance. Agency procedures are established in three handbooks: *Sampling Methodology, Review Procedures* and *Federal Validation Reviews.*

As part of the quality-control process, States conduct reviews on a sample of cases from all participants, and for those denied participation or terminated from the program. States report the findings of the reviews to FNS. FNS then conducts validation reviews to establish the accuracy of the State-reported information based on a regression process. This well-designed and controlled process yields quality data with a high confidence level for accuracy. These official error rates are used to assess penalties against States with high rates and award incentives to those with low rates.

As required by FSP regulations, State agencies analyze data to develop corrective-action plans to reduce or eliminate program errors. A State must develop a quality-control action plan to address the causes of errors detected. Some errors occur when the State's combined payment-error rate is above the threshold for enhanced funding. Others occur when a State's negative-case error rate is more than 1 percent. Action also is required when underpayments result from State agency rules, practices or procedures. Most States have developed action plans to address error rates based on their FY 2002 quality-control data.

FNS regional offices and States work together to develop effective strategies designed to reduce payment errors. Regional offices provide such technical assistance to States as:
- Analyzing data;
- Reviewing and monitoring corrective-action plans;
- Developing strategies for error reduction and corrective action;
- Participating on boards and in work groups; and
- Hosting, attending and supporting payment-accuracy conferences.

FNS also administers a State Exchange Program to provide funding to States for travel to obtain, observe and share information on best practices and effective techniques to reduce payment errors. Coalitions have been formed among States to promote partnerships to address mutual concerns and develop effective corrective-action plans.

A claims-collection process to recover overpayments also is an important mechanism for addressing erroneous payments. While States are provided some flexibility in claims operation, Federal regulations require them to pursue a claim if an overpayment is discovered during a quality-control review.

FNS will continue to build upon and refine its erroneous-payments reduction activities. While the Farm Security and Rural Investment Act of 2002 authorized several policy options that, if fully adopted by States, could result in lower error rates, it also weakened the penalties for high error rates and reduced the incentives for low error rates. These changes took effect in FY 2003. Food-stamp caseloads are rising in every State even though States are facing significant budget deficits. States may not be able to sustain high quality customer service. This deficiency may cause higher error rates. It is not clear how these factors will influence future payment-error rates.

National School Lunch Program/School Breakfast Program (NSLP/SBP)

Exhibit 96: National School Lunch & Breakfast Program Estimates

Section 1a. - Program-wide Estimates (Dollars in Millions)										
National School Lunch & Breakfast Programs	FY Actuals							FY Targets		
	2000		2001		2002		2003	2004	2005	2006
	Dollars	Rate	Dollars	Rate	Dollars	Rate	Rate	Rate	Rate	Rate
Total Payments	$ 6,887		$7,062		$7,617					
Underpayments		N/A		N/A		N/A	N/A	N/A	N/A	N/A
Overpayments		N/A		N/A		N/A	N/A	N/A	N/A	N/A
Total Erroneous Payments	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

National School Lunch Program/School Breakfast Program (NSLP/SBP) erroneous payments occur when recipients misreport information in their application and are approved for free or reduced-price meals, or otherwise mistakenly approved (certification error) and then receive the meals. Errors also may occur when schools and school-food authorities (SFAs) submit inaccurate claims for meals that neither were served or nor met program requirements (counting and claiming error).

Certification error and counting and claiming errors balance the need for timely performance data with the cost and burden of expanded and more-frequent measurements. An expanded measurement system would increase the burden on schools, school districts and State agencies significantly. Given the limited staff resources available to schools, such new burdens could undermine their educational mission.

Certification Error

While there has been a growing discrepancy between the number of children certified for free meals and the estimates of those eligible, errors in school certification do not result in a loss to the Federal program. The loss only occurs when ineligible students actually receive meals. FNS has no data available to show how often those eligible for free meals actually receive them.

All SFAs must verify household eligibility for free and reduced-price meals. They base their findings on a 3-percent sample of the free and reduced-price applications approved annually. School authorities also may select a smaller sample by focused selection. FNS recently has published regulatory changes to require school districts to report verification results and pursue corrective action for identified errors. The agency plans to use this data to analyze the results of the certification process. Its goal is to improve the system. FNS also is preparing to conduct a nationally representative study of the level of NSLP payment error.

