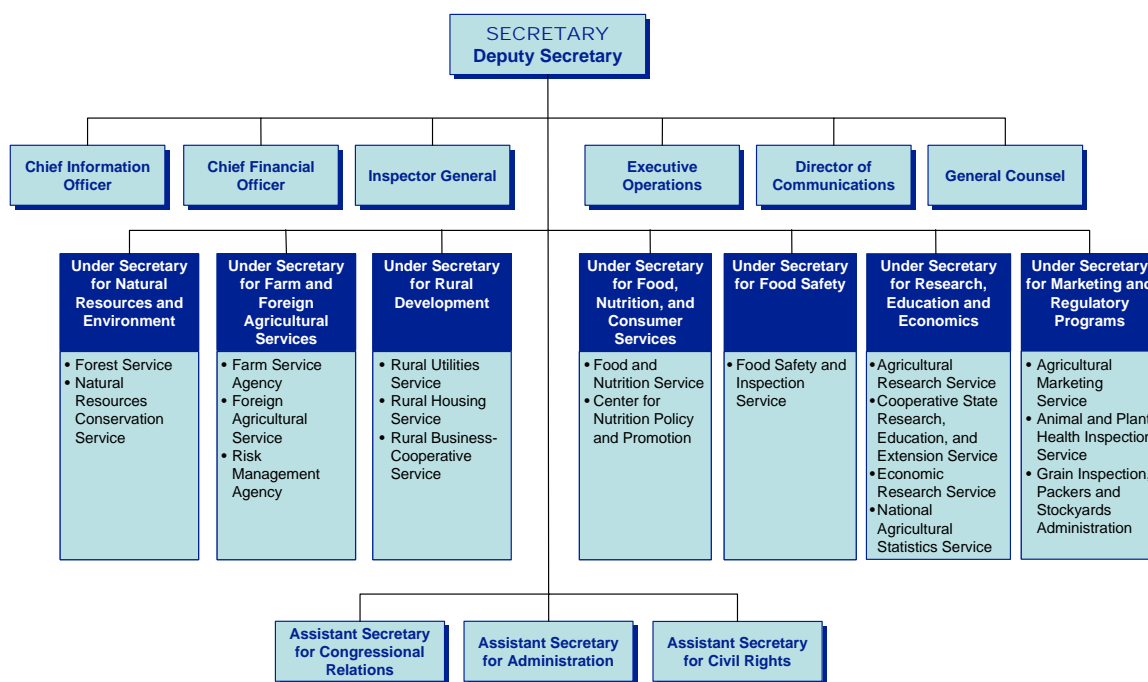


I. MANAGEMENT DISCUSSION AND ANALYSIS

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 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 alongside the United States (U.S.) economy and America. 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 timeless concerns in the modern era presents its share of challenges today. America's food and fiber producers operate in a global, technologically advanced, rapidly diversifying and highly competitive business environment that is driven by sophisticated consumers.

This report provides information on USDA's core performance measures as described in its revised *FY 2004 Annual Performance Plan*. There are five strategic goals that guide the Department today. 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 today 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 moves into the third year of implementing this legislation, FY 2004 key milestones include:

- Releasing nearly \$1.5 billion in funding for conservation programs on working lands;
- Allocating States \$1.2 billion in financial assistance and \$305 million for 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. The allocation also includes \$54 million in financial assistance for the Grasslands Reserve Program, which the Department hopes to operate this year under an interim final rule that will be published shortly;
- Publishing an interim final rule for Conservation Innovation Grants and announced the availability of \$15 million to fund selected grant proposals in 2004;
- Publishing a final rule for the McGovern-Dole International Food for Education and Child Nutrition Program and signing agreements with cooperating sponsors fully allocating \$100 million of assistance authorized for FY 2003;
- Publishing a final rule for the Technical Assistance for Specialty Crops Program and allocating \$2 million of assistance authorized for FY 2003;
- Issuing purchase specifications involving irradiated food products for use by schools wishing to purchase such products for school feeding programs;
- Awarding \$5 million in food stamp participation grants to State agencies;

- Publishing a Notice of Funding Availability, implementing the Beginning Farmer and Rancher Contract Land Sales Program;
- Providing funds to help rural businesses create or save more than 81,000 jobs;
- Approving \$150 million of funding for broadband loans and reviewing additional applications;
- Awarding \$10 million in grants for 10 agricultural innovation centers;
- Awarding \$23 million in grants under the Renewable Energy and Energy Efficiency program for FY 2004 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) a total of \$25 million in grants under the USDA and DOE's joint Biomass Research and Development Program to 24 projects in FY 2004;
- Making almost \$150 million in Bioenergy Program producer payments for FY 2004;
- Publishing a final rule regarding blood and tissue collection to improve surveillance programs for animal diseases, contribute to the eventual control or eradication of such diseases, and assist in certifying the status of the U.S. or its regions with regard to freedom from specific animal diseases; and
- Utilizing approximately \$300 million to purchase fruits, vegetables, and other specialty crops for distribution through USDA nutrition assistance programs. \$50 million has been made available to the Department of Defense for 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 of modern day America.

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.

