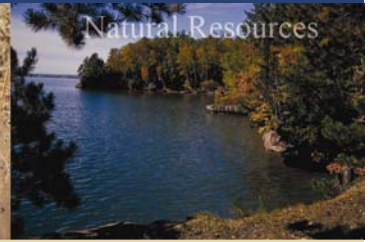


# I.



## Management's Discussion and Analysis

### An Overview of the United States Department of Agriculture

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 with the economy. 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 good nutrition.

Addressing these timeless concerns in the modern era presents its share of challenges. 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 2006 Annual Performance Plan/Performance Budget. There are six strategic goals that guide the Department today. Strategic goals one and two contribute to the economic opportunities for agricultural producers. They are:

- To enhance international competitiveness of American agriculture;
- To enhance the competitiveness and sustainability of rural and farm economies;
- 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.

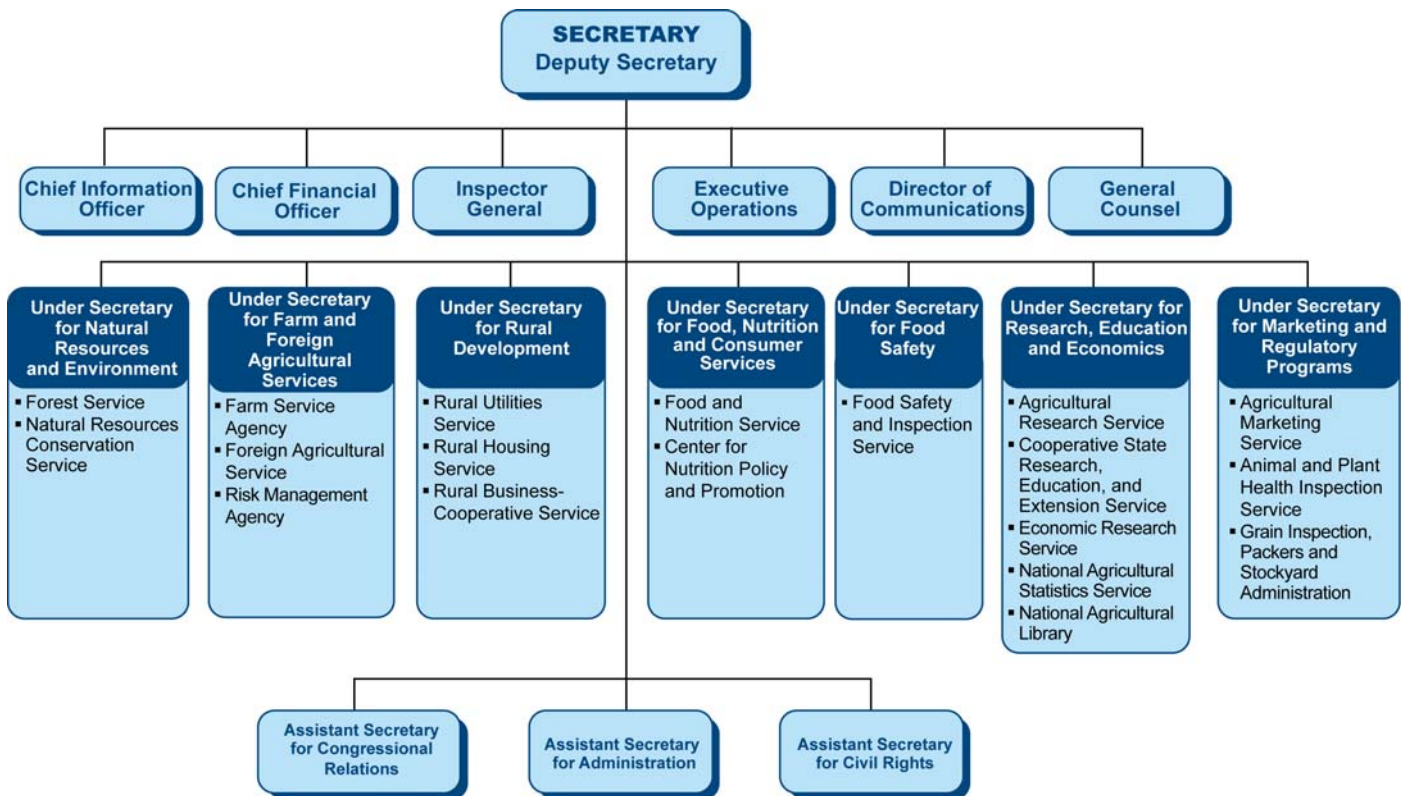
For the purposes of this report, it should be noted that USDA adopted its new strategic plan in the spring of 2006. The new strategic plan is to be implemented by the revised FY 2006 Annual Performance Plan/Performance Budget. As detailed in the revised budget, goals one and two are reported separately and aggregate to the major goal to Enhance Economic Opportunities for Agricultural Producers for performance aspects of the report. However, the financial statements and other graphic

presentations follow the approved FY 2006 Annual Performance Plan/Performance Budget depicting five goals.

The primary legislative authority guiding USDA's efforts today is the Farm Security and Rural Investment Act (Farm Bill) of 2002. 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 improving farm environmental practices;
- 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.