To address certification error, FNS currently is working with State and local program operators to improve accuracy and prevent errors within the context of current program regulations. Additionally, the Administration has recommended a balanced approach to statutory change via Child Nutrition reauthorization. This approach includes a range of program improvements to safeguard access while addressing such NSLP integrity issues as:

- Requiring direct certification for free meals through FSP to improve certification accuracy over paper applications while increasing access for the lowest-income families and reducing the application and verification burden for families and schools;
- Permitting households to submit a single application covering all children attending school and provide for yearlong certifications. These improvements reduce certification and verification burden while reducing potential for error;
- Enhancing verification of paper-based applications by drawing verification samples early in the school year, expanding the verification sample, and including both a random sample and one focused on error-prone applications in each school;
- Minimizing barriers for eligible children who wish to remain in the program by requiring a robust, consistent effort in every State to inquire those who do not respond to verification requests. The program would include a minimum of three contacts in writing and by phone; and
- Initiating a series of comprehensive demonstration projects to test alternative mechanisms for certifying and verifying applicant information. This plan would include wage-data matching that identifies eligible and ineligible households, and a nationally representative study of overcertification error and the number of dollars lost to program error.

Counting and Claiming Error

The Coordinated Review Effort (CRE) is a system of Federal and State review of school-district meal programs. CRE is designed to evaluate district compliance with meal service and claiming requirements, and provide technical assistance to improve program management. More than $4 million in coordinated review funds is spent annually for the Federal review of school counting and claiming procedures, and compliance with meal requirements. While the system does not produce statistically valid National estimates, available CRE data indicate no major program weaknesses in meeting program requirements in these areas.

Special Supplemental Nutrition Program for Women, Infants and Children

Currently, FNS has no data available to estimate the rate of erroneous payments under the Special Supplemental Nutrition Program for Women, Infants and Children (WIC). WIC erroneous payments occur when:

- Ineligible persons receive benefits;
- Food is redeemed at excess prices; or
- Food is redeemed for unauthorized items or items not received by participants.

FNS periodically develops estimates of these types of errors. Recent studies show that WIC participant and vendor errors have remained fairly stable despite major program growth from 1988 to 1998. FNS has been working aggressively to improve program integrity. Since late 1998, WIC applicants with limited exceptions have been required to document their income and residency, and be physically present. In December 2000, FNS published a final rule on food-delivery systems that strengthen vendor management.

These systems established vendor-selection criteria, vendor-training requirements, high-risk vendor identification criteria and such vendor-monitoring requirements as compliance investigations.

Exhibit 97: WIC Estimates

Section 1a. - Program-wide Estimates (Dollars in Millions)											
WIC Program	FY Actuals							FY Targets			
	2000		2001		2002		2003	2004	2005	2006
	Dollars	Rate	Dollars	Rate	Dollars	Rate	Rate	Rate	Rate	Rate
Total Payments	$ 3,981		$ 4,150		$4,462					
Underpayments		N/A		N/A		N/A	N/A	N/A	N/A	N/A
Overpayments		N/A		N/A		N/A	N/A	N/A	N/A	N/A
Total Erroneous Payments	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

While FNS currently has no data available to estimate the rate of erroneous payments under WIC, it has conducted studies in an attempt to develop estimates relating to these types of errors:

- Participant error: *The WIC Income Verification Study, 1988* found that 5.7 percent of program participants were income ineligible. The National Survey of WIC Participants, 1998, yielded an estimate of 4.5 percent. While both estimates only considered income eligibility, nutritional risk also is required to be eligible for WIC. Nutritional risk criteria cover a range of conditions and behaviors that would be difficult to verify; and
- Vendor error: *The WIC Vendor Management Study, 1998* estimated that vendor overcharges represent 0.9-1.6 percent of total program payments. Undercharges are estimated at 0.4-0.6 percent. These rates are very similar to those found in a 1988 study.

FNS has been exploring WIC electronic benefit transfer (EBT) systems to provide greater efficiency and integrity in food-benefit delivery. Currently, there are 12 States pilot testing EBT systems. These systems require personal identification number entry prior to retail transactions. They also verify WIC-authorized foods by Universal Product Codes (UPC). A UPC is a combination of a number and bar code that identifies an individual consumer product. Thus, participant and vendor error is minimized.

Commodity Loan Program

The Commodity Credit Corporation (CCC) Commodity Loan Program error rate has increased from 0.08 percent in 2001 to 1.54 percent in 2003. Targets have been established to reduce the rate to 1.40 percent in 2004 and 1 percent in future years. Currently, erroneous payments are measured by evaluating the program's accounts receivable. CCC is participating in a new Geospatial Information System to obtain more-current information about commodities being planted on farms. This data will provide the county Farm Service Agency offices with more options for validating the acreage and planting information provided by producers. This plan will help determine if a payment error occurred. The system has not been fully implemented.

