

Section I

Management's Discussion and Analysis

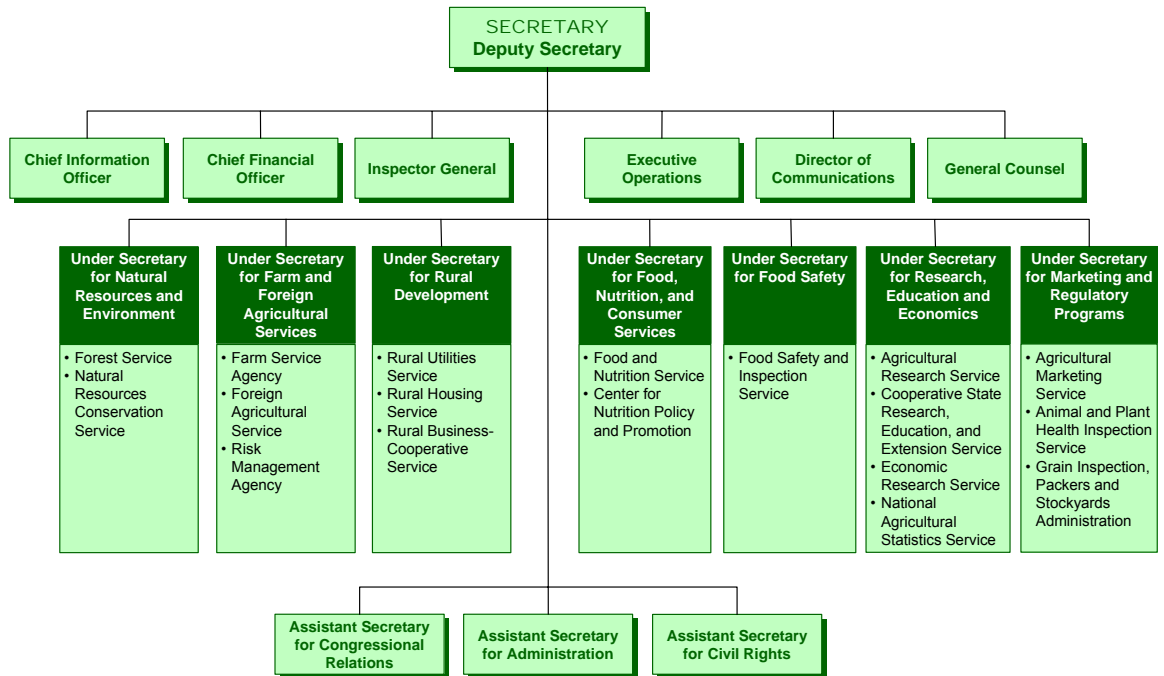




I. Management's Discussion and Analysis

AN OVERVIEW OF THE UNITED STATES DEPARTMENT OF AGRICULTURE

Exhibit 1: Headquarters Organization



Mission Statement:

The United States Department of Agriculture provides leadership on food, agriculture, natural resources, quality of life in rural America and related issues based on sound public policy, the best-available science and efficient management.

The United States Department of Agriculture (USDA) is a diverse and complex organization with programs that touch the lives of all Americans every day. More than 100,000 employees deliver more than \$75 billion in public services through USDA's more than 300 programs worldwide, leveraging an extensive network of Federal, State and local cooperators.

Founded by President Abraham Lincoln in 1862, when more than half of the Nation's population lived and worked on farms, USDA's role has evolved. Today, USDA improves the Nation's economy and quality of life by:

- Enhancing economic opportunities for U.S. 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 reduce hunger and improve America's health through nutrition.

Addressing these concerns presents its share of challenges. America's food and fiber producers operate in a global, technologically advanced, rapidly diversifying and highly competitive business environment driven by sophisticated consumers.

This report provides information on USDA's core performance measures as described in its revised *FY 2005 Annual Performance Plan/Performance Budget*. There are five strategic goals that guide the Department.

They are:

- To enhance economic opportunities for agricultural producers;
- To support increased economic opportunities and improved quality of life in rural America;
- To enhance protection and safety of the Nation's agriculture and food supply;
- To improve the Nation's nutrition and health; and
- To protect and enhance the Nation's natural resource base and environment.

The primary legislative authority guiding USDA's efforts is the Farm Security and Rural Investment Act of 2002 (FSRIA). This law aims to advance: a reliable, safe and affordable food and fiber supply; sound stewardship of agricultural land and water resources; the economic opportunities available for American farm products at home and abroad; continued economic and infrastructure development in rural America; and leading-edge research to maintain an efficient and innovative agricultural and food sector.

Some of the more substantial reforms called for by this legislation include:

- Introducing counter-cyclical farm income support to assist farmers during hard times;
- Expanding conservation programs and adding emphasis on farm environmental practices;
- Making more borrowers eligible for Federal farm credit assistance;
- Restoring food stamp eligibility for legal immigrants;
- Adding several commodities to those requiring country-of-origin labeling;
- Introducing animal welfare provisions; and
- Enhancing the Nation's biobased product and bioenergy programs.

As USDA moved into the fourth year of implementing this legislation, FY 2005 key milestones included:

- Announcing \$1.7 billion in funding for conservation programs on working lands;
- Allocating funds to States for financial and technical assistance for FSRIA programs and other activities. USDA will use at least \$30 million for technical service providers and nearly \$41 million to implement the new Conservation Security Program (CSP) under a final rule that will be published

shortly. CSP is a voluntary program that provides financial and technical assistance to promote the conservation and improvement of soil, water, air, energy, plant and animal life, and other conservation purposes on Tribal and private working lands. The allocation also includes \$54 million in financial assistance for the Grasslands Reserve Program (GRP), which the Department hopes to operate this year under an interim final rule that will be published shortly. GRP is a voluntary program that helps landowners and operators restore and protect grassland, including rangeland and pastureland, and certain other lands, while maintaining the areas as grazing lands;

- Publishing a Departmental final rule for Conservation Innovation Grants and announcing the availability of more than \$19 million to fund selected grant proposals in 2005;
- Publishing a Departmental regulation to establish the USDA policy to increase the purchase and use of biobased products to the extent practicable;
- Implementing the Beginning Farmer and Rancher Contract Land Sales Program. This pilot program guarantees up to five loans each in at least five geographically diverse States. A private seller will make these loans to a beginning farmer on a contract land sale basis provided that underwriting criteria are met and a commercial bank agrees to serve as escrow agent;
- Providing funds to help rural businesses create or save more than 15,000 jobs;
- Approving \$331 million of funding for broadband loans and reviewing additional applications;
- Awarding \$21 million in grants under the Renewable Energy and Energy Efficiency Program for FY 2005. The program is designed to help rural small businesses, farmers and ranchers develop renewable energy systems and promote energy efficiency improvements;
- Awarding with the U.S. Department of Energy (DOE) \$12.6 million in grants under the USDA and DOE's joint Biomass Research and Development Program to 11 projects in FY 2005. The program makes grants available to eligible entities to research, develop and show the benefits of biobased products, bioenergy, biofuels, biopower, and related processes;
- Making almost \$67 million in Bioenergy Program producer payments for FY 2005. The Bioenergy Program seeks to expand industrial consumption of agricultural commodities by promoting their use in bioenergy production (ethanol and biodiesel);
- Improving surveillance programs for animal diseases, contributing to the eventual control or eradication of such diseases and assisting in certifying the status of the U.S. or its regions with regard to freedom from specific animal diseases; and
- Utilizing approximately \$370 million to purchase fruits, vegetables and other specialty crops for distribution through USDA nutrition assistance programs. USDA made \$24 million available to the U.S. Department of Defense for the procurement of fresh fruits and vegetables.

MISSION AREAS

To ensure that USDA's efforts focus squarely on meeting its real world objectives, the Department's work is organized by mission areas, which are a collection of agencies that work together to achieve USDA's aforementioned strategic goals. USDA's seven mission areas follow.

Natural Resources and Environment

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 sustainable management of both public and private lands. FS manages 192 million acres of National Forests and Grasslands for the American people. NRCS assists farmers, ranchers and other private landowners in managing their acreage for environmental and economic sustainability. Both agencies work in partnership with Tribal, State and local Governments, communities, related groups and other Federal agencies to protect the Nation's soils, watersheds and ecosystems.

Farm and Foreign Agricultural Services

The Farm and Foreign Agricultural Services (FFAS) mission area is comprised of the Farm Service Agency (FSA), which delivers most traditional farm programs, the Foreign Agricultural Service (FAS), which assists with U.S. agricultural exports, and the Risk Management Agency (RMA), which predominately handles programs aimed at helping farmers and ranchers weather the unavoidable challenges inherent in agriculture, such as natural disasters.

This mission area also includes two Government-owned corporations. The Commodity Credit Corporation (CCC) exists to stabilize farm income and prices in order to help ensure an adequate, affordable supply of food and fiber. This Corporation is the financial mechanism by which agricultural commodity, credit, export, conservation, disaster and emergency assistance is provided. The Federal Crop Insurance Corporation (FCIC) improves the economic stability of agriculture through a sound system of crop insurance.

Rural Development

The Rural Development (RD) mission area focuses on creating economic opportunities and improving the quality of life in rural America. From rural infrastructure projects that finance the delivery of everything from safe, running water to high-speed Internet access to housing programs and economic development initiatives, this mission area unites a variety of valuable programs that together comprise the backbone of Federal efforts to ensure rural communities are full participants in economic and other community opportunities.