**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.*

USDA's FY 2006 key milestones include:

- Issuing of \$1.8 billion in Conservation Reserve Program rental payments, which compensate producers an average of \$4,143 per farm enrolled in the program;
- Sponsoring a food safety education conference to help educate doctors, nurses and health officials about those most at risk to foodborne illness, including young children, older adults, pregnant women and people with weakened immune systems;
- Reopening markets overseas for U.S. beef and beef products;
- Completing negotiations with Japan to end its decades-old ban on the import of U.S. fresh potatoes;
- Partnering with the U.S. Department of Energy and the U.S. Environmental Protection Agency to sponsor a renewable energy conference;
- Working with the U.S. Department of the Interior and the U.S. Department of Health and Human Services to enhance a national framework for the early detection of *highly pathogenic avian influenza* in wild migratory birds in the U.S. This effort expanded and unified ongoing efforts among Federal, State, regional and local wildlife agencies; and
- Unveiling of new grant programs designed to help improve and expand domestic farmers markets, roadside stands, community-supported agriculture

programs and other direct producer-to-consumer market opportunities.

**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. A description of USDA's seven mission areas follows.

**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 the health of the land through sustainable management. FS manages 193 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 that help farmers and ranchers address the unavoidable challenges inherent in agriculture, such as natural disasters.

This mission area also includes two Government-owned corporations. The Commodity Credit Corporation (CCC) works to stabilize farm income and prices 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. This mission area unites a variety of valuable programs including housing programs and economic development initiatives. Rural infrastructure projects that finance the delivery of everything from safe, running water to high-speed Internet access also come together in this mission area. Collectively, these programs demonstrate core Federal efforts to ensure that rural communities are full participants in modern 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 15 Federal nutrition assistance programs include the Food Stamp Program, Child Nutrition Programs, such as school lunches and breakfasts, 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

USDA's Food Safety and Inspection Service (FSIS) is the public health agency responsible for ensuring that the Nation's commercial supply of meat, poultry and egg products is safe, wholesome and labeled and packaged correctly.

### 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), the National Agricultural Statistics Service (NASS), and the National Agricultural Library.

### 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 domestic and foreign agricultural trade standards via Federal, State and foreign 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.