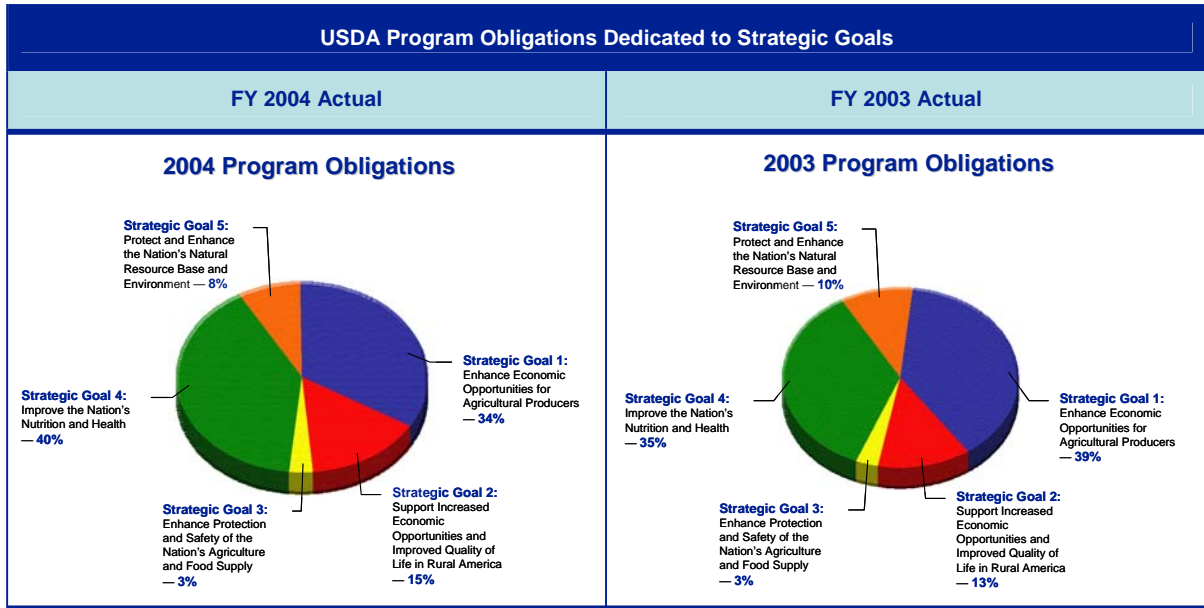
DEPARTMENTAL OFFICES

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

RESOURCES

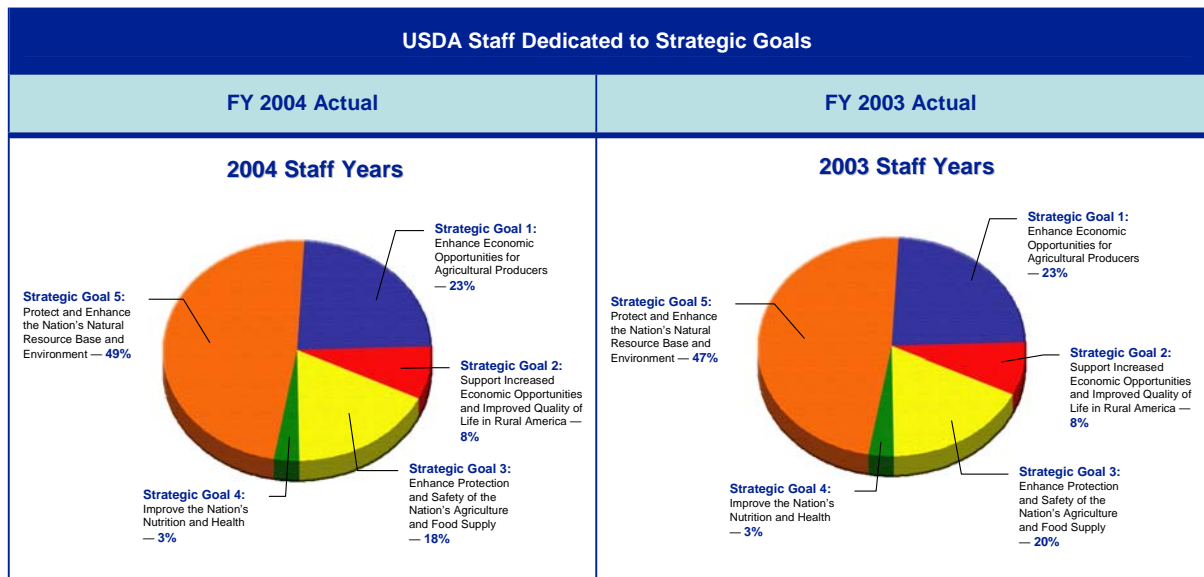
Congressional appropriations are the primary funding source for USDA operations. FY 2004 program obligations totaled \$114,289 million, a decrease of \$4,561 million compared to FY 2003. Staff year resources totaled 111,501, rising 2,258 compared to FY 2003.

Exhibit 2: FY 2004 and 2003 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 2004 and 2003 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 31 performance goals contained in USDA's FY 2004 Revised Annual Performance Plan, 24 were met or exceeded, three were reported as deferred (unable to report the necessary data until a specified date) and four were unmet. The following Performance Scorecard table, 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 2004

Performance Scorecard for FY 2004				
Objectives		Annual Performance Goals		Result
Strategic Goal 1: Enhance Economic Opportunities for Agricultural Producers				
1.1	Expand International Marketing Opportunities	1.1.1	Dollar value of trade preserved through FAS staff interventions and trade agreement monitoring	Exceeded
1.2	Support International Economic Development and Trade Capacity Building	1.2.1	Improve food security and nutrition through McGovern-Dole International Food for Education and Child Nutrition Program by providing daily meals and take-home rations for mothers, infants and school children	Met
1.3	Expand Alternative Markets for Agricultural Products and Activities	1.3.1	Increase in bioenergy production	Exceeded
		1.3.2	Number of generic groupings of biobased products designated for preferred procurement by Federal agencies	Unmet
1.4	Provide Risk Management and Financial Tools to Farmers and Ranchers	1.4.1	Increase the value of risk protection provided to agriculture producers through FCIC-sponsored insurance	Exceeded
		1.4.2	Increase the percent of loans to beginning and socially disadvantaged farmer/ranchers	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	Improve the quality of life in rural America through Homeownership	Exceeded
		2.2.2	Increase the number of subscribers receiving upgraded water and/or waste-disposal service	Exceeded
		2.2.3	Increase the number of subscribers receiving new and/or improved electric facilities	Exceeded
		2.2.4	Increase financing to support high-speed telecommunication services (broadband)	Unmet
		2.2.5	Provide access for residents to new and/or improved essential community facilities	Met
Strategic Goal 3: Enhance Protection and Safety of the Nation's Agriculture and Food Supply				
3.1	Enhance the Protection of Meat, Poultry and Egg Products from Foodborne Hazards in the United States	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> 0157:H7 on ground beef	Met
		3.1.4	Millions of viewings of food safety messages	Exceeded
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