Food, Nutrition and Consumer Services

The Food, Nutrition and Consumer Services (FNCS) mission area is comprised of the Food and Nutrition Service (FNS), which administers Federal nutrition programs, and the Center for Nutrition Policy and Promotion (CNPP), which provides science-based dietary guidance to the Nation. USDA's Federal nutrition assistance programs include the Food Stamp Program, Child Nutrition Programs, such as school lunches, and the Special Supplemental Nutrition Program for Women, Infants and Children. These programs provide vital access to nutritious food and support for better dietary habits for one in five Americans. USDA's nutrition

research and promotion efforts aid all Americans by linking cutting-edge scientific research to the nutritional needs of consumers.

Food Safety

The Food Safety Mission Area is comprised of the Food Safety and Inspection Service (FSIS), which 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

The Research, Education and Economics (REE) mission area brings together all of the efforts underway throughout USDA to advance a safe, sustainable and competitive U.S. food and fiber system through science and the translation of science into real-world results. This mission area is integrally involved with every aspect of USDA's work. REE is comprised of the Agricultural Research Service (ARS), the Cooperative State Research, Education and Extension Service (CSREES), the Economic Research Service (ERS) and the National Agricultural Statistics Service (NASS).

Marketing and Regulatory Programs

The Marketing and Regulatory Programs (MRP) mission area is made up of the Agricultural Marketing Service (AMS), the Animal and Plant Health Inspection Service (APHIS) and the Grain Inspection, Packers and Stockyards Administration (GIPSA). This mission area facilitates the domestic and international marketing of U.S. agricultural products, including food and fiber, livestock, and grain through a wide variety of efforts, including the development of national and international agricultural trade standards via Federal, State and international cooperation. This mission area also conducts increasingly critical and sophisticated efforts to protect U.S. agriculture from plant and animal health-related threats, and ensures the humane treatment of animals.

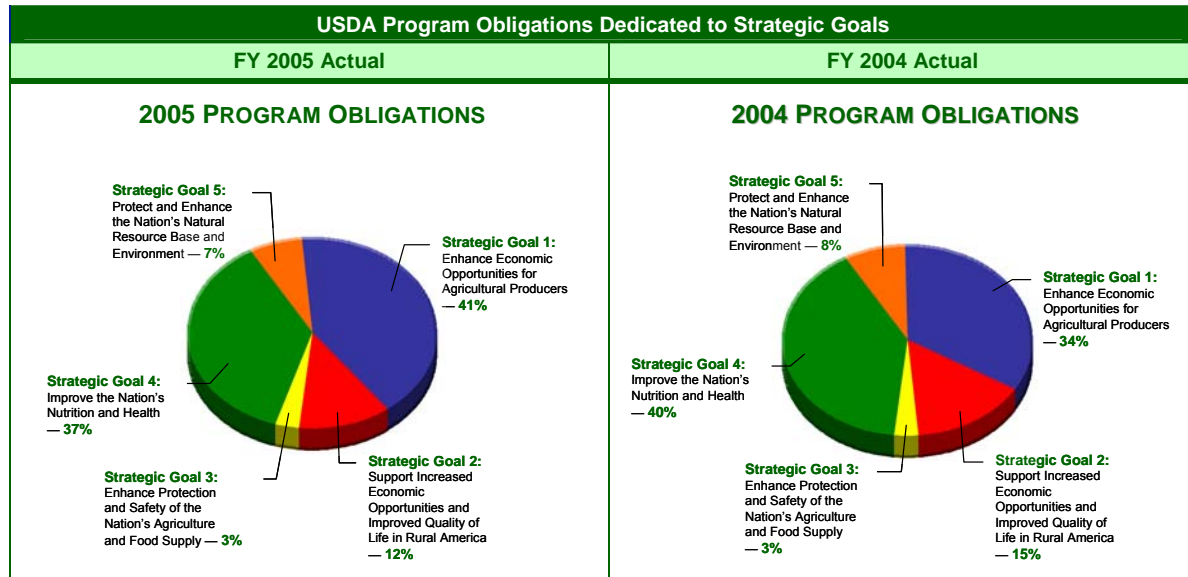
DEPARTMENTAL OFFICES

Department-level offices provide centralized leadership, coordination and support for USDA's policy and administrative functions. Their efforts support agencies which then maximize the time, energy and resources they devote to the delivery of services to USDA customers and stakeholders.

RESOURCES

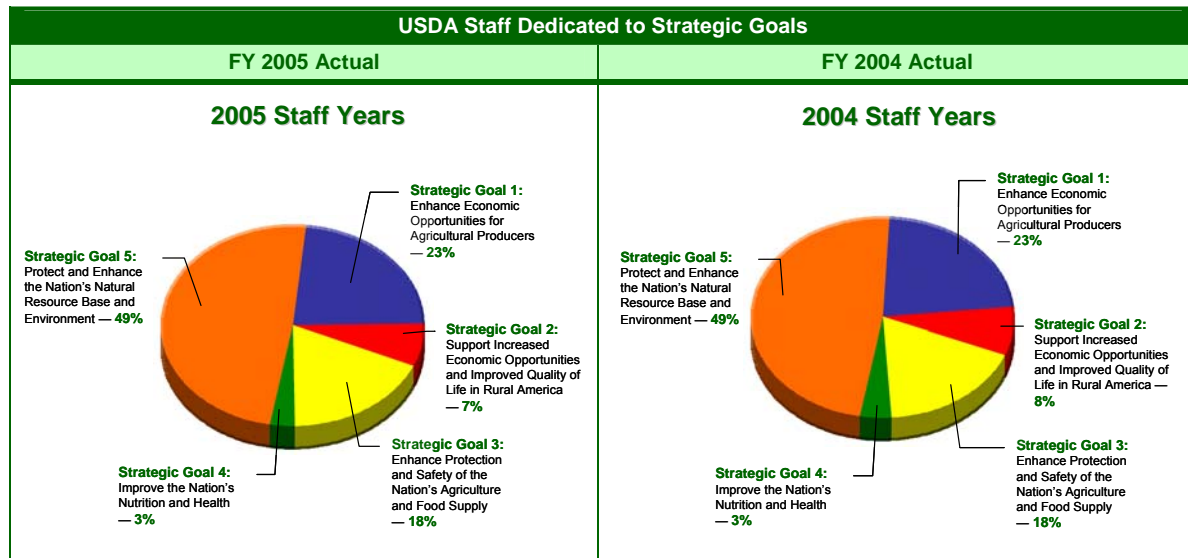
Congressional appropriations are the primary funding source for USDA operations. FY 2005 program obligations totaled \$134.4 billion, an increase of \$20.1 billion compared to FY 2004. These are current year obligations from unexpired funds. They do not include prior year upward or downward obligation adjustments. Staff year resources totaled 109,558, decreasing 1,943 compared to FY 2004.

Exhibit 2: FY 2005 and 2004 USDA Program Obligations Dedicated to Strategic Goals*



*The sum of the pie chart percentages may be greater than 100 percent because of rounding.

Exhibit 3: FY 2005 and 2004 USDA Staff Years Dedicated to Strategic Goals*



*The sum of the pie chart percentages may be greater than 100 percent because of rounding.

PERFORMANCE GOALS AND RESULTS

Of the performance goals contained in USDA's FY 2005 Revised Annual Performance Plan/Performance Budget, 29 were met or exceeded, 6 were reported as deferred [unable to report the necessary data until a specified date] and 4 were unmet. The following Performance Scorecard, organized by USDA's strategic goals and objectives, provides a summary of the Department's performance results. Additional analyses of these results can be found in the Performance Section of this report. Information on data quality is contained in the Data Assessment of Performance Measures section.

Exhibit 4: USDA Scorecard for FY 2005

Performance Scorecard for FY 2005				
Objectives		Annual Performance Goals		Result
Strategic Goal 1: Enhance Economic Opportunities for Agricultural Producers				
1.1	Expand International Market Opportunities	1.1.1	Dollar value of trade preserved through USDA staff interventions and trade agreement monitoring	Exceeded
1.2	Support International Economic Development and Trade Capacity Building	1.2.1	Number of mothers, infants and schoolchildren receiving daily meals and take-home rations through McGovern-Dole International Food for Education and Child Nutrition Program	Exceeded
1.3	Expand Alternative Markets for Agricultural Products	1.3.1	Number of groups of biobased products designated for procurement	Deferred
1.4	Provide Risk Management and Financial Tools to Farmers and Ranchers	1.4.1	Increase the percentage of beginning farmers, racial and ethnic minority farmers, and women farmers financed by USDA	Exceeded
		1.4.2	Reduce average processing time for direct loans	Exceeded
		1.4.3	Reduce average processing time for guaranteed loans	Met
		1.4.4	Increase the value of risk protection provided to agricultural producers through FCIC-sponsored insurance	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
2.2	Improve the Quality of Life in Rural America through USDA Financing of Quality Housing, Modern Utilities and Needed Community Facilities	2.2.1	Homeownership opportunities provided	Exceeded
		2.2.2	Customers served by new or improved telecommunications facilities	Unmet
		2.2.3	Customers served by new or improved water and waste disposal facilities	Exceeded
		2.2.4	Customers served by new or improved electric facilities	Exceeded
		2.2.5	Customers served by new or improved community facilities	Met
Strategic Goal 3: Enhance Protection and Safety of the Nation's Agriculture and Food Supply				
3.1	Reduce the Incidence of Foodborne Illnesses Related to Meat, Poultry and Egg Products	3.1.1	Prevalence of <i>Salmonella</i> on broiler chickens	Unmet
		3.1.2	Prevalence of <i>Listeria monocytogenes</i> in ready-to-eat meat and poultry products	Met
		3.1.3	Prevalence of <i>E. coli</i> O157:H7 on ground beef	Met
		3.1.4	Millions of viewings of food safety messages (mixed media — e.g., USDA Food Safety Mobile, USDA Meat and Poultry Hotline, etc.).	Exceeded