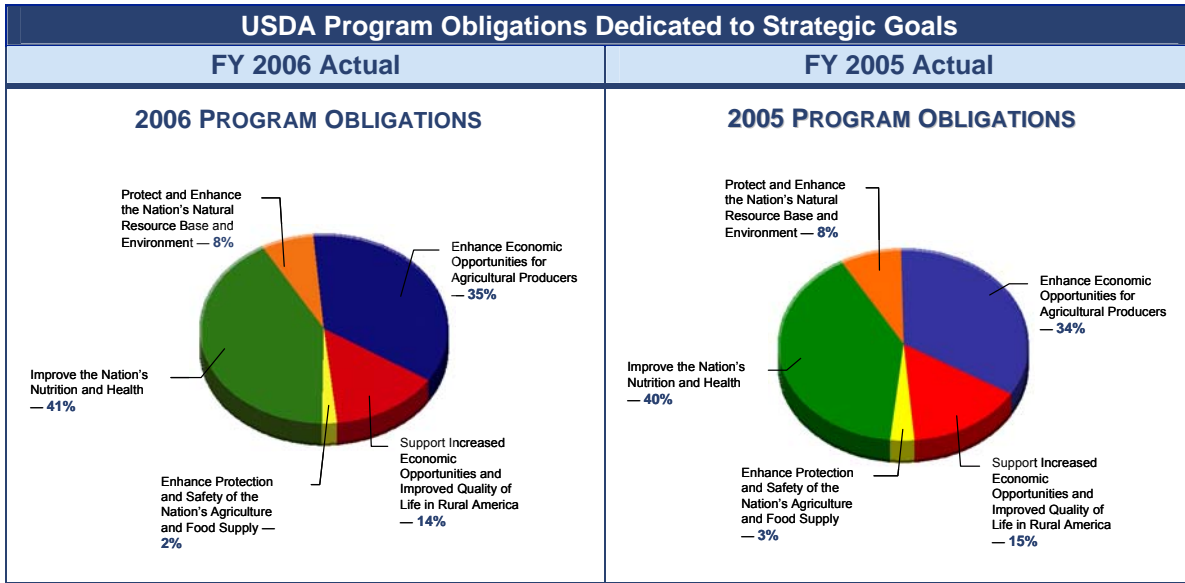
### DEPARTMENTAL OFFICES

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

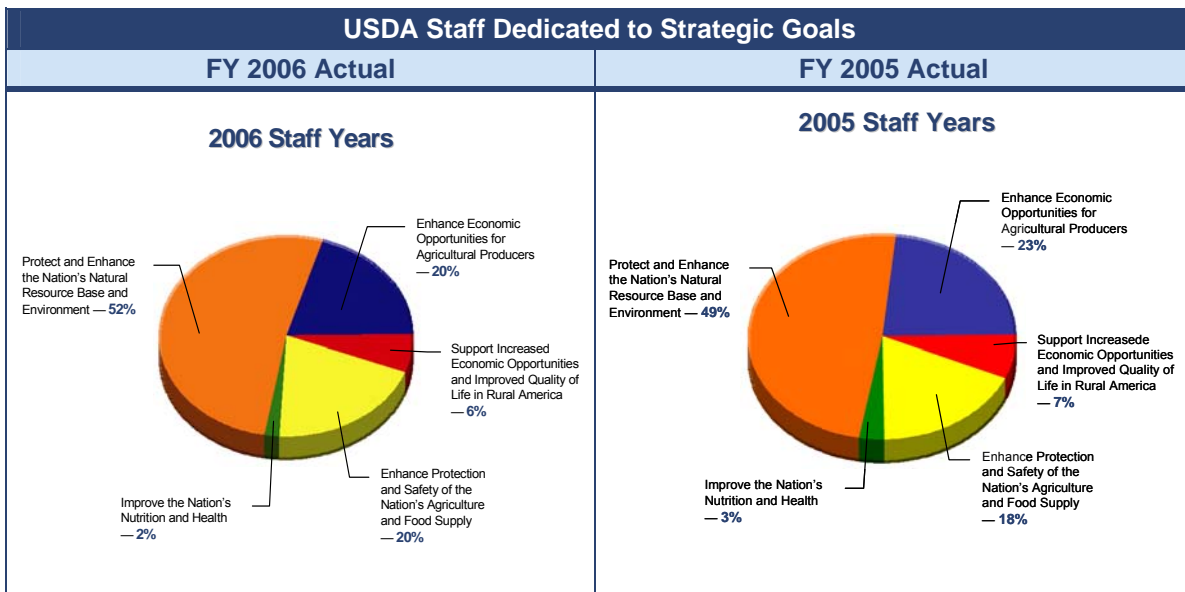
## Resources

Congressional appropriations are the primary funding source for USDA operations. FY 2006 program obligations totaled \$130.7 billion, an increase of \$4.4 billion compared to FY 2005. These are current year obligations from unexpired funds. They do not include prior year upward or downward obligation adjustments. Staff year resources totaled 106,716, a decrease of 3,185 compared to FY 2005.

**Exhibit 2: FY 2006 and 2005 USDA Program Obligations Dedicated to Strategic Goals**



**Exhibit 3: FY 2006 and 2005 USDA Staff Years Dedicated to Strategic Goals**



## Performance Goals, Objectives and Results

Of the 38 performance goals contained in USDA's FY 2007 and Revised FY 2006 Budget Summary and Annual Performance Plan, 32 were met or exceeded, 1 was reported as deferred and 5 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.

**Exhibit 4:** USDA Scorecard for FY 2006

Performance Scorecard for FY 2006				
Objectives		Annual Performance Goals		Result
<b>Strategic Goal 1: Enhance International Competitiveness of American Agriculture</b>				
1.1	Expand and Maintain International Export Opportunities	1.1.1	Dollar value of agricultural trade expanded through trade agreement negotiation, monitoring, and enforcement (Non-Sanitary and Phytosanitary)	Unmet
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 under McGovern-Dole	Exceeded
		1.2.2	Number of recipient countries that make substantive improvements in national trade policy and regulatory frameworks that increase market access	Met
1.3	Improved Sanitary and Phytosanitary (SPS) System to Facilitate Agricultural Trade	1.3.1	Increase the dollar value of trade expanded through negotiation or preserved through USDA staff intervention and trade agreement monitoring activities (Sanitary and Phytosanitary) (\$ in millions)	Exceeded
<b>Strategic Goal 2: Enhance the Competitiveness and Sustainability of Rural and Farm Economies</b>				
2.1	Expand Domestic Market Opportunities	2.1.1	Number of items designated as biobased for Federal procurement	Met
2.2	Increase the Efficiency of Domestic Agricultural Production and Marketing Systems	2.2.1	Agricultural Statistics Board reports released on time	Met
2.3	Provide Risk Management and Financial Tools to Farmers and Ranchers	2.3.1	Increase the value of Federal Crop Insurance Corporation (FCIC) risk protection coverage provided through FCIC-sponsored insurance (\$ in billions)	Exceeded
		2.3.2	Increase percentage of program benefits delivered through a Web environment	Met
		2.3.3	Increase percent of loans to beginning farmers, racial and ethnic minorities, and women farmers financed	Exceeded
		2.3.4	Reduce average processing time for direct loans	Exceeded
		2.3.5	Reduce average processing time for guaranteed loans	Exceeded
<b>Strategic Goal 3: Support Increased Economic Opportunities and Improved Quality of Life in Rural America</b>				
3.1	Expand Economic Opportunities by Using USDA Financial Resources to Leverage Private Sector Resources and Create Opportunities for Growth	3.1.1	Jobs Created or Saved	Exceeded
3.2	Improve the Quality of Life Through USDA Financing of Quality Housing, Modern Utilities, and Needed Community Facilities	3.2.1	Homeownership opportunities provided	Unmet
		3.2.2	Customers served by new or improved water and waste disposal facilities	Exceeded
		3.2.3	Customers served by new or improved community facilities	Exceeded
		3.2.4	Customers served by new or improved electric facilities	Exceeded
		3.2.5	Customers served by new or improved telecommunications facilities	Exceeded