Performance Scorecard for FY 2004				
Objectives		Annual Performance Goals		Result
		3.2.2	Number of animals affected by noncompliances documented on inspection reports	Unmet
		3.2.3	Percent of facilities in complete compliance at the most recent inspection	Met
		3.2.4	Improve the capabilities of animal and plant diagnostic laboratories	Met
		3.2.5	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	Improve Access to Nutritious Food	Deferred
4.2	Promote Healthier Eating Habits and Lifestyles	4.2.1	Healthy Eating Index (HEI) for people with incomes under 130% of poverty in the U.S. population	Deferred
		4.2.2	Determine food consumption patterns of Americans and provide sound scientific analyses of the U.S. food consumption information to enhance the effectiveness and management of the Nation's domestic food and nutrition assistance program	Exceeded
4.3	Improve Food Program Management and Customer Service	4.3.1	Improve Food Program Management and Customer Service	Deferred
Strategic Goal 5: Protect and Enhance the Nation's Natural Resource Base and Environment				
5.1	Implement the President's Healthy Forests Initiative and Other Actions to Improve Management of Public Lands	5.1.1	Number of acres of hazardous fuel treated that are in the wildland-urban interface (WUI)	Exceeded
		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 WUI	Exceeded
5.2	Improve Management of Private Lands	5.2.1	Conservation plans written for cropland and grazing lands (Mil acres)	Met
		5.2.2	Cropland and grazing lands with conservation applied to protect the resource base and environment	Met
		5.2.3	Agricultural wetlands created or restored through the Wetlands Reserve Program	Met
		5.2.4	Reduction in average annual flood damage	Exceeded

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 been successful in pursuing its strategic objective to improve the Nation's nutrition and health, with the exception of research goals, the Department has deferred reporting on these goals until accurate and complete data is available to document the progress of these efforts in FY 2004. Sometimes circumstances arise that result in the Department falling short of its goals. At other times, the Department consciously alters its approach in ways that enhance its service to the public, but make 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 1.3.2**—Unmet. Number of generic groupings of biobased products designated for preferred procurement by Federal agencies. While new regulations advancing this performance goal are moving forward, they were not published in the *Federal Register* in time to be counted appropriately as achieved in FY 2004.

- **Performance goal 2.2.4**—Unmet. Increase financing to support high-speed telecommunication services (broadband). Factors that contributed to this performance goal being unmet are new program authority allowing refinancing and making larger loans than anticipated (hence fewer loans). The first factor (refinance previous RUS loans) greatly altered the assumptions used in setting the target and may require adjustments of future targets. The second factor (fewer large loans) is a temporary anomaly and should not impact future targets. However, USDA will monitor this, and will reevaluate the target if any trends indicate 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. USDA consistently strives to reduce the prevalence of all leading causes of foodborne illness. However, the percentage of positive *Salmonella* samples in broiler chickens increased by almost 2 percent, despite the fact that most establishments continued to pass the performance standard established in 1996.
- **Performance goal 3.2.2**—Unmet. Number of animals affected by noncompliances documented on inspection reports. While the number of animals involved in noncompliance findings increased by 5.7 percent to 364,773 in FY 2004, leaving USDA's performance goal unmet, these numbers contradict a positive story. During the course of the past year, USDA field inspectors focused primarily on high-risk facilities. With more animals to oversee, large facilities are more likely to carry higher risks. As a result, inspectors counted more animals being affected by noncompliances; however, this is mainly attributable to their vigilance over larger facilities.
- **Performance goal 4.1.1**—Deferred. Improve access to nutritious food. 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.

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;
- The impact of future economic conditions and actions by a variety of Federal, State and local Governments that will influence the sustainability of rural infrastructure;

- The increased movement of people and goods, which provides the opportunity for crop and animal pests and diseases to move quickly across national and international boundaries;
- Potential exposure to hazardous substances, which may 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;
- Reducing the risk of catastrophic fire is dependent on weather, drought conditions and the expanding number of communities in the wildland-urban interface; and
- The fact that efforts to reduce hunger and improve dietary behaviors depend on strong coordination between USDA and a wide array of Federal, State and local partners, and effective compliance by partners is vital.

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. In the Department’s current Strategic Plan, released in September 2002, USDA announced that it expected to:

- Ensure an efficient, high-performing, diverse, competitively sourced workforce, aligned with mission priorities and working cooperatively with USDA partners and the private sector;
- Enhance internal controls, data integrity, management information and program and policy improvements as reflected by an unqualified audit opinion, and a reduction of erroneous payments by USDA programs;
- Implement business processes and information technology needed to make services available electronically; and
- Link budget decisions and program priorities more closely with program performance, and recognize the full cost of programs.

USDA employees are charged with executing these management initiatives. Their work makes USDA’s programs real “on the ground”—where customer service is delivered. While USDA has achieved much, there is more to be done. 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, 2004, USDA had earned a “green” progress score for all but one of its initiatives. The following is a summary of major USDA management initiatives and FY 2004 highlights.