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Performance Scorecard for FY 2005			
Objectives	Annual Performance Goals		Result
3.2 Reduce the Number and Severity of Agricultural Pest and Disease Outbreaks	3.2.1	Number of significant introductions of foreign animal diseases and pests 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
	3.2.2	Percentage of facilities in complete compliance at the most recent inspection	Unmet
	3.2.3	Number of animals affected by noncompliances documented on inspection reports	Unmet
	3.2.4	Expand the ability to detect plant diseases to protect the Nation from disease outbreaks	Exceeded
	3.2.5	Expand the ability to detect animal diseases to protect the Nation from disease outbreaks	Exceeded
	3.2.6	Provide scientific information to protect animals from pests, infectious diseases, and other disease-causing entities that impact animal and human health	Met
Strategic Goal 4: Improve the Nation's Nutrition and Health			
4.1 Improve Access to Nutritious Food	4.1.1	Rates of eligible populations participating in the Food Stamp Program	Deferred
	4.1.2	Rates of eligible populations participating in the School Breakfast Program	Deferred
	4.1.3	Rates of eligible populations participating in the Special Supplemental Nutrition Program for Women, Infants and Children	Deferred
4.2 Promote Healthier Eating Habits and Lifestyles	4.2.1	Improve the Healthy Eating Index (HEI) scores for the U.S. population	Deferred
	4.2.2	Determine food consumption patterns of Americans, including those of different ages, ethnicity, regions, and income levels. Provide sound scientific analyses of U.S. food consumption information to enhance the effectiveness and management of the Nation's domestic food and nutrition assistance programs.	Met
4.3 Improve Food Program Management and Customer Service	4.3.1	Increase Food Stamp payment accuracy	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	Number of acres of hazardous fuel treated that are in the wildland-urban interface and the percentage identified as high priority through collaboration consistent with the 10-year Comprehensive Strategy Implementation Plan	Met
	5.1.2	Number of acres of hazardous fuel treated that are in Condition Classes 2 or 3 in Fire Regimes 1, 2 or 3 outside the wildland-urban interface and the percentage identified as high priority through collaboration consistent with the 10-year Comprehensive Strategy Implementation Plan	Exceeded
	5.1.3	Number of acres treated outside the wildland-urban interface as a secondary benefit of other vegetation management that contribute to an improvement in Condition Class	Exceeded
5.2 Improve Management of Private Lands	5.2.1	Conservation plans written for cropland and grazing lands	Met
	5.2.2	Cropland and grazing lands with conservation applied to protect the resource base and environment	Met
	5.2.3	Reduction in the acreage of cropland soils damaged by erosion	Met
	5.2.4	Number of comprehensive nutrient management plans applied	Met
	5.2.5	Increase Conservation Reserve Program (CRP acres of riparian and grass buffers)	Met

Performance Scorecard for FY 2005			
Objectives	Annual Performance Goals		Result
	5.2.6	Agricultural wetlands created, restored, or enhanced	Met
	5.2.7	Increase CRP restored wetland acres	Met

ACTIONS ON UNMET AND DEFERRED GOALS

USDA continuously works to improve its performance across all of its strategic goals and objectives. While substantial anecdotal information exists that USDA has pursued its strategic objective to improve the Nation's nutrition and health successfully, with the exception of research goals, the Department has deferred reporting on these goals until accurate and complete data are available to document the progress of these efforts in FY 2005. Sometimes circumstances arise that result in the Department falling short of its goals. At other times, while USDA consciously alters its approach to enhance its service to the public, the Department makes a specific performance goal a less effective indicator of real progress. The Annual Performance Report section of this report offers further discussion of the Department's actions on its goals.

- **Performance Goal 1.3.1**—Deferred. Number of groupings of biobased products designated for procurement. Regulations advancing this performance goal have been delayed. It is expected that the first designation will be published as a final rule during the second quarter of FY 2006.
- **Performance Goal 2.2.2**—Unmet. Increase the number of subscribers receiving new and/or improved telecommunication services (broadband). The primary reason for this performance goal being unmet is that the budget authority was not fully utilized. USDA is increasing outreach efforts to assist prospective loan applicants and to increase awareness of the Broadband program. However, USDA will monitor this and reevaluate the target if any trends indicated the need to reevaluate how many loan dollars are needed per subscriber receiving new or improved service.
- **Performance Goal 3.1.1**—Unmet. Prevalence of *Salmonella* on broiler chickens. FSIS did not have a risk-based, public policy in place in FY2005 to specifically target upward trends in this performance measure. Beginning in FY 2006, FSIS has identified specific actions that will be published in the Federal Register that are expected to be implemented and will target poultry operations that exceed an action level that is set below the current regulatory limit. The FSIS actions will focus on ensuring that poultry operations are fully addressed factors that contribute to increased likelihood of *Salmonella* presence on broilers.
- **Performance Goal 3.2.2**—Unmet. Percentage of facilities in complete compliance at the most recent inspection. Data for the number of animals affected by compliances documented on inspection reports in 2005 were inaccurate. Thus, there is no means to compare program performance in FY 2005 with previous years. The Licensing and Registration Information System database, which provides these data, is obsolete and will be replaced during the coming year.
- **Performance Goal 3.2.3**—Unmet. Number of animals affected by noncompliances documented on inspection reports. Data for the number of animals affected by compliances documented on inspection reports in 2005 were inaccurate. Thus, there is no means to compare program performance in FY 2005 with previous years. The Licensing and Registration Information System database, which provides these data, is obsolete and will be replaced during the coming year.

- **Performance Goal 4.1.1**—Deferred. Rates of eligible populations participating in the Food Stamp Program. The measure has been deferred due to unavailable data.
- **Performance Goal 4.1.2**—Deferred. Rates of eligible populations participating in the School Breakfast Program. The measure has been deferred due to unavailable data.
- **Performance Goal 4.1.3**—Deferred. Rates of eligible populations participating in the Special Supplemental Nutrition Program for Women, Infants and Children. The measure has been deferred due to unavailable data.
- **Performance Goal 4.2.1**—Deferred. Promote the Healthy Eating Index. The measure has been deferred due to unavailable data.
- **Performance Goal 4.3.1**—Deferred. Improve Food Program Management and Customer Service. The measure has been deferred due to unavailable data.

MANAGEMENT CHALLENGES

The Office of Inspector General (OIG) prepares an annual report to the Secretary on the most serious management challenges faced by the Department (Appendix A). USDA management addresses these challenges and responds by providing accomplishments for the current fiscal year and planned actions for the upcoming fiscal year, if required. The chart below compares the challenges reported by OIG in the FY 2004 report with those that remain in the FY 2005 Management Challenges Report.

FY 2004 Management Challenges	FY 2005 Management Challenges
Increased Oversight and Monitoring of Food Safety Inspection Systems are Needed Research Misconduct Policy Not Consistently Implemented Agencies Need to Better Coordinate Program Delivery and Control	Interagency Communication, Coordination and Program Integration Need Improvement
Financial Management – Improvements Made but Additional Actions Still Needed Integrity of the Federal Crop Insurance Programs Must be Strengthened Through Improved Quality Control Systems and IT Processing A Strong Internal Control Structure is Paramount to the Delivery of Forest Service Programs	Implementation of Strong, Integrated Management Control (Internal Control) Systems Still Needed
Information Technology Security – Much Accomplished, More Needed	Continuing Improvements Needed in Information Technology (IT) Security
Risk Must be Examined and Improper Payments Minimized Within USDA	Reducing Improper Payments Continues to be a Priority of Congress and the Administration
Homeland Security Considerations Should be Incorporated into Program Design and Implementation	Departmental Efforts and Initiatives in Homeland Security Need to be Maintained
Controls over Germplasm Storage Material and Genetically Engineered Organism Field Testing are Critical to U.S. Markets	Department-wide Efforts and Initiatives on Genetically Engineered Organisms Need to be Strengthened
Civil Rights Complaints Processing Still a Concern at USDA	This challenge has been removed from the list.
Improvements and Safeguards Needed for the Rural Multi-Family Housing Program	This challenge has been removed from the list.

The table that follows includes FY 2005 accomplishments and/or FY 2006 planned actions.