Exhibit 98: Commodity Loan Program Estimates

Section 1a. - Program-wide Estimates (Dollars in Millions)[1]

Commodity Loan Program	FY Actuals						FY Targets		
	2001		2002		2003		2004	2005	2006
	Dollars	Rate	Dollars	Rate	Dollars	Rate	Rate	Rate	Rate
Total Payments	$8,267	100%	$10,132	100%	$9,894	100%	100%	100%	100%
Underpayments	N/A	N/A	N/A	N/A	N/A	N/A	N/A	**	**
Overpayments	6.6	.08%	1	.01%	153	1.54%	1.40%	1.25%	1.10%
Total Erroneous Payments	6.6	.08%	$1	.01%	$153	1.54%	1.40%	1.25%	1.10%

[1]FY 2003 data is actual data through June 30, 2003. Changes to reporting systems will allow for the tracking of overpayments by FY 2003. The amounts shown are actual amounts or best estimates for future rates. There is no statistical sampling process currently used to develop this report. The current method of measuring the rate of erroneous payments for Commodity Credit Corporation (CCC)-issued commodity loans is by evaluating the accounts receivables. CCC also changed the way information is provided from a crop-year basis to a fiscal-year basis. These accounts receivables show the crop years that would have been disbursed during the current fiscal year. The amounts shown are a reliable indicator of the quality of disbursements made for the commodity-loan program.

Lack of funding for initiatives to track and report on payment-error rates has hampered efforts to reduce or prevent erroneous payments. To date, CCC has not begun any new initiatives to reduce erroneous payments.

Limitations of the Financial Statements

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

While the statements have been prepared from the books and records of the entity in accordance with the formats prescribed by the Office of Management and Budget (OMB), they also are 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. Thus, liabilities cannot be liquidated without enabling legislation that provides resources to do so.

APPENDIX C - EXHIBITS

APPENDIX D – ACRONYMS

AAVLD	American Association of Veterinary Laboratory Diagnostics
ADP	Automated Data Processing
ADR	Alternative Dispute Resolution
AGIC	American Growers Insurance Company
AIIS	Automated Import Information System
AMS	Agricultural Marketing Service
APHIS	Animal and Plant Health Inspection Service
ARMS	Agricultural Resource Management Survey
ARS	Agricultural Research Service
B&I	The Business and Industry Guaranteed Loan Program
BFES	Budget Formation and Execution System
BMP	Best Management Practices
BSE	Bovine Spongiform Encephalopathy
CACFP	Child and Adult Care Food Program
CAPS	Cooperative Agricultural Pests Survey
CBA	Cost-Benefit Analysis
CBO	Certificates of Beneficial Ownership
CCC	Commodity Credit Corporation
CDC	Centers for Disease Control and Prevention
CERCLA	Comprehensive Environmental Response, Compensation and Liability Act
CIS	Common Information System
CLP	Commodity Loan Program
CM	Configuration Management
CNMP	comprehensive nutrient management plans
CNPP	Center for Nutrition Policy and Promotion
CORP	County Operations Review Program
CPAP	Community Programs Application Processing
CR	Office of Civil Rights
CRE	Coordinated Review Effort
CRP	Conservation Reserve Program
CSREES	Cooperative State Research, Education, and Extension Service
CTA	Conversation Technical Assistance Program
CWD	Chronic Wasting Disease
DCIA	Debt Collection Improvement Act
DCP	Direct Counter-Cyclical Payment
DHS	Department of Homeland Security
DMZ	Demilitarized Zone
DNA	Deoxyribonucleic Acid
DO	Departmental Offices
DOE	Department of Energy
DOI	Department of the Interior
DOL	Department of Labor
E&T	Employment and Training
EBT	Electronic Benefits Transfer
eGovernment	Electronic Government
EFNEP	Expanded Food and Nutrition Education Program
EI	Erodibility Index
EMS	Emergency Management Systems
EPA	Environmental Protection Agency
EQIP	Environmental Quality Incentives Program
ERS	Economic Research Service
ERU	Engineering Research Unit
ESD	Ecological Site Descriptions
EU	European Union
EWP	Emergency Watershed Protection Program
EWRP	Emergency Wetlands Reserve Program
FACTS	Federal Agencies' Centralized Trial Balance System
FAS	Foreign Agricultural Service
FCA	Farm Credit Administration
FCIC	Federal Crop Insurance Corporation
FDA	Food and Drug Administration
FDPIR	Food Distribution Program on Indian Reservations
FFAS	Farm and Foreign Agricultural Services
FFB	Federal Financing Bank