HUMAN CAPITAL

USDA always has been focused on results. A key to meeting USDA’s program goals is a high performing workforce focused on delivering services to the American people. The future success of the “People’s Department” (as President Abraham Lincoln referred to USDA) will be determined in part by how well it meets its “people needs.” As USDA looks to the future, some challenges remain: (1) improving its strategic workforce planning and alignment; (2) maintaining a results-oriented performance culture; (3) enhancing leadership and employee development; and (4) retaining and recruiting a diverse, highly skilled workforce.

New performance standards have been established for the Senior Executive Service (SES) and GS-14 and GS-15 managers. New standards will be established for about 60 percent of all employees by January 2005. With these standards, employees will understand better the contributions they make to the missions and goals of

the Department. Employees also will have more clearly defined expectations and feedback on their performance.

The newly launched AgLearn system provides greater development opportunities for employees and tools for managers. AgLearn is an online system that offers access to training 24 hours a day. Managers can supervise staff development, offer more courses at a lower cost and track employees' progress. While AgLearn is expected to reduce training costs, the biggest result will be providing more career advancement opportunities to USDA employees. This year AgLearn became available to all employees across the Department.

To help fill the vacancies that will be created by the large number of USDA senior executives eligible to retire, USDA created the SES Candidate Development Program, which includes developmental assignments, formal interagency executive training, leadership forums and guidance from a senior executive mentor. The initial class of 80 candidates, selected through a rigorous merit-based selection process, graduated in July 2004. Four of the candidates already have been selected for senior positions.

To improve the skills of USDA staff who work with unions and bargaining units, the Office of Human Resources Management developed a five-day course that is helping employees understand basic labor-relations functions. As a result, practitioners and managers are able to recognize, prevent and resolve labor-management disputes, and meet their collective-bargaining obligations more effectively.

To expedite hiring employees, USDA is pilot testing an automated hiring system. This process allows position descriptions and vacancy announcements to be posted within minutes. Interested job seekers can review vacancy announcements 24 hours a day. They also can answer position-specific questions to create, edit and submit electronic resumes. The system rates and ranks applicants resulting in quicker identification of the best-qualified candidates. Additionally, to meet future hiring needs, USDA enhanced its internship programs.

USDA made great strides in the area of Human Capital, which earned it a "green" rating for progress on the OMB Scorecard. The Department earned the "green" by:

- Reviewing the Human Resource Management System and selecting a new Human Capital Executive to assist in leading the Human Capital initiative;
- Implementing mid-level succession plans in all agencies;
- Reviewing and refocusing the USDA Human Capital Plan;
- Deploying strategies to address talent and leadership gaps in mission-critical occupations; and
- Implementing a results-oriented performance system for executives that cascades down to GS-14 and GS-15 supervisors, and aligns to strategic mission accomplishment.

COMPETITIVE SOURCING

During the past year, USDA made organizational changes to increase accountability and improve oversight of its Competitive Sourcing Initiative. A key component of the President's Management Agenda, this initiative calls on all Federal agencies to create a more market-based government that enhances service and reduces costs through public-private competition initiatives. The Department's early efforts in this area did not result in cost savings and management efficiencies. USDA has identified a number of root causes:

- Many of the studies focused on too small an area of work;
- There was inadequate market research; and
- Competitions were not structured strategically.

For the Competitive Sourcing initiative, USDA earned a score of "yellow" for progress on the management scorecard, appropriately indicating the mixed results of its early efforts. The Department now is working to fine-tune its use of competitive sourcing. USDA is working to ensure that the studies it conducts reflect more strategically grouped and related functions to maximize the impact of this initiative. The Department also now requires that a feasibility study, including cost-benefit analysis, be completed prior to conducting a competitive sourcing study. This will ensure 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.

During FY 2004, USDA made significant progress toward a successful Competitive Sourcing Initiative. Forest Service (FS) conducted a study examining 1,200 positions supporting its information technology infrastructure. The Natural Resource and Conservation Service (NRCS) also completed a competition of 96 positions at the National Cartography and Geospatial Center. In both cases, the agency was the winning service provider. USDA expects significant efficiencies and cost savings totaling \$173.9 million over a five-year period as a result of its competitions.

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 President's Management Agenda 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. In 2002, USDA—and all of its agencies—achieved their first unqualified consolidated financial audit opinion in the Department's 140-year history. 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. As a result, USDA's clean audit opinion was sustained in FY 2003 and FY 2004. Actions taken by USDA to achieve this result include:

- Revamping business, financial management and accounting processes;
- Completing installation of a standard general-ledger accounting system;
- Determining the program cost or present value cash flows of approximately \$100 billion in loans;
- Reconciling, in an accurate and timely way, more than \$100 billion in annual cash receipts and disbursements;
- Correcting deficiencies in \$1 billion of real and personal property; and
- Significantly reducing the number of material weaknesses.

USDA made significant progress in Financial Management, and as a result earned a “green” for progress on the OMB Scorecard. Key milestones include: implementation of a new Corporate Property Automated Information System, which standardizes management of the Department's owned and leased real property; and deployment of a new acquisition system that is integrated with its USDA's financial system, so it can provide accurate, on-demand financial information.

Management Challenge

While USDA made extraordinary strides in recent years and today enjoys a clean audit opinion, there is still room for improvement. Accordingly, the Department's financial performance remains a management challenge. (Appendix A contains the Office of the Inspector General's report on USDA's major management challenges.) One area of concern is the USDA Forest Service. To help bring the agency's financial management up to par with the rest of the Department, USDA is planning to:

- Eliminate material weaknesses and reportable conditions, and obtain an unqualified opinion on the Forest Service's FY 2004 and 2005 financial statements;
- Initiate a Financial Management Improvement Process that will standardize and centralize the agency's budget and finance processes through business process reengineering;
- Publish enhanced financial management policies and procedures by June 30, 2005; and
- Continue to focus on data-quality improvement, such as the resolution of abnormal account balances.