USDA's Management Challenges

2005 Major Management Challenges	Fiscal Year 2005 Accomplishments and/or Planned Actions for Fiscal Year 2006
1) Interagency Communications, Coordination, and Program Integration Need Improvement	
<ul style="list-style-type: none"> • Establish comprehensive information management systems, data reconciliation processes, and effective data mining for farm programs • Implement a Department-wide Research Misconduct Policy • Ensure that animal disease surveillance program policies and procedures are well-defined and supportable and terminology and practices are consistent with public announcements 	<p>USDA has implemented electronic verification of participant eligibility through the Program Contracting System. This system uses a web link to USDA records for:</p> <ul style="list-style-type: none"> • Obtaining current and prior-year eligibility information; • Internal controls to enforce business rules and screen eligibility; and • Controls to block unauthorized obligations and payments for applicants. <p>Policy guidance was issued in August 2005.</p> <p>The Risk Management Agency, Farm Service Agency and the Natural Resources Conservation Service have joined efforts to develop a web-based:</p> <ul style="list-style-type: none"> • County office application; • Management reporting application; and • Notification system that will allow county offices and approved insurance providers the ability to communicate on reported discrepancies and track progress. <p>The REE mission area will:</p> <ul style="list-style-type: none"> • Coordinate and implement a Department wide research misconduct policy that is compliant with the Office of Science and Technology requirements; and • Develop Memoranda of Understanding with the Department's research agencies for the referral of research misconduct allegations. <p>On July 6, 2005, APHIS and FSIS entered into a Memorandum of Understanding documenting shared responsibilities to ensure the safety of the food supply. USDA's Veterinary Services' National Center for Import and Export (NCIE) established an intranet site to allow staff to communicate on policy changes. For more information, visit www.aphis.usda.gov/vs/ncie/. NCIE has also developed a tracking system that will serve as a central point of access for:</p> <ul style="list-style-type: none"> • Current policy changes; • Product certifications; and • Permit guidelines. <p>To further strengthen controls, FSIS and APHIS will:</p> <ul style="list-style-type: none"> • Evaluate the FSIS ante-mortem/alternative collection site procedures to ensure that no condemned animals enter the food supply; • Evaluate the Bovine Spongiform Encephalopathy Surveillance Program for application to other animal disease surveillance programs; and • Continue efforts to enhance communications between APHIS and FSIS on border related investigations.

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2005 Major Management Challenges	Fiscal Year 2005 Accomplishments and/or Planned Actions for Fiscal Year 2006
2) Implementation of Strong, Integrated Management Control (Internal Control) Systems Still Needed	
<p>Strengthen the quality control in the Federal Crop Insurance Programs.</p> <p>Prepare complete, accurate financial statements without extensive manual procedures and adjustments.</p> <p>Improve Forest Service (FS) internal controls and management accountability in order to effectively manage its resources, measure its progress towards goals and objectives, and accurately report its accomplishments.</p>	<p>RMA will conduct a review of selected insurance provider operations to evaluate compliance with quality control guidelines as outlined in the Standard Reinsurance Agreement.</p> <p>OCFO in conjunction with component agencies will continue to improve financial systems and support financial reports by automating manual processes.</p> <p>FS planned actions include:</p> <ul style="list-style-type: none"> • Establishing accountability for performance measure reporting accuracy; • Establishing management controls to ensure adequate, reliable, and verifiable information; • Holding managers accountable; and • Ensuring that targets and goals not met are identified. <p>To further ensure accountability, FS will:</p> <ul style="list-style-type: none"> • Conduct comprehensive risk assessments of its programs and develop plans to address identified risks; • Obtain closure on 50% of audits less than 1 year old; and • Obtain official closure on 70% of outstanding audits more than 1 year old.
3) Continuing Improvements Needed in Information Technology (IT) Security	
<p>Agencies need to:</p> <ul style="list-style-type: none"> • Emphasize security program planning and management; • Establish an internal control program throughout the systems' lifecycle; • Identify, test, and mitigate IT security vulnerabilities (risk assessments); • Improve access controls; • Implement appropriate application and system software change control; and • Develop disaster contingency (service continuity) plans. 	<p>To compliment agency-specific initiatives to address these challenges, OCIO will:</p> <ul style="list-style-type: none"> • Amend existing certification and accreditation policy to add the Associate Chief Information Officer for Cyber Security as a mandatory concurrence signatory to all accreditations; • Engage multiple contractors to perform a wide variety of security activities including Federal Information Security Management Act tracking and reporting, security strategic planning, and independent verification and validation of accreditations; • Develop an information technology security scorecard to rate agencies/systems owners on security posture; and • Develop and implement a sustainable process to perform periodic on-site compliance reviews.
4) Reducing Improper Payments Continues to be a Priority of Congress and the Administration	
<p>Assign sufficient resources and provide management oversight.</p> <p>Strengthen program risk assessment methodology to identify and test the critical internal controls over program payments totaling over \$100 billion.</p> <p>Develop a supportable methodology/process to detect and estimate the extent of improper payments.</p> <p>Develop and implement a corrective action plan to address the weaknesses that allowed the improper payments to occur.</p> <p>Agencies that have identified programs that are susceptible to improve payments need to develop and implement action plans to reduce the amount of these payments.</p>	<p>In addition to agency-specific plans outlined in Appendix B, OCFO will:</p> <ul style="list-style-type: none"> • Develop a list of all programs and a plan to conduct risk assessments by the end of the second quarter of fiscal year 2006; • Ensure that agencies complete sampling results and corrective action plans for all high-risk programs; and • Ensure that agencies develop plans to measure improper payments for all high risk programs in FY 2007.

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2005 Major Management Challenges	Fiscal Year 2005 Accomplishments and/or Planned Actions for Fiscal Year 2006
5) Departmental Efforts and Initiatives in Homeland Security Need to be Maintained	
<p>Continue efforts to coordinate with DHS in implementing effective control systems to ensure the safety and security of agricultural products entering the country.</p> <p>Conduct vulnerability and risk assessments to determine adequate food safety and security over agricultural commodities that the Department manages, handles, transports, stores and distributes.</p> <p>Continue to work with OIG and other USDA agencies to ensure effective coordination and implementation of Homeland Security Presidential Directive 9 (HSPD-9); i.e., develop a coordinated agriculture and food-specific standardized response plan for integration into the National Response Plan and a National Veterinary Stockpile. Strengthen controls over select agents and toxins.</p> <p>Establish Department-wide policies and procedures for defining sensitive and dual use information and implementing adequate controls to protect such information.</p>	<p>APHIS will:</p> <ul style="list-style-type: none"> • Finalize a Memorandum of Understanding with the Department of Homeland Security (DHS) to perform joint port reviews; and • Schedule regular meetings with DHS to ensure effective coordination and communication. <p>FSIS will:</p> <ul style="list-style-type: none"> • Secure an agreement with the Bureau of Customs and Border Protection (CBP) to share information between agencies to improve cooperation between CBP and FSIS and ensure regulatory compliance and food defense; and • Obtain interim access to CBP data available via the Internet as part of the eCustoms Partnership team. <p>FSA/CCC will:</p> <ul style="list-style-type: none"> • Conduct on-site risk assessments of warehouse operations in collaboration with USDA's Homeland Security Office and the U.S. Food and Drug Administration; • Participate in Carver Plus Shock training for future risk assessments. Carver Plus Shock is a risk tool designed to identify vulnerabilities and rate the risk associated with those vulnerabilities. The Department of Homeland Security and the Department of Defense require this tool; and • Evaluate results of risk assessments to identify vulnerabilities and develop corrective measures. <p>The Office of Homeland Security will:</p> <ul style="list-style-type: none"> • Host bi-weekly discussions with mission area representatives; and • Require quarterly status reports on HSPD-9 tasks. <p>FSIS will:</p> <ul style="list-style-type: none"> • Utilize data from CBP on the status of imports arriving at U.S. ports of entry; • Participate in the Federal Health Architecture (FHA) food safety work group; and • Participate in the development of the International Trade Data Systems (ITDS). ITDS is a Federal Technology initiative sponsored by the CBP to coordinate, standardize, and simplify federal border clearance and other international trade and transportation processes. <p>FSIS will:</p> <ul style="list-style-type: none"> • Participate in the Federal Health Architecture (FHA) food safety group. FHA is an OMB Presidential Initiative, led by the Department of Health and Human Services to link local, State and Federal health information systems into an integrated, national health system; and • Participate with 15 other agencies to develop model architecture for linking food-related public health surveillance systems.

2005 Major Management Challenges	Fiscal Year 2005 Accomplishments and/or Planned Actions for Fiscal Year 2006
<p>6) Department-wide Efforts and Initiatives on Genetically Engineered Organisms (GEO) Need to be Strengthened</p> <p>Strengthen germplasm policies and procedures. Strengthen GEO field testing process.</p> <p>Establish improved methods to detect GEO products in trade exports.</p>	<p>The Biotechnology Regulatory Service (BRS) was established under APHIS to oversee work done with genetically engineered organisms (GEOs). APHIS published a <i>Federal Register</i> notice on the scoping of a programmatic Environmental Impact Statement (EIS) to address regulatory revisions. The notice covered issues such as criteria and standards for field-testing and information requirements.</p> <p>BRS will prepare the programmatic EIS that will provide the analysis and public input needed for the major revisions being considered. A draft will be completed in 2006.</p> <p>BRS and Plant Protection and Quarantine (PPQ):</p> <ul style="list-style-type: none"> • Have signed a Memorandum of Understanding that clarifies roles and responsibilities for field inspections, and outlines a formal work flow for inspections and provides guidance on cross-unit coordination; • Have defined their responsibilities in an inspection manual released in 2005. The manual includes: <ul style="list-style-type: none"> – New inspection checklists; – Questions directly related to regulations; – Inspection procedures; – Requirements for written inspection reports; and – Guidance for inspectors to improve the consistency and quality of BRS inspections. • BRS and PPQ will conduct monthly conference calls to discuss inspections and other relevant issues. <p>BRS will develop a comprehensive, integrated management system to track all information on permits and notifications.</p>

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, scientific advances 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.