MANAGEMENT'S DISCUSSION AND ANALYSIS

Performance Scorecard for FY 2006

Objectives		Annual Performance Goals		Result
<b>Strategic Goal 4: Enhance Protection and Safety of the Nation's Agriculture and Food Supply</b>				
4.1	Reduce the Incidence of Foodborne Illnesses Related to Meat, Poultry, and Egg Products in the U.S.	4.1.1	Prevalence of <i>Listeria monocytogenes</i> in ready-to-eat meat and poultry products	Exceeded
		4.1.2	Prevalence of <i>E. coli</i> 0157:H7 in ground beef	Exceeded
		4.1.3	Number of consumers reached with food safety messages	Met
4.2	Reduce the Number and Severity of Agricultural Pest and Disease Outbreaks	4.2.1	Improve the capabilities of animal and plant diagnostic laboratories	Met
		4.2.2	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	Met
		4.2.3	Number of emerging plant pest (EPP) programs where an outbreak has not been contained within the quarantine area	Unmet
<b>Strategic Goal 5: Improve the Nation's Nutrition and Health</b>				
5.1	Improve Access to Nutritious Food	5.1.1	Eligible populations participating in the major Federal nutrition assistance programs	Met
5.2	Promote Healthier Eating Habits and Lifestyles	5.2.1	Application and usage level of nutrition guidance tools (pieces of nutrition guidance distributed)	Exceeded
5.3	Improve Nutrition Assistance Program Management and Customer Service	5.3.1	Increase Food Stamp payment accuracy	Deferred
<b>Strategic Goal 6: Protect and Enhance the Nation's Natural Resource Base and Environment</b>				
6.1	Protect Watershed Health to Ensure Clean and Abundant Water	6.1.1	Number of Comprehensive Nutrients Management Plans applied <ul style="list-style-type: none"> <li>▪ Conservation Technical Assistance</li> <li>▪ Environmental Quality Incentives Program</li> </ul>	Met
		6.1.2	Increase Conservation Reserve Program (CRP) acres of riparian and grass buffers	Met
6.2	Enhance Soil Quality to Maintain Productive Working Cropland	6.2.1	Conservation plans for cropland written, million acres	Met
		6.2.2	Reduction in acreage of cropland soils damaged by erosion, millions of acres <ul style="list-style-type: none"> <li>▪ Conservation Technical Assistance Program</li> <li>▪ Environmental Quality Incentives Program</li> </ul>	Met
6.3	Protect Forests and Grasslands	6.3.1	Number of acres of hazardous fuel treated that are in the wildland urban interface	Unmet
		6.3.2	Number of acres of hazardous fuel treated that are in condition Classes 2 or 3 in Fire Regimes I, II or III outside the wildland-urban interface	Unmet
		6.3.3	Number of acres of other hazardous fuel treated that are outside the wildland-urban interface	Exceeded
		6.3.4	Conservation plans written for grazing lands	Exceeded
		6.3.5	Grazing lands with conservation applied to protect the resource base and environment, Conservation Technical Assistance, millions of acres	Exceeded
		6.3.6	Grazing lands with conservation applied to protect the resource base and environment, Environmental Quality Incentives Program, millions of acres	Exceeded

Performance Scorecard for FY 2006				
Objectives		Annual Performance Goals		Result
<b>Strategic Goal 5 (Cont'd): Protect and Enhance the Nation's Natural Resource Base and Environment</b>				
6.4	Protect and Enhance Wildlife Habitat to Benefit Desired, At-Risk And Declining Species	Wetlands created, restored or enhanced		
		6.4.1 Conservation Technical Assistance		Exceeded
		6.4.2 Wetlands Reserve Program		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 are available to document the progress of these efforts in FY 2006. 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 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.

## 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, if applicable, responds by providing accomplishments for the current fiscal year and/or planned actions for the upcoming fiscal year. All of the challenges identified in FY 2005 remain for FY 2006, and one new challenge was added. However, the OIG has removed issues associated with certain challenges because of the improvements made by the Department. The following table identifies only those challenges that changed from FY 2005 to FY 2006.

FY 2005 Management Challenges	FY 2006 Changes
(1) Interagency Communication, Coordination and Program Integration Need Improvement	<p><b>Issue Removed</b>—Implementation of a Department-wide research misconduct policy.</p> <p><b>Issue New</b>—Increase organizational communication and understanding among the agencies that administer the farm and conservation programs.</p> <p><b>Issue New</b>—Improve communication and strengthen controls for beef exported to Japan.</p> <p><b>Issue Moved to Challenge #5</b>—Ensure that animal disease surveillance program policies and procedures are well defined and supportable, and terminology and practices are consistent with public announcements.</p>
(2) Implementation of Strong, Integrated Management Control (Internal) Systems Still Needed	<p><b>Issue New</b>—Capitalize on Farm Service Agency (FSA) and CCC compliance activities to improve program integrity.</p>
(3) Departmental Efforts and Initiatives in Homeland Security Need to be Maintained	<p><b>Issue Removed</b>—Establish Department-wide policies and procedures for defining sensitive and dual-use information and implement adequate controls to protect such information.</p>



FY 2005 Management Challenges	FY 2006 Changes
	<p><b>Issue New</b>—Develop a comprehensive approach for surveillance and monitoring for outbreak of <i>avian influenza</i>, including live bird markets or other “off-farm” environments.</p> <p><b>Issue Moved from challenge #1</b>—Ensure animal disease surveillance program policies and procedures are well defined and supportable.</p> <p><b>Issue New</b>—Develop an information system to better track noncompliance violations related to specified risk materials.</p> <p><b>Issue New</b>—Improve security and accountability of explosives and munitions.</p>
(4) Department-wide Efforts and Initiatives on Genetically Engineered Organisms Need to be Strengthened	<p><b>Issue Removed</b>—Strengthen germplasm policies and procedures.</p> <p><b>Issue New</b>—Develop a comprehensive strategy for increasing exports of genetically engineered crops.</p>
	<p><b>Challenge #7 Added</b>—USDA's Response to the 2005 Hurricanes Needs Ongoing Oversight:</p> <ul style="list-style-type: none"> <li>• Provide sufficient oversight to ensure that monies allocated for housing, food stamps, conservation and farm programs are used effectively.</li> </ul>

The following table includes FY 2006 accomplishments and/or FY 2007 planned actions.