This year, the Department also has continued to modernize delivery of USDA's financial systems.

In FY 2004, USDA worked with the Forest Service, the Commodity Credit Corporation and other USDA agencies to improve financial management systems and processes. This effort included a reliable system of internal controls designed to generate accurate and timely financial data.

ENHANCING EGOVERNMENT

Much has changed in the workplace with advances in information technology. USDA has focused significant attention on leveraging technology to improve service delivery and control or reduce costs. Recognizing this opportunity, representatives from across the Department developed a common eGovernment strategy that has guided USDA's information technology deployment for the past three years. The Department's modernized Web site (<http://www.usda.gov>) and USDA's robust new customer statement page (<http://customerstatement.usda.gov>), which allows farmers and ranchers to track and conduct their transactions with the Department online, are two recent examples of this progress. The USDA Web site now is organized by service instead of agency allowing users to find the information they need more quickly. The new Customer Statement page offers agricultural producers a consolidated online statement of their USDA program activities and benefits. These and other eGovernment accomplishments have earned USDA the high "green" score from the Office of Management and Budget for progress on the Department's technology initiatives.

In executing the strategic, user-friendly deployment of technology, USDA is fostering a culture of collaboration. The Department's eGovernment activities are being guided by continuous feedback from employees, partners and customers. For example, the USDA Technology and eGovernment Advisory Council, which was formed in late 2003, is comprised of representatives from across USDA's customer base. This council now plays an integral role in assisting the Department with strategies to enhance its services through technology.

From the strategic planning process to the implementation of specific initiatives, the Department also uses surveys and focus groups to guide effective decision-making. USDA created a community of interest using customer usability studies and feedback on its Web sites and applications. So far, the Economic Research Service, the Risk Management Agency, the Food Safety Inspection Service and other agencies have capitalized on these feedback opportunities to design new Web pages and applications that better meet the needs of their customers, partners and employees.

In terms of online security, USDA has taken aggressive action. Teams of employees at every agency are working to certify and accredit USDA's information technology systems. USDA completed this process for 402 systems (93 percent) in FY 2004. This effort is building trust with customers and partners in the reliability and security of online transactions with USDA. The Department conducted an extensive review of its information technology investments during the FY 2005 budget process. As a result, USDA reduced the number of IT projects from more than 500 to about 350. This consolidation effort focused on reducing redundant investments and has resulted in \$167 million in cost savings that agencies now can reallocate to serving their customers directly. The Department is now focused on creating an Enterprise Architecture to help align technology with program delivery further to ensure that USDA's information technology benefits continue to enhance the quality and cost-effectiveness of the Department's service to its customers.

Management Challenge

In today's environment, the security of USDA's online networks remains a serious area of focus and a management challenge for the Department. (Appendix A contains the Office of the Inspector General's report on USDA's major management challenges.) In response to this challenge, USDA is developing and implementing a process to collect pertinent agency security status information regularly and systematically, and share it with USDA's Chief Information Officer. To establish this new process, USDA will:

- Notify agencies of training availability for security products;
- Finalize new security policies; and
- Establish a standard procedure for identifying, tracking and eliminating security weaknesses.

Additional USDA information technology security initiatives include:

- Expanding and improving USDA's Intrusion Detection System;
- Conducting regular Federal Information Security Management Act (FISMA) self-assessments and developing plans of action for any weaknesses found;
- Certifying and accrediting new USDA systems as they are developed;
- Contracting with independent companies to validate agency certification and accreditation activities; and
- Securing sensitive data and improving contingency planning, configuration management and physical security, and finalizing policy on these sensitive matters.

BUDGET AND PERFORMANCE INTEGRATION

The Budget and Performance Integration (BPI) directive of the President's Management Agenda challenges agencies to set measurable goals; monitor progress toward achieving results and make management and funding decisions based on these outcomes. This cost-benefit approach helps illuminate where the American taxpayer is receiving real value and where Government agencies have room for improvement. This direct link between dollars spent and real world outcomes also is helpful to the congressional appropriations process where priorities must be set. During the last two years, USDA has earned the high "green" score from the Office of Management and Budget for progress in this category. USDA values the budget and performance integration process as a critical tool that helps employees fulfill program missions most effectively by establishing clear performance targets, tracking progress in achieving stated objectives and making adjustments to improve results. This process also helps ensure that employees responsible for executing programs are achieving results daily.

To further enhance the value of this effort, USDA is taking steps to improve on:

- Clearly identifying goals, objectives and meaningful measures of progress;
- Quantifying and demonstrating the results of programs;
- Demonstrating that USDA is using taxpayer dollars efficiently to achieve those results; and
- Effectively using the expertise of USDA employees and cooperators.

USDA has implemented a quarterly reporting process to provide management with timely insight into how program results are matching up against stated goals. This, in turn, allows managers the opportunity to adjust strategies and realign resources at several points throughout the year. USDA also included requirements for the annual performance plan and quarterly reporting in its FY 2005 budget guidance to make clear the need for all agencies to take a results-oriented approach to their resource requests. This guidance requires meaningful, real-world outcomes for each agency, unit cost information for each performance measure and an efficiency measure for each USDA program, as well. USDA also developed Department-wide efficiency measures, which will be presented to Congress in the FY 2006 Budget.

For example, FSA implemented a Budget and Performance Management System (BPMS) in FY 2004. BPMS involves a range of activities to ensure that FSA taxpayer dollars are directed to efficient programs. A new FSA strategic plan, using the Program Assessment Rating Tool and IT tools, is key to ensuring BPMS success and, ultimately, the success of the Nation's farmers, ranchers and agricultural partners.