In addition to these enduring factors, homeland security has emerged as a significant, ongoing priority for USDA. The Department is working with the U.S. Department of Homeland Security to 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-related hardships and other uncontrollable events at home and abroad;
- Domestic and international macroeconomic factors, including consumer purchasing power, the strength of the U.S. dollar 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;
- 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; and
- Potential exposure to hazardous substances, which may threaten human health and the environment, and the ability of the public and private sectors to collaborate effectively on food safety, security and related emergency preparedness efforts.

USDA'S RESULTS AGENDA—IMPLEMENTING FEDERAL MANAGEMENT INITIATIVES

USDA is working to strengthen its focus on results through vigorous execution of the President's Management Agenda (PMA). This agenda focuses on management improvements that help USDA consistently deliver more efficient and effective programs to its stakeholders. This process is designed to improve customer service and provide more effective stewardship of taxpayer funds. As discussed in the Department's Strategic Plan for FY2002-2007, USDA plans to:

- Ensure an efficient, high-performing, diverse workforce, aligned with mission priorities and working cooperatively with partners and the private sector;
- Enhance internal controls, data integrity, management information and program and policy improvements as reflected by an unqualified audit opinion;
- Implement business processes and information technology needed to make its services available electronically;
- Link budget decisions and program priorities more closely with program performance and recognize the full cost of programs;
- Reduce improper payments by developing targets and corrective action plans, and tracking the results annually to ensure that the corrective actions are effective;
- Efficiently and effectively manage its real property;
- Improve its research and development investments by using objective criteria; and
- Support the essential work of faith-based and community organizations.

USDA employees are charged with executing these management initiatives, which they do with an emphasis on customer service. The PMA calls for the Office of Management and Budget (OMB) to score departments on each initiative. Green indicates success; yellow indicates mixed results and red indicates an unsatisfactory score. There are two scores awarded. "Status" indicates that a department is meeting the standards established for success. "Progress" indicates that a department is progressing adequately in meeting established

deliverables and timelines. As of September 30, 2005, USDA had earned a “green” progress score for all of its initiatives. The following is a summary of major USDA management initiatives and FY 2005 highlights.

HUMAN CAPITAL

The President wants Executive agencies to be responsive to citizens and dedicated to obtaining results. USDA's Strategic Human Capital Plan addresses this by identifying human capital challenges and developing an accountability system. Targeted challenges include meeting the demand for cutting-edge research talent, creating a workforce with a combination of skills not previously required, and fully supporting the Department's mission with the same or fewer staff.

In managing its human capital and delivering its services to customers, USDA will continue to focus on ensuring civil rights and equal employment opportunity for everyone, regardless of race, color, national origin, gender, religion, age, sexual orientation, disability, or marital or familial status. The Department is committed to continuous civil rights progress in the workplace, program delivery and processing complaints timely and efficiently.

USDA's plans include:

- Maintaining the links among Departmental and agency human capital and annual performance plans;
- Integrating the human capital impact of such Presidential initiatives as competitive sourcing and eGovernment;
- Using workforce planning and hiring flexibility to recruit, retain and reward employees while developing a high-performing and accountable workforce; and
- Ensuring employment opportunities for all, while implementing programs targeting critical occupations with projected skill gaps and underrepresented groups; and

Actions taken by USDA in FY 2005 to achieve this result include:

- Aligned performance plans in mission critical occupations with the strategic goals of the organization. The Office of Management and Budget and the Office of Personnel Management (OPM) documented that at least 60 percent of all performance plans were aligned with the strategic goals of the organization;
- Completed a comprehensive review of the Department's human capital plan, analyzed the results and documented how they were used in improving human capital. This involved a review of more than 100 human capital action strategies. It demonstrated the integration of competitive sourcing and eGovernment PMA initiatives with human capital;
- Achieved a hiring timeline of 28 days against the OPM standard of 45 days for general schedule employees and significantly reducing the hiring timeline for senior executive service employees;
- Demonstrated the use of hiring flexibilities to recruit and retain a high performing workforce
- Reduced under-representation and established process to sustain diversity; and

- Reduced skill gaps to less than 3 percent in 18 of the Department's 19 mission critical occupations. Reduced the number of mission critical occupations with skill gaps exceeding 3 percent from 4 to 1.

COMPETITIVE SOURCING

USDA is implementing competitive sourcing reasonably and rationally to achieve significant cost savings, improved performance and a better alignment of the agency's workforce to its mission. This initiative is aimed at improving organizations through efficient and effective competition between public and private sources. The Department will continue to simplify and improve the procedures for evaluating sources.

The Department improved its use of competitive sourcing process by ensuring that the studies it conducts reflect more strategically grouped and related functions to maximize the impact of this initiative. The Department required that a feasibility study, including cost-benefit analysis, be completed prior to conducting a competitive sourcing study. This ensures that functions selected for public-private sector competitions will result in an organization implemented with lower costs and increased management efficiencies. Studies are now being linked to agency human capital plans to ensure work force planning and restructuring, and retention goals are met while achieving cost savings.

USDA plans to continue to evaluate its jobs to identify those that can be studied to achieve efficiency and/or quality improvement.

Actions taken by USDA in FY 2005 to achieve this result include:

- Completed competitions to improve productivity and produce annual savings;
 - ◆ Estimated gross savings is \$179.2 million over a five-year period for competitive sourcing studies completed in FY 2004.
- Completed feasibility studies as follows:
 - ◆ APHIS—Protection & Quarantine—272 FTEs – December 2004;
 - Results of the feasibility study did not indicate a favorable return on investment.
 - ◆ Completed RMA—Program Support – 66 FTEs – December 2004;
 - Results of the feasibility study did not indicate a favorable return on investment.
 - ◆ Completed FSIS—Financial Systems Support—44 FTEs;
 - Determined it is not feasible to study. Automation of the function was scheduled for implementation beginning in September 2005. The modernization will eliminate the FTEs, which will save \$1,000,000 by July 2007.
 - ◆ Completed GIPSA—Rice Inspection—45 FTEs – March 2005;
 - Completed GIPSA feasibility study for rice inspection indicates a positive return on investment. Due to actions by Anheuser Busch to eliminate mandatory rice inspections, GIPSA lost about 25 percent of its rice inspection business. As a result, GIPSA will restructure its program and associated personnel. OMB has agreed to delay the start of the GIPSA competitive sourcing study until GIPSA's personnel restructuring actions have been resolved—approximately in one year. GIPSA will then reevaluate the feasibility of conducting the study on its rice inspection services.

- ◆ Completed FAS—Administrative Support—73 FTEs—March 2005;
 - Results of the feasibility study did not indicate a favorable return on investment.
- ◆ Completed NRCS—Soil Conservation Technicians—280 FTEs – January 2005;
 - Results of the feasibility study did not indicate a favorable return on investment.
- ◆ Completed NRCS—Civil Engineering Technicians—127 FTEs – January 2005;
 - Results of the feasibility study did not indicate a favorable return on investment.
- ◆ Completed NRCS—Geological Analysis—36 FTEs – January 2005;
 - Results of the feasibility study did not indicate a favorable return on investment.
- Conducted training on feasibility studies, most efficient organization and FAIR Act inventory; and
- Reviewed the FAIR Act inventory justification for similar positions among different agencies Department-wide and addressed inconsistencies in the classification of like functions.

Challenges

- FS Legislative Restrictions—FY 2005 \$2 million cap on competitive sourcing spending;
 - ◆ House Appropriations Committee's Interior, Environment and Related Agencies Subcommittee voted to continue cost limits on competitive sourcing—FY 2006 \$2.5 million cap.
 - ◆ FS will complete and implement the recommendations of the agency's business process reengineering initiatives for Human Resources and the Budget and Finance functions. Additionally, FS is implementing the IT competitive sourcing study during FY 2005 and FY 2006. Completion of these major organizational and cultural changes will enable FS to begin additional competitive sourcing studies in late FY 2006 and/or early FY 2007.
- Farm Service Agency (FSA) and Rural Development (RD) Legislative Restriction—FY 2005 Appropriations Act prohibits funds to be used to study, complete a study of, or enter into a contract with a private party to carry out, without specific authorization in a subsequent Act of Congress, a competitive sourcing activity of the Secretary of Agriculture, including support personnel of the Department of Agriculture, relating to rural development or farm loan programs.

FINANCIAL PERFORMANCE

USDA's Financial Performance is overseen by the Office of the Chief Financial Officer (OCFO), which works in partnership with all USDA agencies to ensure the Department's financial management reflects sound business practices. The PMA requires all Federal agencies to maintain an unqualified financial statement audit opinion, which indicates a department's financial statements are free of significant errors or misstatements. USDA financial managers have focused significant attention on enhancing internal controls, improving asset management, implementing a standard accounting system and improving related corporate administrative systems across the Department. USDA's clean audit opinion was sustained in FY 2005.

Effectively managing the use of taxpayer dollars is a fundamental Federal responsibility. USDA intends to ensure that all funds spent are accounted for properly to taxpayers, Congress and the Government Accountability Office (GAO). The Office of the Chief Financial Officer (OCFO) works to improve financial management, in partnership with the Chief Financial Officers of USDA agencies, as a core attribute of the

Department's operating culture. OCFO is working closely with USDA agencies to eliminate all material weaknesses.

OCFO will lead efforts to improve management information by helping USDA's agencies craft and access useful, timely information. This information includes monthly financial reports, on-line access to real-time information and program cost reporting. By enhancing the integrity of financial and administrative data, the Department will protect corporate assets and conserve scarce resources.