**USDA's Management Challenges**

<p><b>1) Interagency Communications, Coordination, and Program Integration Need Improvement</b></p> <ul style="list-style-type: none"> <li>• Integrate the management information systems used to implement the crop insurance, conservation and farm programs; and</li> <li>• Increase organizational communication and understanding among the agencies that administer the farm and conservation programs.</li> </ul>
<p><b>Fiscal Year 2006 Accomplishments</b></p> <ul style="list-style-type: none"> <li>– Developed a Web-based notification system to allow FSA county offices and approved insurance providers to communicate on reported discrepancies in information provided by producers and to track the progress in resolving the discrepancies.</li> <li>– FSA and RMA improved the 2001 Reconciliation Process by working together on recommendations to standardize RMA and FSA common business elements and reporting requirements.</li> <li>– NRCS and FSA met to strengthen interagency communication in regard to the Wetland Reserve Program (WRP) implementation, and the effect on issuing payments under the Direct and Counter-Cyclical (DCP) Program. Clarification of notification to producers for WRP participation was addressed and corrected in September 2006.</li> </ul> <p><b>Planned Actions for Fiscal Year 2007</b></p> <ul style="list-style-type: none"> <li>– USDA will pilot a Comprehensive Information Management System (CIMS) Managers' Report to identify differences in information provided by producers to RMA and FSA;</li> <li>– FSA will update procedures for reconciliations, obtain data from RMA to conduct reconciliations, and provide results to RMA;</li> <li>– FSA and NRCS managers will meet once a week to improve communication and to assure that one agency's actions do not adversely affect the other agency's programs;</li> <li>– Publish Routine Uses for System of Records in the <i>Federal Register</i> to allow producer information to be disclosed to RMA and subsequently to approved insurance providers, their agents and loss adjusters under contract with RMA; and</li> <li>– Continue to develop and implement CIMS;</li> <li>– Establish a FSA/RMA working group to review and implement consistent crop reporting dates;</li> <li>– Enhance FSA/RMA transition tables to compare State, county and crop data;</li> <li>– Continue efforts to design, build and implement new functionality within the Conservation Programs ProTracts application to streamline and integrate program management and program payments associated with easement programs better. This new functionality will leverage cross-agency Web services;</li> <li>– Develop an integrated application for USDA's Grants Management Line of Business. This initiative will establish business processes and technology-based services to improve customer access, submission processes, decision-making and reporting;</li> <li>– Continue cross-agency coordination meetings to address data sharing opportunities, common development practices, increase awareness of agency information systems and help eliminate duplicate information management systems. Current data sharing efforts include geospatial, eligibility Web services, land and tract information, payment information and customer files; and</li> <li>– Continue efforts to incorporate data mining technology into its business applications to detect anomalies and potential for erroneous payments.</li> </ul>

- Improve communication and strengthen controls for beef exported to Japan.

**Fiscal Year 2006 Accomplishments**

- Posted approved products listed for all export verification (EV) programs on shared internal Web site;
- Signed a Memorandum of Understanding outlining the responsibilities of both AMS and FSIS pertaining to the EV program;
- Issued a revised policy notice (#19-06) that describes the process for certifying beef products under export verification programs; and
- Provided training to responsible inspection program personnel and conducted audits of all plants approved for shipments to Japan.

**Planned Actions for Fiscal Year 2007**

- Continue to provide training to employees who are responsible for EV.

**2) Implementation of Strong, Integrated Management Control (Internal Control) Systems Still Needed.**

- Strengthen the quality control in the Federal Crop Insurance Programs.

**Fiscal Year 2006 Accomplishments**

- RMA completed a review of selected approved insurance providers operations to determine their compliance with quality control guidelines outlined in the Standard Reinsurance Agreement and associated Appendix IV.

**Planned Actions for Fiscal Year 2007**

- Continue reviews of selected Approved Insurance Provider operations to determine their compliance with quality control guidelines outlined in the Standard Reinsurance Agreement and associated Appendix IV.

- 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.

**Fiscal Year 2006 Accomplishments**

- Completed actions to improve controls over unliquidated obligations and accruals which reduced the material weaknesses to reportable conditions;
- Established accountability and implemented management controls to ensure performance reporting accuracy;
- Developed plans and schedules to accomplish unmet targets and goals from the FY 2006 Program Directive;
- Resolved key issues regarding further implementation of the Performance Accountability System (PAS);
- Conducted comprehensive internal control risk assessment for FS programs and developed plans to address identified risks; and
- Developed and installed additional security features needed to meet the minimum security standards at aviation facilities.

**Planned Actions for Fiscal Year 2007**

- Conduct oversight reviews on performance accountability in various regions and annual risk assessments of all financial/mixed financial systems;
- Implement corrective actions identified through OMB Circular A-123, Appendix A, and OIG audits; and
- Improve oversight of national firefighting contract crews.