Another important mechanism is the Program Assessment Rating Tool (PART), which is a system of evaluation that identifies how well and efficiently a program is working and what specific actions can be taken to improve performance. During the past three years, USDA has used this tool aggressively to evaluate programs that account for more than half of the Department's funding. By implementing PART recommendations, effectiveness ratings of several programs have been improved. Additional PART assessments currently are under review and may result in additional performance rating upgrades.

PART findings have led USDA to:

- Target conservation programs more effectively;
- Improve efficiencies in the guaranteed farm loan programs;
- Improve targeting of international food aid programs;
- Re-examine multi-family housing programs to develop better long-term and annual measures; and
- Develop stronger goals and measures for the Federal Crop Insurance Program.

FAITH-BASED AND COMMUNITY INITIATIVE

USDA strives to ensure that its public services reach all potential beneficiaries. As part of its Faith-Based and Community Initiatives, USDA ensures that faith-based and community organizations have full and equal access to the Department's programs and benefits. The focus is on four key areas:

- Outreach and technical assistance;
- Equal treatment;
- Data collection; and
- Innovative pilot projects.

By educating and partnering with local organizations, USDA can, for example, increase the number of men, women and children receiving nutritious meals and wholesome food through its anti-hunger programs. Similarly, through these partnerships, the Department can enhance the reach of its services to widely dispersed rural populations. Through this initiative, USDA focuses on which organizations can help accomplish its strategic goals and objectives best, regardless of religious affiliation or non-affiliation.

The Outreach in the Summer Food Service Program demonstrates how this initiative helped USDA programs serve more people in FY 2004. For the first time this past summer, the AGAPE Outreach Program in Marion, Virginia, received Federal funding. The funding was used to provide 3,643 nutritious meals to needy children as part of its summer school and recreational program, complementing other faith-based community activities.

Elsewhere, through a one-time program for FY 2004, the Commodity Credit Corporation donated non-fat dry milk to more than 50 not-for-profit, faith-based and community organizations. These groups distributed the product to hundreds of local organizations in almost every State. The organizations then distributed the milk to needy individuals and families. Almost 400 million pounds of non-fat dry milk will be delivered through the Annual Performance Report program by the end of the fiscal year.

Additional accomplishments relating to this initiative include:

- Publishing final Department-wide rules on the abilities, rights and responsibilities of faith-based organizations;
- Implementing changes to improve data collection and reporting of faith-based and community organizations' participation in USDA programs;
- Designating a faith-based and community initiative coordinator in every Rural Development State office and Food and Nutrition Service regional office;
- Enhancing equal opportunity efforts by implementing new systems for targeted USDA benefits;
- Initiating a pilot project to encourage State agencies to partner with faith- and community-based not-for-profit organizations to increase enrollment in the Food Stamp program; and
- Initiating a Community Facilities Guaranteed Loan Program pilot project in RD.

CIVIL RIGHTS

Management Challenge

Civil rights complaint processing remains a management challenge for USDA. (Appendix A contains the Office of the Inspector General's report on USDA's major management challenges.) In response to this challenge, USDA held listening sessions to obtain input and information from Department stakeholders about their experiences as program participants. Stakeholders' input led to the following activities specifically targeted to reducing the number of program Civil rights complaints filed:

- Establishing of the Center for Minority Farmers and the Minority Farm Registry;
- Increasing outreach efforts;
- County Committee reforms;
- Increasing diversity in county offices;
- Implementating the "Notice of Farm Loan Application Received" form and the "Customer Service Comment Card;"
- Partnering with Marriott International, Inc. to enhance and expand business opportunities for minority farmers through participation in the hospitality industry. USDA's role involves providing outreach activities, technical assistance and training for building business capacity and marketing strategies; and
- Partnering with the U.S. Department of Health and Human Services to coordinate policies and activities aimed at improving the economic conditions of refugees engaged in farming, agribusiness and rural entrepreneurship. USDA's role includes providing outreach activities, technical assistance and training on its programs and services.

USDA has planned a Program Complaint Prevention Initiative that will be implemented in FY 2005. This initiative will ensure that all Department programs are structured and presented in a manner to ensure equal access is available for all eligible customers, particularly socially and economically disadvantaged groups. A series of hands-on, technical assistance and training workshops will be conducted for USDA management officials. The workshops will offer analyses and reviews of civil rights program complaints and participation rates of USDA customers. Internal agency reports and data related to outreach, education and technical assistance programs and service delivery will be examined. The results of these analyses will be used to develop a process to reduce the number of complaints of discrimination in the delivery of USDA programs and services. All agricultural producers will benefit from equal and fair access to USDA programs and services.

Complaint Inventory Reduction was one of USDA's most important initiatives for FY 2004. A thorough inventory reduction plan was developed and implemented during FY 2004. The plan called for:

- Implementing a temporary realignment of management and staff to focus on case processing;
- Resolving complaints pending as of October 1, 2003;
- Timely processing of complaints received throughout the year;
- Implementing a method to prevent future backlogs and maintain the complaint workload at a manageable level; and
- Incorporating inventory reduction as an element in the performance standards of staff and holding them accountable.

As a result of this initiative, 1,016 of the 2,001 employment discrimination complaints and 1,828 of the 2,236 program discrimination complaints have been resolved.

USDA is introducing new Alternative Dispute Resolution (ADR) procedures into the informal Equal Employment Opportunity (EEO) complaint process. A draft ADR policy is in the formal clearance process and will be implemented following approval. The new policy requires all USDA agencies to offer ADR during both the informal and formal stages of the EEO complaint process. The success of this initiative will result in faster and more responsive service for USDA employees and fewer formal complaints.