USDA has issued a Request for Information (RFI) for the Financial Management Modernization Initiative (FMMI) for the replacement of USDA's legacy corporate financial management system. The purpose of the RFI is to solicit vendor comments and suggestions on our financial management concept and USDA's functional requirements for future systems modernization. Implementing the FMMI solution will provide USDA agencies with a modern, efficient core financial management system. FMMI will provide high quality information to our managers who need it, when they need it and will enable them to use the information to manage their business areas more effectively, consistent with the OMB's Financial Management Line of Business initiative. USDA uses the Financial Data Warehouse to integrate program and financial information that complies with system architecture standards in OMB Circular A-127.

USDA's plans include:

- Maintaining an unqualified audit opinion on its financial statements;
- Eliminating all material weaknesses;
- Improving financial-reporting procedures and systems; and
- Increasing the use of financial information in day-to-day decision-making.

Actions taken by USDA in FY 2005 to achieve this result include:

- USDA sustained an unqualified audit opinion on its FY 2005 consolidated financial statements, making this the fourth consecutive year for receiving a clean opinion;
- The Financial Data Warehouse (FDW) modernization, used for agency ad-hoc reporting, was completed, migrating platforms to a mid-range environment for faster queries with enhanced query capabilities;
- Held monthly meetings with agency CFOs to discuss financial management policy, information systems, and quality assurance issues and initiatives. At these meetings, agencies are provided with financial indicator data to provide focus for financial reporting quality control activities;
- USDA began web enablement of USDA Corporate Financial and Performance Reporting, a quarterly performance system that the Secretary of Agriculture and his senior executives will use to drive program results;
- USDA awarded a contract to build web-enabled Financial Management Dashboards. The dashboards, when implemented, will provide agencies with more timely access to the results of their account relationship tests—a series of 28 tests that measure standard general ledger budgetary and proprietary account relationships. The dashboards will provide the capability to identify specifically where relationship failures occur so that appropriate action can be taken;

- USDA agencies improved their financial performance measures, targets and milestones in their efforts to expand the use of financial information for decision-making;
- USDA continued reviews of year-end adjusting entries; standard general ledger abnormal balances; financial statement line-item variance analysis; and other aspects of financial statement preparation in order to assure quality of financial statement data throughout the fiscal year; and
- USDA developed a new methodology for automating the Statement of Financing and produced an automated prototype using the financial data warehouse information. This methodology was shared with other Departments of the Federal Government and the Federal Accounting Standards Advisory Board as a methodology to improve the timeliness and quality of financial data.

ENHANCING EGOVERNMENT

USDA launched a Department-wide effort in 2001 to improve the methods through which its agencies collectively executed its broad mission objectives. The Department's strategies, published in USDA's eGovernment Strategic Plan in 2002, focus on improving the delivery of its information and services and reducing costs.

USDA is using an Enterprise Architecture to inform and guide its decision-making. Enterprise Architecture refers to a strategic information asset base, which defines a Department's mission, the information and technologies necessary to perform that mission, and the transitional processes executed in response to any changing mission needs.

USDA plans to:

- Provide customers with single points of access to information and services;
- Simplify and unify business processes spanning multiple agencies;
- Establish information and service-delivery standards; and
- Consolidate redundant information technology services and systems through use of shared USDA or Government solutions.

Actions taken by USDA in FY 2005 to achieve this result include:

- Provided an OMB-approved eGovernment Implementation Plan;
- Submitted completed Enterprise Architecture (EA);
- Fully executed all memoranda of understanding with managing partners;
- Remediated 36 of 43 business cases on the management watch list;
- Coordinated final earned-value management regulation;
- Published draft earned-value implementation guide; and
- Passed the security assertion markup language testing by the General Services Administration (GSA) and receive GSA certification for eAuthentication service. The service now becomes a Security Assertion Markup Language (SAML)-compliant service provider. SAML allows users with approved credentials to gain access to applications across the Federal Government.

BUDGET AND PERFORMANCE INTEGRATION

USDA continues to improve how it integrates performance information into its budget decisions. Beginning with the FY 2005 President's Budget, the Department integrated budget and performance throughout the budget-formulation process. This integration includes the use of OMB's Program Assessment Rating Tools (PART) assessments. PART is used to assess and improve program performance and efficiency within the Federal Government in order to achieve better results. USDA program analysts and budget staff are working closely with mission area and agency representatives to establish budget priorities based on USDA's strategic goals and desired outcomes. The Department continues to improve its performance information annually.

USDA plans to:

- Continue using performance information during all stages of the budget formulation process;
- Systematically evaluate programs and integrate the results of those evaluations into the budget decision-making process, i.e., rely upon PART assessments in budget formulation; and
- Align the budget with the Department's strategic plan to keep the focus on results and continue to encourage effective management.

Actions taken by USDA in FY 2005 to achieve this result include:

- USDA issued guidance and continued working with agencies to integrate PART recommendations into the formulation and presentation of agency budget proposals as well as discussing those findings in budget justifications;
- The Deputy Secretary held in-depth meetings with subcabinet officials to discuss the specific plans and milestones to address recommendations in PARTs with a "Results Not Demonstrated" rating in order to complete reassessments by the second quarter of FY 2006;
- The Department continues working with agencies to ensure that their milestones are reasonable and detailed enough to fully address OMB PART recommendations and lead to improved program performance. The Department's budget office uses the Internal Scorecard process to track agency progress toward meeting these recommendations; and
- The Department's budget office enhanced the quarterly financial and performance report in order to enable more active and efficient participation by senior Department officials during the integration of budget and performance.

REAL PROPERTY

Executive Order (E.O.) 13327, Federal Real Property Asset Management, establishes the framework for improved use and management of real property owned, leased or managed by the Federal Government. It is USDA policy to promote the efficient and economical use of its real property assets and assure management accountability for implementing Federal real property management reforms. Based on this policy, USDA agencies shall recognize the importance of real property resources through increased management attention, the establishment of clear goals and objectives, improved policies and levels of accountability, and other appropriate action. As the foundation of the Department's real property asset management program, the following strategic objectives will be used for real property management improvement:

MANAGEMENT'S DISCUSSION AND ANALYSIS

USDA Real Property Asset Management Strategic Objectives	
1. Department's holdings support agency missions and strategic goals and objectives	6. Provide appropriate levels of investment
2. Maximize facility utilization by co-locating agency operations when possible	7. Eliminate unneeded assets
3. Accurately inventory and describe real property assets using the Corporate Property Automated Information System	8. Use appropriate public and commercial benchmarks and best practices to improve asset management
4. Use performance measures as part of the asset management decision process	9. Advance customer satisfaction
5. Employ life-cycle cost-benefit analysis in the real property decision-making process	10. Provide for safe, secure and healthy workplaces

USDA's plans include:

- Establishing the Real Property Council (RPC) to advise the Assistant Secretary for Administration and Senior Real Property Officer (SRPO). RPC also will provide internal agency coordination and guidance, and disseminate information for implementing E.O. 13327 and the President's Management Agenda within USDA;
- Establishing an asset management planning process for agencies (asset management plan) and agencies' building block plans and monitoring and reporting its performance in implementing this process. This work includes policies and methodologies for maintaining property holdings in an amount and type according to agency budget and mission. It is designed to optimize the level of real property operating, maintenance and security costs;
- Establishing asset management performance measures;
- Maintaining a comprehensive inventory and profile of agency real property, and providing timely and accurate information for inclusion into the Government-wide real property inventory database;
- Establishing a three-year rolling timeline that addresses opportunities and determines priorities as identified in agency building block plans, and demonstrates implementation through compliance with the established timeline;
- Institutionalizing the management of the Department's real property assets consistent with its strategic plan, the AMP and performance measures. The Department then would use these documents and indicators as the foundation to assist leadership in formulating and making real property management decisions; and
- Actively participating in such Government-wide management vehicles as the Federal Real Property Council (FRPC). FRPC provides a forum to address critical real estate and workplace issues challenging all Federal agencies.

Actions taken by USDA in FY 2005 to achieve this result include:

- Developed a comprehensive asset management plan, including agency-specific building block plans, and submitted to OMB for review and approval;
- Finalized an OMB-approved methodology for implementing FRPC performance measures at the constructed-asset level;

- Submitted and received OMB approval of a strategy and timeline for making necessary system enhancements and capturing constructed asset level FRPC data across USDA agencies; and
- Issued Secretary's Memorandum 5100-002, Implementing Executive Order 13327-Federal Real Property Asset Management.

RESEARCH AND DEVELOPMENT INVESTMENT CRITERIA

This program initiative calls on Federal Government agencies to apply a framework to research using three criteria—relevance, quality and performance. USDA's research and development agencies—the Agricultural Research Service (ARS); Cooperative State Research, Education and Extension Service (CSREES); Economic Research Service (ERS); and Forest Service Research and Development—have aggressively moved forward to integrate this framework. The use of the criteria is an effective means to ensure that programs are addressing the right issues, meeting high-quality standards and accomplishing what they set out to do.

USDA's plans include:

- Continuing to apply objective criteria as projects are evaluated for funding;
- Closely coordinating among research agencies to ensure that common criteria and performance measures are used where possible; and
- Incorporating results into decision making.

Actions taken by USDA in FY 2005 to achieve this result include:

- USDA research agencies continued to conduct independent external program reviews and committed to implementing such reviews in FY 2006. The reviews were structured by the three investment criteria;
- Program reviews became an integral component of program planning, management and assessment in ARS, CSREES and ERS; and
- ARS and CSREES used the results and recommendations from program reviews in program planning and management.