- Capitalize on Farm Service Agency compliance activities to improve program integrity.

**Planned Actions for Fiscal Year 2007**

- Review results from the County Operations Review Program monthly and address internal control weaknesses;
- Monitor progress toward remediation of control weakness identified in the OMB Circular A-123, Appendix A assessment; and
- Implement recommendations to improve internal control and reduce/eliminate improper payments.

**3) Continuing Improvements Needed in Information Technology (IT) Security.**

- Emphasize security program planning and management.

**Fiscal Year 2006 Accomplishments**

- Developed a Department-wide FISMA Cyber Security scorecard that is issued monthly to Senior IT leadership and executive management within the Department;
- Implemented an automated tool (ASSERT) for management of IT Systems Security categorization in accordance with FIPS 199 and management of Plan of Action and Milestones (POAMs) for the resolution of identified security vulnerabilities; and
- Implemented a Cyber Security Liaison Program to assist USDA agencies in the implementation and management of IT risk management programs.

**Planned Actions for Fiscal Year 2007**

- Establish an Executive Management Committee to address all issues of the IT material weaknesses and issue action lists for corrections to eliminate USDA's material weaknesses; and
- Complete a full review of the Cyber Security Departmental manual and revise its policies, procedures and requirements as needed to closely align with NIST and other Federal regulations and laws.

- Establish an internal control program throughout the systems' lifecycle.

**Fiscal Year 2006 Accomplishments**

- Developed the Capital Planning and Investment Process throughout USDA; and
- Identified a matrix organizational structure within OCIO in which subject matter experts who work closely with systems owners and program offices to ensure all Federal control requirements are incorporated into a system's lifecycle.

**Planned Actions for Fiscal Year 2007**

- Implement an internal control program that includes the continuous monitoring required by systems and processes covered under A-123. In addition, USDA will conduct agency-level security reviews and verify POAM closures.

- Identify, test, and mitigate IT security vulnerabilities (risk assessments).

**Fiscal Year 2006 Accomplishments**

- Performed periodic on-site compliance reviews.

**Planned Actions for Fiscal Year 2007**

- Use the ASSERT tool to ensure that risk ratings are properly assigned and risk assessment performed; and
- Update policy and procedure, implementing new scorecard reporting elements, and conduct risk assessments in ASSERT.

- Improve access controls.

**Fiscal Year 2006 Accomplishments**

- Established a program office responsible for implementing the Homeland Security Presidential Directive-12; and
- Ensured that OCIO network monitoring and system patching programs have resulted in a reduction of security incidents in comparison to previous years.

**Planned Actions for Fiscal Year 2007**

- Increase oversight of configuration control processes.

- Implement appropriate application and system software change control.

**Fiscal Year 2006 Accomplishments**

- Reviewed Configuration Control Board charters and meeting minutes from all USDA component agencies.

**Planned Actions for Fiscal Year 2007**

- Increase oversight of configuration control processes within the Department.

- Develop disaster contingency (service continuity) plans.

**Fiscal Year 2006 Accomplishments**

- Successfully tested 97 percent of agency Continuity of Operations Plans.

**Planned Actions for Fiscal Year 2007**

- Fully implement the Living Disaster Recovery Plan System.

**4) Reducing Improper Payments Continues to be a Priority of the Administration and Congress.**

- Assign sufficient resources and provide management oversight.

**Fiscal Year 2006 Accomplishments**

- Implemented the Management Initiatives Tracking System (MITS) scorecard module (MITS is an interactive Web-based database designed to allow Department management to monitor progress toward achieving management initiatives); and
- Enhanced the statistical sampling process to include FSA County Office Review Program (CORP) Staff.

**Planned Actions for Fiscal Year 2007**

- Develop plans to measure improper payments for high risk programs.

- Strengthen program risk assessment methodology to identify and test the critical internal controls over program payments totaling more than \$100 billion.

**Fiscal Year 2006 Accomplishments**

- Developed a list of all USDA programs and completed scheduled risk assessments;
- Completed statistical sampling process required for high-risk programs and developed corrective action plans;
- Updated risk assessment, measurement plan and corrective action plan guidance;
- Received OMB concurrence to remove several subcomponents from the high risk list;
- Established a team to review field operations and make recommendations to improve processes to reduce improper payments;
- Identified critical program requirements and internal controls for eligible payment; and
- Tested internal controls to ensure they were working as intended.

**Planned Actions for Fiscal Year 2007**

- Complete all risk assessments;
- Develop testing criteria to complete the statistical sampling for the FY 2007 review cycle; and
- Review effectiveness of mitigating controls and develop a plan to remediate controls, as applicable.

- Develop a supportable methodology/process to detect and estimate the extent of improper payments.

**Fiscal Year 2006 Accomplishments**

Implemented a process for the statistical sampling of high-risk programs.

**Planned Actions for Fiscal Year 2007**

- Conduct a statistical sample for specific high risk programs, initiate corrective actions and set improvement targets; and
- Identify the types of administrative errors affecting improper payments and remediate weaknesses.

- Develop and implement a corrective action plan to address the weaknesses that allowed the improper payments to occur.

**Planned Actions for Fiscal Year 2007**

- Establish a field operation team to evaluate field vulnerabilities; and
- Develop and implement recommendations from the field operations team to reduce improper payments.