The USDA Office of Civil Rights arranged, through its partnership with the Equal Employment Opportunity Commission (EEOC), for 26 headquarters and agency civil rights staff members to receive training about the Equal Employment Opportunity Commission Management Directive 715 (MD-715). MD-715 is designed to reduce the number of formal complaints. This training took place in April and May 2004. The training will prepare the staff as it implements the USDA Annual MD-715 EEO Plan. The training plan will include a comprehensive workforce assessment to identify barriers to the full utilization of employees within USDA. It also will serve as the foundation for the development of a “Model EEO Program” at USDA.

FINANCIAL STATEMENT HIGHLIGHTS

BUDGETARY RESOURCES AND OUTLAYS

USDA receives most of its funding from appropriations authorized by Congress that are 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.

	2004	2003	Variance
Appropriations Received	94,316	83,967	12%
Total Budgetary Resources	142,890	144,917 (restated)	-1%
Obligations Incurred	117,809	122,353 (restated)	-4%
Outlays	78,446	79,848 (restated)	-2%

Restatement

In Fiscal 2004, Treasury issued updated requirements for reporting Cash Held Outside of Treasury. Treasury does not consider the Escrow Account Balances as outlays until the funds are transferred from the Escrow account to reimburse outside parties. This change required a restatement to the 2003 Statement of Budgetary Resources and a reclassification in the 2003 Balance Sheet.

In fiscal 2002, the Office of Management and Budget (OMB) directed FCIC to record its insurance program fund obligations on a cash basis rather than the accrual basis. Certain adjustments to obligations made in fiscal 2002 and 2003 were incorrectly recorded and are currently adjusted to reflect the 2003 obligations and the obligated balances carried forward from the prior year.

Analysis of Resources

Appropriations Received increased during fiscal 2004 due to increased funding for the Commodity Credit Corporation (CCC) related to expenses attributable to the 2002 Farm Bill. The 2002 Farm Bill governs Federal farm programs and offers certainty and support for America’s farmers and ranchers by providing a safety net for farmers without encouraging overproduction and depressing prices.

The Food and Nutrition Service experienced a significant increase in appropriations in fiscal 2004. Of the \$5.3 billion increase, 86 percent of the increase is attributable to growth in the Food Stamp Program, with 14 percent attributable to the Child Nutrition Programs for meal services and higher food costs.

Assets and Liabilities

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

Assets

	2004	2003 (restated)	
Fund Balance with Treasury	39,488	36,450	8%
Investments	71	60	18%
Cash and Other Monetary Assets	165	241	-32%
Accounts Receivable	3,103	2,415	28%
Loans Receivable and Related Foreclosed Property	73,841	73,590	less than 1 percent
General Property, Plant, and Equipment, Net	4,914	4,919	less than 1 percent

Cash and Other Monetary Assets

Cash and Other Monetary Assets consist mainly of funds held in escrow to pay property taxes and insurance for housing borrowers, loan repayments and excess reserves from fee-for-service programs. The majority of the variance from fiscal 2003 to 2004 stemmed from the CCC's reclassification of Undeposited Collections from Cash and Other Monetary Assets in 2003 to Receivables in FY 2004.

Accounts Receivable

Accounts Receivable includes both intra-governmental and with the Public.

As of September 30, 2004, Commodity Credit Corporation recorded \$372 million in receivables due from producers. This amount represents overpayments of 2003 counter-cyclical payments. The Direct and Counter-Cyclical Program, the Peanut Quota Buyout and Milk Income Loss Contract Program are programs that support producers for market price fluctuations and crop production. Advance payments were made in January 2004. Subsequent to that, market prices rose, thereby eliminating the need for the program subsidy payments.

The Risk Management Agency Producer Premium revenue increased by \$341 million due to increased participation in the Crop Revenue Coverage Insurance Plan, which covers losses in revenue in addition to losses in production.

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 77 percent of the total USDA loan program. Commodity Loans and Credit Programs administered by CCC represent 14 percent of the total USDA loan program CCC's loans are used to improve economic stability and provide an adequate supply of agriculture communities. CCC credit programs provide foreign food assistance, expand foreign markets and provide domestic low cost financing to protect farm income and prices. The remaining 9 percent 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 represents 50 percent of the net PP&E, consists primarily of forest road surface improvements. Other major categories include Building, Improvements and Renovations, Other Structures and Facilities, and Equipment that represent 37 percent of the total.

Liabilities

	2004	2003 (restated)	Variance
Debt – Intragovernmental	69,053	76,140	-9%
Loan Guarantee Liability	1,188	883	35%
Other	31,490	32,779	-4%

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 repayments to Treasury for savings achieved in program costs for the Milk Income Loss Contract, Peanut Quota Buyout and Direct and Counter-Cyclical Programs contributed to the reduction of Intragovernmental Debt in FY 2004. Additionally, CCC repaid Treasury debt from appropriated funds received in FY 2004 related to the implementation of FSRIA.

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 FY 2004, the increased loan guarantee liability is primarily due to disbursing \$10.7 billion in new loans, resulting in the increased guarantee liability.

Other

Of the \$31,490 and \$32,779 million in other liabilities in FY 2004 and 2003 respectively, \$17,469 and \$16,981 million respectively, is payable to Treasury. The amount payable to Treasury represents the net resources of pre-Credit Reform programs that are held as working capital. After liquidating all liabilities the excess funds are returned to Treasury.

NET COST OF OPERATIONS

USDA Net Cost of Operations totaled \$74,022 million and \$83,249 million for fiscal years 2004 and 2003, respectively. Grants represent the largest portion of USDA cost, with \$60,197 million and \$63,098 million in cost for 2004 and 2003, respectively. Grants decreased in FY 2004 primarily due to changes in CCC activity related to reduction in payments for peanut quota buyouts, milk income loss contracts, direct and counter-cyclical programs, and crop disaster assistance program.

