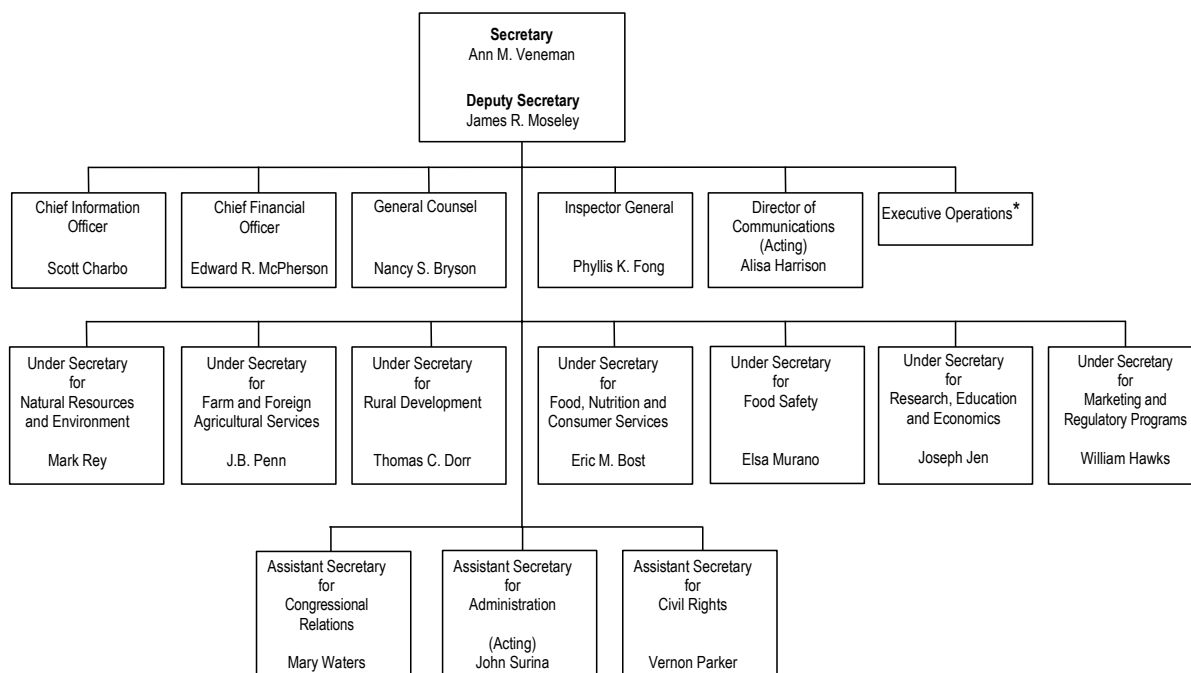


I. MANAGEMENT DISCUSSION AND ANALYSIS

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 ac-

cess 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

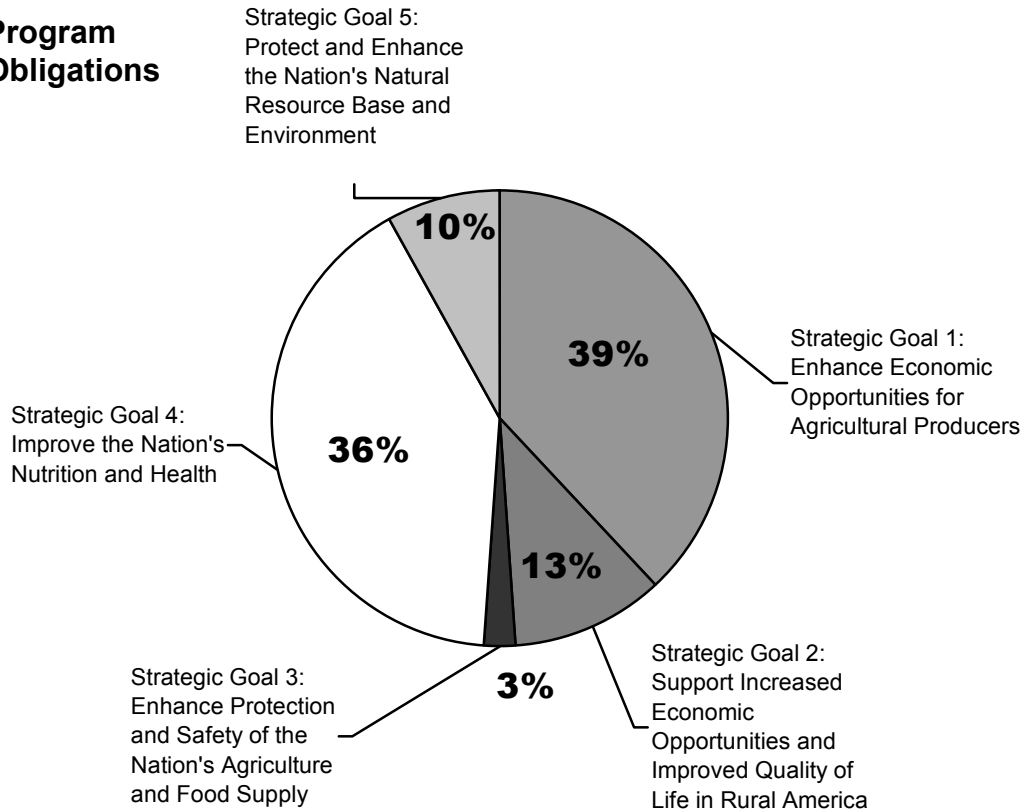
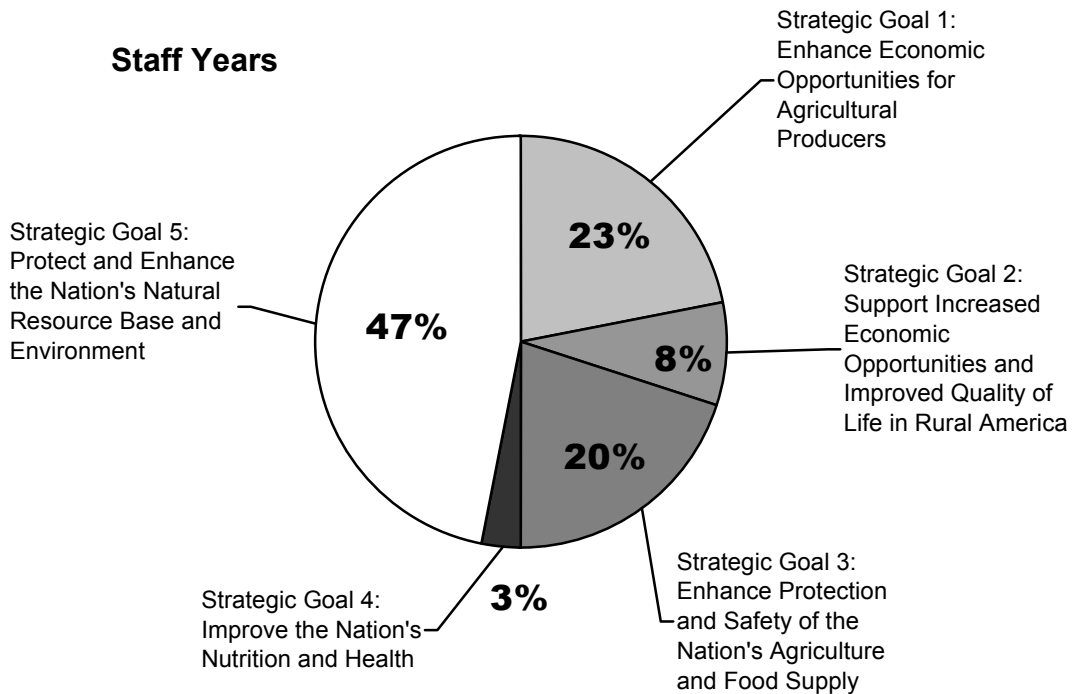


Exhibit 3: FY 2003 USDA Staff Years Dedicated to Strategic Goals

| 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.

USDA Performance and Accountability Report for FY 2003
Management Discussion and Analysis

| 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 (<i>Salmonella</i>) | Met |
| | 3.1.3: Enhance industry compliance with regulatory requirements (<i>Listeria monocytogenes</i>) | Met |
| | 3.1.4: Develop new systems for detecting foodborne hazards | Exceeded |

¹This 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 (eGov-

ernment), 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.

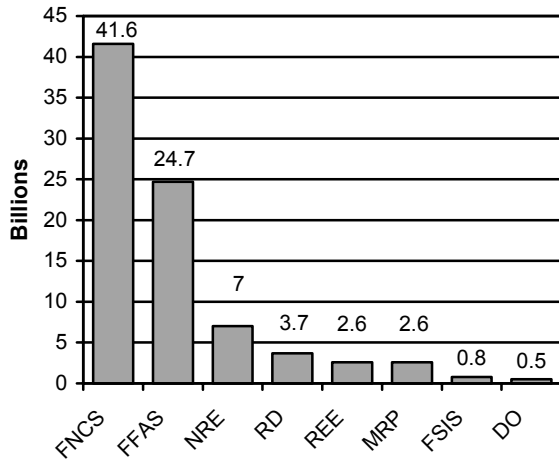
Assets and Liabilities

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 Performance and Accountability Report for FY 2003
Management Discussion and Analysis

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 |