- Agencies that have identified programs that are susceptible to improper payments need to develop and implement action plans to reduce the amount of these payments.

**Fiscal Year 2006 Accomplishments**

- Chartered a Task Force consisting of a cross-section of field office representatives to study, analyze results and make recommendations to improve program delivery and reduce improper payments;
- Identified training needs for National, State and county office staffs; and
- Issued notices to all offices pertaining to the Improper Payment Improvement Act and findings associated with reviews of the Loan Deficiency Payments, Marketing Assistance Loans, Crop Disaster, Direct and Counter Cyclical Programs.

**Planned Actions for Fiscal Year 2007**

- Revise performance standards for field operations staff and program managers to include responsibilities for reducing improper payments as a element;
- Implement a quarterly review process for service center staff to ensure quality of work;
- Implement a training course to assist service center employees in understanding the impact of completing all the needed actions prior to making program payments;
- Complete review and update national instructions to remove ineffective controls; and
- Monitor the action plans to respond to areas of weaknesses identified by the sampling results.

**5) Departmental Efforts and Initiatives in Homeland Security Need to be Maintained.**

- Continue vulnerability and risk assessments to determine adequate food safety and security over agricultural commodities that the Department manages, transports, stores and distributes; and
- Continue to work with other USDA agencies to ensure effective coordination and implementation of Homeland Security Presidential Directive (HSPD) 9; e.g., develop animal and plant diagnostic and tracking networks.

**Planned Actions for Fiscal Year 2007**

- Host bi-weekly homeland security discussions with mission area representatives;
- Require bi-weekly updates on homeland security projects from component agencies, and quarterly status reports on Homeland Security Presidential Directive 9 tasks from mission areas;
- Conduct CARVER + Shock risk assessment (CARVER + Shock is a risk tool designed to identify vulnerabilities and rate the risk associated with those vulnerabilities) to determine appropriate levels of security needed to USDA-owned agricultural commodities; and
- Analyze risk assessment findings and identify changes needed to existing policies and procedures, and issuing revised policies and procedures.

**6) Department-wide Efforts and Initiatives on Genetically Engineered Organisms (GEO) Need to be Strengthened.**

- Strengthen GEO field testing process.

**Fiscal Year 2006 Accomplishments:**

- Developed the Plant Made Pharmaceutical and Plant Made Industrial guidance.

**Planned Actions for Fiscal Year 2007**

- Prepare updated guidance for developers of agricultural biotechnology that will specify required field data reports;
- Publish an environmental impact statement (EIS) on the APHIS regulation revisions;
- Coordinate with the Biotechnology Regulatory Services on inspections of notifications and permit field tests;
- Continue bilateral and multilateral activities to provide continuity and sustained presence needed to assure market access for U.S. agricultural exports and to foster the global acceptance of agricultural biotechnology, as well as targeting new activities in support of free trade discussions;
- Maintain rapid response mechanisms to address evolving and emergency issues, implement programs, and coordinate biotech initiatives with broader USDA and USG trade policy initiatives; and
- Initiate activities that inform new areas of biotechnology research and product development.

- To promote export of genetically engineered crops, develop a coordinated global market strategy that will guide negotiations with countries reluctant to import genetically engineered crops and open new markets willing to import American agricultural products.

**Fiscal Year 2006 Accomplishments:**

- Drafted strategy for inter-U.S. Government agency review aimed at advancing the international development of science and rule-based regulatory systems for the products of agricultural biotechnology and adherence to WTO principles. This is intended to help foster global market access for U.S. agricultural products produced through genetic engineering;
- Provided strategy and rationale for funding proposal to the FAS Emerging Markets Program for international outreach programs intended to help foster global market access for U.S. agricultural products produced through genetic engineering;
- Met regularly with other USDA agencies and other U.S. Government agencies to plan and coordinate responses to biotechnology policy issues and to plan international biotechnology outreach and promotion activities; and
- Undertook numerous bilateral and multilateral activities aimed at advancing the development of science and rule-based regulatory systems and to maintain liberal trade policies and market access for U.S. genetically engineered crops.

**Planned Actions for Fiscal Year 2007**

- Continue bilateral and multilateral activities to provide continuity and sustained presence needed to assure market access for U.S. agricultural exports and to foster the global acceptance of agricultural biotechnology, as well as targeting new activities in support of free trade discussions;
- Maintain rapid response mechanisms to address evolving and emergency issues, implement programs, and coordinate biotech initiatives with broader USDA and USG trade policy initiatives; and
- Initiate activities that inform new areas of biotechnology research and product development.

**7) USDA's Responses to the 2005 Hurricanes Needs Ongoing Oversight.**

- Provide sufficient oversight to ensure that monies allocated for housing, food stamps, conservation and farm programs are used effectively.

**Fiscal Year 2006 Accomplishments**

- Community programs has developed a Duplicate Assistance Disclosure Statement. The statement certifies that the applicant has not previously received Federal funds from another Federal agency for the same purpose that Community programs will be utilized. The statement is included with the application package which is to be signed by the applicant during the pre-application, obligation and closing stages of the loan;
- Published Federal regulations and procedures for administering programs under Section 32 of the Agricultural Act of August 24, 1935; and
- Drafted Federal regulations and procedures for Supplemental Disaster Programs.