DEBT MANAGEMENT

USDA is one of the Federal Government's largest providers of direct credit with a credit portfolio of approximately \$100 billion. This represents about 32 percent of the non-tax debt owed to the Federal Government. In FY 1996, Congress passed the Debt Collection Improvement Act. As of June 30, 2004, USDA's \$6.2 billion in delinquent receivables represent a 30-percent decrease from the \$8.8 billion in delinquencies reported for FY 1996. Of this \$6.2 billion, only \$1.6 billion is eligible for referral to the Treasury for collection. The remaining delinquent debt is ineligible due to such statutory or administrative requirements as bankruptcy, litigation or debt owed by international/sovereign entities. (approximately \$3.5 billion of delinquent debt is international debt.) As of June 30, 2004, USDA referred 96 percent of the eligible delinquent debt to the Treasury Offset Program and 97 percent of eligible delinquent debt to the Treasury Cross-Servicing Program. During the first three-quarters of FY 2004, USDA collected \$883 million in delinquent debt, a 6-percent increase over the same period of the previous fiscal year.

ERRONEOUS PAYMENTS

Management Challenge

The USDA Office of Inspector General has identified erroneous payments as a major management challenge for the Department. (Appendix A contains the Office of the Inspector General's report on USDA's major management challenges.) In response to this challenge, USDA has developed comprehensive internal control and quality assurance processes to ensure accurate and complete program payments. The Office of the Chief Financial Officer issued policy directives to all the Department's agencies, requiring them to create inventories and develop risk assessments and statistically valid estimates for all programs susceptible to significant erroneous payments.

In accordance with this effort, USDA now is reporting on the following nine programs:

- Marketing Assistance Loan Program;
- Food Stamp Program;
- School Programs;
- Special Supplemental Program for Women, Infants and Children;
- Child and Adult Care Food Program;
- Wildland Fire Suppression Management;
- Rental Assistance Program;
- Federal Crop Insurance Corporation Program Fund; and
- Farm Security and Rural Investment Programs.

However, risk assessments of the Farm Service Agency programs were not completed in FY 2004. As a result, more programs may be determined to be susceptible to significant erroneous payments.

In late FY 2003, USDA directed all agencies with contracts totaling at least \$25 million to implement recovery auditing programs. For a detailed report on 2004 management actions, plans to address erroneous payments in programs and results of the recovery auditing programs, see Appendix B.

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 is to eliminate the remaining material deficiencies by the end of FY 2005, and correct any new material deficiencies within one year.

USDA made substantial progress in reducing the number of existing material deficiencies to just one in FY 2004. That number is down from 8 at the start of FY 2004 and 19 at the start of FY 2003. In addition, one new material weakness and one new system nonconformance were added this year for a total of three outstanding deficiencies, which USDA is striving to eliminate by the end of the coming fiscal year.

SUMMARY OF MATERIAL DEFICIENCIES

Exhibit 5: List of Material Deficiencies

Federal Managers' Financial Integrity Act Material Deficiencies				
Responsible Agency	Material Deficiency Description	Corrective Actions Remaining To Be Taken	Reason for Change in Estimated Completion Date	Estimated Completion
OCIO/RMA/ CCC/RD/ APHIS/FS	00-01: USDA Information Security Weaknesses — Weaknesses have been identified in the Department's ability to protect its assets from fraud, misuse, inappropriate disclosure and disruption.	<ul style="list-style-type: none"> ■ 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; ■ Refine or develop and enforce security policies as required; ■ Improve security controls in system authorization and logical access; ■ Develop a plan to fund, prioritize, and initiate the process to perform and update required employee background investigations; and ■ Complete certification and accreditation of systems. 	Extensive and wide-ranging weaknesses within USDA's information security program have delayed completion.	FY 2005
FS	04-01: Financial Management Internal Control Weaknesses: Controls inadequate to assure improvements in data quality.	<ul style="list-style-type: none"> ■ Develop detailed future state process. Work with other teams to develop roles and responsibilities, staffing plan, migration plan, customer service IT requirements, and performance metrics. ■ Build detailed future state processes (e.g., policies and procedures, reports, etc.). ■ Build training materials for transition. ■ Begin process to transition people and processes from the field and the Washington D.C. Office into the Center. 	N/A	FY 2005

Federal Managers' Financial Integrity Act Material Deficiencies				
Responsible Agency	Material Deficiency Description	Corrective Actions Remaining To Be Taken	Reason for Change in Estimated Completion Date	Estimated Completion
FS (cont'd)		<ul style="list-style-type: none"> ▪ Transition the Northeastern Research Station/ Northeastern Area staff and finance activities to the Albuquerque Service Center to address major financial management deficiencies. ▪ Migrate management, administrative support, and customer service functions. ▪ Migrate personal property, real property, and WCF teams. ▪ Complete migration of the payments-grants and agreements and payments-other teams. 		
CCC	04-01: Improvement Needed in Funds Control Mechanisms and Budgetary Financial Accounting and Reporting Policies and Procedures.	<ul style="list-style-type: none"> ▪ Identify and group programs with specific obligation and disbursement events; ▪ Identify and implement changes to current financial management processes and systems to improve the accuracy and timeliness of obligation amounts in the CORE financial system; and ▪ Revise policy for estimating and recording accruals of producer program payment liabilities and materiality thresholds. 	N/A	FY 2005

We hope this overview of the Department as a whole 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, Annual Performance Report, which offers a detailed, objective-by-objective discussion of the progress USDA made in reaching its FY 2004 goals.