FFIS	Foundation Financial Information System
FISMA	Federal Information Security Management Act
FLEP	Forest Land Enhancement Program
FMFIA	Federal Managers' Financial Integrity Act
FNCS	Food, Nutrition and Consumer Services
FNS	Food and Nutrition Service
FS	Forest Service
FSA	Farm Service Agency
FSIS	Food Safety and Inspection Service
FSP	Food Stamp Program
FSRE	Food Safety Regulation Essentials
FSRIA	Farm Security and Rural Investment Act of 2002
FSRIO	Food Safety Research Information Office
FTA	Free Trade Agreement
FTAA	Free Trade Area of the Americas
FTBU	funds to be put to better use
FY	Fiscal Year
GAO	Government Accounting Office
GIPSA	Grain Inspection, Packers and Stockyards Administration
GRIN	Germplasm Resource Information Network
GRP	Group Risk Protection
HACCP	Hazard Analysis and Critical Control Point
HFI	Healthy Forest Initiative
HHS	Department of Health and Human Services
IHEI	Interactive Healthy Eating Index
IPPC	International Plant Protection Convention
ISO	International Standards Organization
IT	Information Technology
LDP	Loan Deficiency Payment
LRP	Livestock Risk Protection
MFH	Multi-Family Housing Program
MRP	Marketing and Regulatory Programs
NAHLN	National Animal Health Laboratory Network
NAHMS	National Animal Health Monitoring System
NAHRS	National Animal Health Reporting System
NAL	National Agriculture Library
NAPIS	National Agricultural Pest Information System
NASF	National Association of State Foresters
NASS	National Agricultural Statistics Service
NCIE	National Center for Import and Export
NDB	National Data Bank
NEPA	National Environmental Policy Act
NFC	National Finance Center
NFP	National Fire Plan
NFS	National Forest System
NITC	National Information Technology Center
NPGS	National Plant Germplasm System
NPDN	National Plant Diagnostic Network
NRCS	Natural Resources Conservation Service
NRE	Natural Resources and Environment
NRI	National Resources Inventory
NRI-CEAP	National Resources Inventory Conservation Effects Assessment Project
NSLP	National School Lunch Program
NSLP/SBP	National School Lunch Program/School Breakfast Program
NVSL	National Veterinary Services Laboratories
OBPA	Office of Budget and Program Analysis
OCFO	Office of the Chief Financial Officer
OCIO	Office of the Chief Information Officer
OGC	Office of the General Counsel
OIE	Office International des Epizooties
OIG	Office of Inspector General
OMB	Office of Management and Budget
OSEC	Office of the Secretary
OSTP	Office of Science and Technology Policy
PART	Program Assessment Rating Tool
PAS	Performance and Accountability System
PCAS	Project Cost Accounting System
PCIMS	Processed Commodities Inventory Management System

PCMS	Purchase Card Management System
PMA	President's Management Agenda
PP&E	Property, Plant and Equipment
PRMS	Performance and Results Management System
PSD	Price Support Division
RBS	Rural Business - Cooperative Service
RD	Rural Development
REE	Research, Education and Economics
RHS	Rural Housing Service
RMA	Risk Management Agency
RME	Risk Management Education
RRH	Rural Rental Housing
RTB	Rural Telephone Bank
RTE	Ready-to-Eat
RUS	Rural Utilities Service
SA	State Agencies
SBP	School Breakfast Program
SFA	School-Food Authority
SFSP	Summer Food Service Program
SOP	Standard Operating Procedures
SRA	Standard Reinsurance Agreement
TSP	Technical Service Provider
UPC	Universal Product Code
USAHA	United States Animal Health Association
USAID	United States Agency for International Development
USDA	United States Department of Agriculture
UST	Underground Storage Tank
USTR	United States Trade Representative
WHIP	Wildlife Habitat Incentives Program
WIC	Special Supplemental Nutrition Program for Women, Infants and Children
WRP	Wetlands Reserve Program
WRRC	Western Regional Research Center
WTO	World Trade Organization
WUI	Wildlife Urban Interface