

IV. Financial Statements, Notes, Supplemental and Other Accompanying Information

MESSAGE FROM THE CHIEF FINANCIAL OFFICER

I hope that you have received a clear snapshot of the significant role that USDA played in 2005 in enhancing so many aspects of American life. USDA is deeply committed to the performance and accountability process, and the ample opportunities it provides to have real visibility into our diverse operations and to continually improve the quality of services we provide to the American people. In making the most of this process, we are keenly aware of the pivotal role of sound financial management—knowing how resources are spent, having the confidence that programs and services are operating in continually more efficient ways, and possessing a clear sense of ongoing challenges that require management attention and focus.

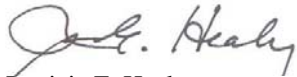


Through the individual leadership and collaborative efforts of USDA managers, employees, business partners and other stakeholders, we made significant strides in 2005 advancing the Department's impressive recent record of excellence in financial management. Here are some highlights of our substantive results over this past fiscal year:

- Another clean financial audit opinion. Our ability to sustain this critical performance benchmark is powerful evidence of the Department's improved accountability, internal control and data integrity;
- An 84 percent reduction in material deficiencies from FY 2002 to FY 2005. We are down from 19 to 3, and we plan to eliminate the remaining trouble spots altogether in the year ahead;
- An effective strategic plan for USDA that will guide efforts throughout the Department to align strategic direction, operating budgets and performance measures to drive continued performance enhancements and clear accountability throughout the organization;
- Innovative information technology solutions relating to financial management and administrative systems that allow us to push more resources to the front lines of program delivery. Noteworthy among these is the integration of program data from the Food and Nutrition Service into the corporate financial system to consolidate processing, reduce costly reconciliations and eliminate legacy systems and the implementation of improved financial reporting systems;
- Cost-effective and secure payroll and other administrative services reliably and accurately provided Government-wide through our National Finance Center (NFC); and
- Successfully implementing our disaster recovery and continuity of operations plan in response to hurricane Katrina. During this disaster, NFC timely and accurately paid over 565,000 federal employees from an alternate location, and USDA financial systems and operations resumed to ensure that all fiscal year-end deadlines were met.

USDA is committed to providing sound management of the resources under our stewardship and to communicating the effectiveness of our efforts to all Americans through the performance and accountability reporting process. Our results are due to the hard work and innovative leadership of skilled career employees who take seriously their responsibility for the substantial resources entrusted to them by Congress and the American people to perform the important work of this Department. While we cannot yet give unqualified assurance of compliance with the Federal Managers' Financial Integrity Act (FMFIA) or the financial systems requirements of the Federal Financial Management Improvement Act (FFMIA), we are redoubling our efforts in the coming fiscal year to resolve these deficiencies.

In FY 2005, we made exceptional progress in financial management in USDA. As proud as we are of that record, we look forward to beating it next year as sound financial management continues to enhance all aspects of USDA's vital work.



Patricia E. Healy
Acting Chief Financial Officer
November 15, 2005