ELIMINATING IMPROPER PAYMENTS

USDA has developed comprehensive internal control and quality-assurance processes and systems to ensure accurate and complete program payments. In FY 2005, Eliminating Improper Payments became a President's Management Agency (PMA) initiative. The Office of the Chief Financial Officer (OCFO) issued specific policy guidance including templates and timelines for implementing the Improper Payments Information Act (IPIA) and meeting the goals of the PMA initiative.

Based on recent audit estimates, Federal agencies make more than \$45.1 billion in improper payments annually. The initiative requires that agencies measure their improper payments annually, develop improvement targets and corrective action plans, and track the results annually to ensure that the corrective actions are effective. USDA has identified 11 programs that are risk susceptible. The Department has prepared corrective-action plans for these programs to reduce and recover improper payments. The plans will reduce improper payments by approximately \$49 million while recovering approximately \$43 million in improperly

made payments. Reductions in improper payments will include reducing errors in direct benefit programs and contracting/administrative payments.

USDA plans include:

- Assessing the risk of improper payments in all its programs annually;
- Working at the Department and agency levels to reduce the number of improper payments made; and
- Recovering, where possible, overpayments made to individuals and organizations.

Actions taken by USDA in FY 2005 to achieve this result include:

- Completed risk assessments for all USDA programs and activities (286 risk assessments completed, 11 identified as high risk);
- Developed plans to measure improper payments for all programs determined to be high risk and received OMB approval;
- Completed testing to determine the amount of improper payments for programs determined to be high risk. The results of these tests are shown in Appendix B of this report;
- Planned corrective actions and set targets to both reduce and recover improper payments. These plans were submitted to OMB for approval; and
- Completed a pilot recovery-auditing project at the Forest Service. Using an independent recovery audit contractor working on contingency, USDA was able to identify \$333,000 in improper payments and has recovered \$189,000 to date.

For a detailed report on FY 2005 management actions, plans to address erroneous payments in progress and results of recovery auditing programs, see Appendix B.

FAITH-BASED AND COMMUNITY INITIATIVE

This initiative strives to support the essential work of faith-based and community organizations. The initiative accomplishes this goal by ensuring that these organizations are allowed to compete on equal footing for Federal dollars, and educating them on grant opportunities. Agencies have already identified several barriers to participation in Federal programs and are working to eliminate them. They are increasing outreach and technical assistance to faith-based and community organizations. The agencies are also testing innovative ways to improve program services by engaging faith-based and community organizations in pilot projects.

USDA has a long history of working with faith-based and community organizations to help those in need. The Department is strengthening these partnerships and creating new ones to alleviate hunger and build strong communities.

USDA plans include:

- Ensuring that faith-based and community organizations have equal access to USDA programs;
- Educating these organizations about any programs designed to enhance their capacity to serve their communities;

- Continuing to reduce barriers and encourage participation through improved coordination with State and local organizations;
- Seeking opportunities to meet the needs of communities through USDA programs; and
- Reporting on progress to ensure that USDA is producing real results for Americans in need.

Actions taken by USDA in FY 2005 to achieve this result include:

- Coordinated outreach and technical assistance by developing comprehensive strategy using 12 best practices;
- Worked to ensure barrier-free access, including 7 of 14 best practices;
- Established procedures to collect data on participation by faith-based organizations and community-based organizations in select programs available to the public; and
- Continued to manage 4 pilot programs to test new ways for faith-based organizations and community-based organizations to assist it meeting its program goals. The Department also reported outcome-based evaluations of these projects.

FINANCIAL STATEMENT HIGHLIGHTS

BUDGETARY RESOURCES AND OUTLAYS

USDA receives most of its funding from appropriations authorized by Congress and administered by the Treasury Department. Total resources consist of the balance at the beginning of the year, appropriations received during the year, spending authority from offsetting collections and other budgetary resources.

Appropriations Received as reported in the Statement of Budgetary Resources differ from Appropriations Received as reported in the Statement of Changes in Net Position due to Special and Trust funds appropriated receipts. These are shown as Appropriations Received in the budgetary statement but are reported based on their nature, either as exchange revenue in the Statement of Net Cost, or non-exchange revenue or transfers in the Statement of Changes in Net Position.

	2005	2004	% Change
Appropriations Received	88,940	94,316	(6)%
Total Budgetary Resources	166,833	142,890	17%
Obligations Incurred	140,835	117,809	20%
Outlays	91,966	78,446	17%

Data in millions

Analysis of Resources

Appropriations Received decreased by \$5.4 billion during FY 2005. This decrease is due in part to the Commodity Credit Corporation (CCC) reduced appropriation in the current year of \$9.5 billion for its prior year realized losses.

The Food and Nutrition Service (FNS) reflected an increase in appropriations of \$4.8 billion, 84% of the increase is attributable to growth in the Food Stamp Program, with 16% attributable to the Child Nutrition Programs for meal services and for higher food costs.

Total Budgetary Resources increased during FY 2005 by \$23.9 billion. \$15 billion is attributable to the CCC established borrowing authority on its revolving fund. The fund is indefinite in nature and CCC estimates the authority that is needed to cover current fiscal year obligations. FNS contributed with \$4.8 billion of increased resources with most of the remaining resources attributable to National Resources and Conservation Services (NRCS) Programs.

Obligations and Outlays

Obligations Incurred increased in FY 2005 by \$23 billion. CCC and FNS Programs contributed 95% of the total increase. For CCC, Direct and Counter Cyclical, Crop Disaster and Loan Deficiency Program payment accounted for \$16.5 billion of increased obligations. FNS's obligations for the Food Stamp and Child Nutrition Programs accounted for \$5.4 billion obligation increases.

Outlay increases in FY 2005 amounted to \$13.5 billion. These directly relate to the Program Obligations as described above.

BALANCE SHEET AND NET COST OF OPERATIONS

Presented below are some key components of the USDA Balance Sheet for comparison and analysis.

CONDENSED BALANCE SHEET DATA
As of September 30, 2005 and September 30, 2004
(in millions)

	FY 2005	FY 2004	% CHANGE
Fund Balance with Treasury	\$ 42,327	\$ 39,488	7 %
Loans Receivable & Related Foreclosed Property	75,176	73,841	2 %
General Property, Plant, and Equipment, Net	4,885	4,914	(1) %
Other	10,596	3,571	197 %
Total Assets	132,984	121,814	9 %
Debt	83,515	69,053	21 %
Loan Guarantee Liability	1,214	1,188	2 %
Other	46,277	36,589	26 %
Total Liabilities	131,006	106,830	23 %
Unexpended Appropriations	21,490	22,158	(3) %
Cumulative Results of Operations	(19,512)	(7,174)	172 %
Total Net Position	1,978	14,984	(87) %
Total Liabilities and Net Position	\$ 132,984	\$ 121,814	9 %

Assets

Fund Balance with Treasury

Congressional appropriations are the primary funding source for USDA operations.

Appropriations are used to fund programs and are available to pay current liabilities and finance authorized purchase commitments. Funds received and disbursed are generally processed by the U.S. Treasury.

Loans Receivable and Related Foreclosed Property

Loans Receivable and Related Foreclosed Property is the single largest asset on the USDA Balance Sheet.

Rural Development offers both direct and guaranteed loan products for rural housing and rural business infrastructure. These represent 81% of the total USDA loan programs. Commodity Loans and Credit Programs administered by Commodity Credit Corporation (CCC) represent 11% of the total. CCC's loans are used to improve economic stability and provide an adequate supply of agricultural commodities. CCC credit programs provide foreign food assistance, expand foreign markets, and provide domestic low-cost financing to protect farm income and prices. The remaining 8% of loans receivable are the direct and guaranteed loan programs administered by the Farm Service Agency, providing support to farmers who are temporarily unable to obtain private, commercial credit.

General Property, Plant and Equipment, Net (PP&E)

Improvements to Land, which represent 48% of the net PP&E, consist primarily of forest road surface improvements. Building improvements and Other Structures represent an additional 25%. Other primary categories of PP&E include equipment and software.

Other

Accounts Receivable, Net represent 96% of total Other Assets and 7% are Intragovernmental Receivables. In fiscal year 2005, CCC recognized a public receivable in the amount of \$7.1 billion under the Tobacco Transition Payment Program (TTPP). The receivable is recorded at the present value of the remaining expected receipts in the Tobacco Trust Fund over a ten-year period beginning in 2005 and ending in 2014.

Liabilities

Liabilities represent the amount of monies or other resources that are likely to be paid as a result of a transaction or event that has already occurred. However, no liability can be paid absent an appropriation. Where an appropriation has not been enacted, liabilities are considered not covered by budgetary resources.

Debt-Intragovernmental

CCC's debt to Treasury increased by \$11 billion over the prior fiscal year. Funds were used to repay prior year debt and cover current year obligations for the Direct and Counter Cyclical programs, Crop Disaster and Loan Deficiency programs. RD increased its debt to Treasury by \$3.2 billion to fund Housing Loan activity.

Loan Guarantee Liability

USDA's loan guarantee liability is affected by guaranteeing new loans, adjustments from loan activity (i.e. collecting fees, interest subsidies, claim payments), and the annual reestimate of loan costs. In fiscal 2005, the increased loan guarantee liability is primarily due to disbursing \$3.9 billion in new loans, resulting in increased guarantee liability.

Other

Of the \$46,276 and \$36,588 million in other liabilities in Fiscal 2005 and 2004, respectively, \$16,819 and \$17,469 million, respectively, is payable to Treasury. The amount payable to Treasury represents the net resources of pre-Credit Reform programs that will be returned to Treasury after the collections of these loans. In addition, CCC recorded a long-term liability in the amount of \$7.1 billion under the TTPP that provides for

ten installment payments at the present value of the remaining payout amount to holders and tobacco producers beginning in 2005 and ending in 2014. \$2.7 billion were recorded for income support programs.

Net Position

The Net Position on the Balance Sheet represents on an accrual basis, the changes of the assets and liabilities during the year and the current year Net Cost of Operations. The decrease in Net Position by approximately \$13 billion can be attributed primarily to the \$17 billion of increased costs of operations and a net of \$4 billion utilized from prior years results to cover current year operations.

NET COST OF OPERATIONS

CONDENSED STATEMENT OF NET COST			
	FY 2005	FY 2004	% Change
Enhance Economic Opportunities for Agricultural Producers:			
Net Cost of Goal 1	\$ 28,878	\$ 16,604	74 %
Support Increased Economic Opportunities and Improved Quality of Life in Rural America:			
Net Cost of Goal 2	1,014	2,113	(52) %
Enhance Protection and Safety of the Nation's Agriculture and Food Supply:			
Net Cost of Goal 3	2,441	2,415	1 %
Improve the Nation's Nutrition and Health:			
Net Cost of Goal 4	50,987	45,411	12 %
Protect and Enhance the Nation's Natural Resource Base and Environment:			
Net Cost of Goal 5	7,693	7,479	3 %
Net Cost of Operations	\$ 91,013	\$ 74,022	23 %

USDA Net Cost of Operations totaled \$91,013 million and \$74,022 million for fiscal years 2005 and 2004, respectively. Grants and Direct Payments for CCC and Grant and Program Benefits for FNS represent the largest portion of USDA cost, with \$78,731 million and \$56,082 million in cost for 2005 and 2004, respectively. Grants and Direct Payments increased in fiscal 2005 primarily due to changes in CCC activity related to increases in payments for peanut quota buyouts, milk income loss contracts, direct and counter-cyclical programs, crop disaster assistance programs and the Food Stamps and Child and Nutrition Programs.

The cost of Grants and Direct Payments for CCC directly correlates with the USDA goal to enhance economic opportunity for agricultural producers. For FNS, Grants and Program Benefit costs are associated with the goal to improve the Nation's nutrition and health.

Impact of Hurricane Katrina

The devastation of Hurricane Katrina affected several states in the Gulf coast region. USDA agencies provided significant efforts to assist in this national disaster.

The FS committed approximately 7,000 employees to the Federal Emergency Management Agency (FEMA) hurricane effort, including 105 Incident Management Teams (IMT) and 345 crews. Crucial support was provided at the New Orleans International Airport—trained helicopter personnel off-loaded more than 500 evacuees per hour and provided food to more than 600,000 people. An IMT opened 15 distribution points and served more than 10,000 people per day, providing nearly 3 million meals, 4 million gallons of water, and 40 million pounds of ice. Many warehouses included around-the-clock distribution and processing of hundreds of truckloads per day, totaling nearly 7,500 semi-truckloads, using 500,000 gallons of fuel.

RD placed almost 8,000 evacuees in homes and provided more than 18,000 families with temporary relief from their mortgage payments. RD also cooperated with private partners to restore utilities throughout the affected areas.

APHIS was instrumental in rescuing 300 people and 40,000 animals. Many of the animals were treated by veterinarians, most were returned to their owners, and those remaining were placed in shelters operated by animal care organizations.

NRCS used its National Cartography and Geospatial Center to help identify the best areas for animal debris disposal and burial that will not endanger water sources. FEMA provided authority and \$10 million to NRCS for the disposal of hundreds of animal carcasses, including more than 6 million birds.

The National Finance Center (NFC) in New Orleans was able to continue sending out paychecks to more than 500,000 federal employees and continued to provide full accounting services to its numerous federal agency customers. Its operations were able to continue almost uninterrupted in spite of the fact that its 1,623 federal and contract employees were scattered across 41 states. Preliminary efforts are underway to bring employees home to the NFC.

Evaluations of losses of USDA real properties have been completed and have revealed that losses were not significant enough to have a material impact on the USDA Consolidated Financial Statements. Assessments of the cost of the hurricane to USDA are continuing but also do not appear to affect the Consolidated Financial Statements.

MANAGEMENT ACCOUNTABILITY AND CONTROL

USDA is providing qualified assurance of compliance with the objectives of the Federal Managers' Financial Integrity Act and OMB Circulars A-123, "Management Accountability and Control," and A-127, "Financial Management Systems." Not included in that assurance are the material deficiencies described in this report.

Within USDA, subcabinet officials, agency administrators and staff office directors are responsible for the efficient operation of their programs and 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 was to eliminate the remaining material deficiencies by the end of FY 2006, and correct any new material deficiencies within one year.

SUMMARY OF MATERIAL DEFICIENCIES

USDA completed corrective action on one of the three existing material deficiencies. Additionally, it is reporting one new material deficiency for FY 2005. USDA has reduced the number of existing material deficiencies from a high of 19 in FY 2002 to 3 in FY 2005. This is an 84 percent decrease in the number of outstanding material deficiencies reported 3 years ago. Additional information is found in the Systems, Controls, and Legal Compliance section.

Exhibit 5: Summary of Outstanding Material Deficiencies and Estimated Completion Dates

Responsible Agency(ies)	Material Deficiency Description	Corrective Actions Remaining To Be Taken	Reason for Change in Estimated Completion Date	Year Identified	Current Estimated Completion Date
Section 2 Material Weakness					
Multiple	Multi 00-01: USDA Information Security Weakness: Weaknesses have been identified in the Department's ability to protect its assets from fraud, misuse and disruption.	<ul style="list-style-type: none"> OCIO will: Improve the quality and process for managing USDA information security vulnerabilities and actions; Complete vulnerability assessments of all mission critical systems; Continue to manage the USDA information survivability program to guide agencies in the development and testing of disaster recovery and business resumption plans for USDA's highest priority mission critical systems; Implement and maintain a robust Internet Protocol (IP) database that includes accurate, up-to-date contacts for each IP address; Refine policy and issue new policy; and Ensure that security management positions have the authority and cooperation of agency management to implement and manage security programs effectively. 	Extensive and wide-ranging weaknesses within USDA's information security program have delayed completion.	FY 2000	FY 2006
		<ul style="list-style-type: none"> FS will: Improve controls over the PRCH system data access, input, and integrity and segregation of duties. 		FY 2005	FY 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

Responsible Agency(ies)	Material Deficiency Description	Corrective Actions Remaining To Be Taken	Reason for Change in Estimated Completion Date	Year Identified	Current Estimated Completion Date
		<ul style="list-style-type: none"> NRCS will: Document change control processes, software changes, and testing processes for the ProTracts System. Improve controls and documentation of change control for payment specifications. Reconcile Protracts appropriations, obligations and payments to FFIS. 		FY 2005	FY 2006
		<ul style="list-style-type: none"> FSA/CCC will: Collaborate with OCIO to identify and implement additional improvements needed to improve the agency's general control environment. 		FY 2004	FY 2006
Multiple	Multiple 05-01: Improvement needed in financial accounting and reporting policies, practices and procedures*	<ul style="list-style-type: none"> FS will determine specific actions to be taken. 	N/A	FY 2004	FY 2006
		<ul style="list-style-type: none"> FSA/CCC will: Re-examine existing accrual policies and analytical procedures with regard to Federal accounting standards and CCC business practices, determine where improvements need to be made, and implement improvements. 	In light of their recent audit, FSA is planning comprehensive reengineering of business processes and systems to completely resolve the material non-conformance. Early in FY 2006, FSA will develop a detailed corrective action plan including compensating controls.	FY 2004	FY 2006
Section 4 Financial Management System Nonconformance					
FSA/CCC	MW 04-01: Improvement Needed in Funds Control Mechanisms	FSA/CCC will: <ul style="list-style-type: none"> Document and evaluate current system of budgetary accounting controls, identify deficiencies and develop improved control processes; Obtain training for staff, and implement organizational changes; 	In light of their recent audit, FSA is planning comprehensive reengineering of business processes and systems to completely resolve the material non-conformance.	FY 2004	FY 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

Responsible Agency(ies)	Material Deficiency Description	Corrective Actions Remaining To Be Taken	Reason for Change in Estimated Completion Date	Year Identified	Current Estimated Completion Date
FSA/CCC (cont'd)		<ul style="list-style-type: none"> Identify compensating controls to address material weakness and ensure requirements are incorporated into the next generation of program feeder systems; and Enhance usage of existing web services for funds control. 	Early in FY 2006, FSA will develop a detailed corrective action plan including compensating controls.		

* While deficiencies in this area were reported in FY 2004 financial statement audits, they did not give rise to a Departmental material weakness.

CONCLUSION

We hope this overview of the Department helps inform all stakeholders of the significant efforts underway to enhance, through sound management practices, the performance of all USDA programs and the Department's stewardship of the significant taxpayer dollars entrusted to it. Through the performance and accountability process, USDA has undertaken an intensive effort to link Departmental and program management to the only result that matters: the provision of valuable programs and services delivered in a high-quality, cost-effective way to the American people. While this section has focused on overall management efforts that encompass the Department as a whole, additional information on how these initiatives impact specific programs, agencies and USDA efforts can be found in the next section, the Annual Performance Report, which offers a detailed, objective-by-objective discussion of the progress USDA made in reaching its FY 2005 goals.