**Planned Actions for Fiscal Year 2007**

- Close out acceptance of applications for disaster assistance authorized under Section 32 and Supplemental Disaster Programs, obligate funds and issue payments;
- Establish a Memorandum of Understanding with applicable States for Catfish Grant Program and distribute block grants to States for catfish feed losses;
- Publish Federal regulations and program procedure Supplemental Disaster Programs;
- Develop plans to correct deficiencies noted in OIG and GAO reports;
- Discuss disaster issues at National Food Stamp Director's Conference;
- Modify the Disaster Assistance Web site to better reflect food assistance mission and role;
- Update the Disaster Food Assistance Handbook; and
- Perform periodic inspections to ensure compliance with guidance.

## 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.

Additionally, homeland security is 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 challenge USDA's ability to achieve its desired outcomes include:

- Weather-related hardships and other uncontrollable events at home and abroad;
- Domestic and foreign macroeconomic factors, including consumer purchasing power, the strength of the U.S. dollar, and political changes abroad that can impact domestic and global markets greatly at any time;
- 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, such as *avian influenza* and *bovine spongiform encephalopathy*, to move quickly across national and foreign 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;
- The risk of catastrophic fire is dependent on weather, drought conditions and the expanding number of communities in the wildland-urban interface; and
- Efforts to reduce hunger and improve dietary behaviors depend on strong coordination between USDA and a wide array of Federal, State and local partners.



## 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 FY 2005-2010, 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;
- Reduce spending and burden on citizens, partners and employees by simplifying access to the Department's information. This enhancement is added by implementing business processes and information technology needed to make its services available electronically;
- Link budget decisions and program priorities more closely with program performance and consider the full cost of programs and activities;
- Reduce improper payments by developing targets and implemented corrective action plans;
- Efficiently and effectively manage its real property;
- Transform IT enterprise infrastructure to be cost effective and consistent across all agencies and geographic regions;
- 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 U.S. 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 it is progressing adequately in meeting established deliverables and timelines.

 <b>Status</b>	<b>HUMAN CAPITAL</b>	 <b>Progress</b>
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The PMA calls on Federal Government leaders to think boldly and strategically about ways to improve the management and performance of government.

This applies to a key initiative of the PMA, strategic management of human capital.

USDA is pleased to report that it has fully or substantially completed most of the human capital objectives included in its *2004 Human Capital Strategic Plan*. Thus, USDA has earned a "green" for status and a "green" for progress for Human Capital. Through the implementation of the Human Capital plan, USDA achieved the following:

- Conducted a USDA-wide skills gap analysis;
- Developed and implemented new performance and awards policies;
- Transitioned all mission areas to a multi-level performance appraisal program this year;
- Achieved a hiring timeline of 21.3 days, one of the lowest in the Federal Government, exceeding the 45-day hiring standard for General Schedule employees; and
- Developed and maintained a diverse and talented workforce capable of achieving the USDA mission.

In the future, USDA will work with its human capital partners, OMB and the Office of Personnel Management, and other agencies to help create programs that will enhance employee development, increase the use of human capital flexibilities for managers in the areas of recruitment and retention, streamline processes for more efficient and faster service, and ensure that its workforce has the skills to meet the challenging demands of the 21<sup>st</sup> century. USDA is committed to lead by example and serving as the vanguard of the Federal Government's overall human capital transformation efforts.

USDA has scored green for status and yellow for progress on the September 30, 2006 scorecard.

Actions taken by USDA in FY 2006 to achieve these results include:

- Moving aggressively to improve its human capital and increase workforce capacity. These improvements have benefited employees and resulted in better systems to hire, retain and reward employees.
  - ◆ USDA recruits thousands of individuals every year. In the past, many talented individuals were lost in the recruitment process due to lengthy hiring timelines. To improve this process, USDA revamped its hiring processes leading to substantial reductions in the time it takes to hire employees. For general schedule employees, hiring timelines dropped from more than 40 days to an average of just over 21 days, making it the best hiring timeline for a Cabinet-level agency in the Federal Government. For senior executive employees, hiring timelines decreased from more than 100 days 2 years ago to only 43 days. This is also one of the best hiring timelines in government;
  - ◆ On the 2004 Federal Human Capital survey, USDA employees indicated a concern that they were not being rewarded according to level of performance. Some employees receiving satisfactory ratings were getting performance

awards equal to those receiving outstanding ratings. As a first step to correct this and ensure that performance awards are given according to level of performance, all agencies in USDA have transitioned to a multi-level performance appraisal system to allow for distinctions in performance. Additionally, USDA has issued guidance that performance awards tie to level of performance;

- ◆ Under-representation continues to improve. Last year, USDA improved in the representation of Hispanics, American Indians and Asian Americans;
- ◆ The USDA online training system, AgLearn, continues to expand. Close to 90,000 employees have desktop access to more than 1,800 courses, some leading to certificates and university degrees;
- ◆ USDA has 19 mission critical occupations that tie directly to the accomplishment of the strategic goals of the organization. Occupations in the areas of general biological science, soil conservation, forestry, veterinary medicine, consumer safety, nutrition, statistics, food inspection and others are critical to the success of USDA's mission. As a result of an effort to identify and close skill gaps in these mission critical occupations, USDA closed gaps in all but 1 mission critical occupation, GS-404, Biological Science Technician, to less than 3 percent; and
- ◆ Agencies in USDA such as the Forest Service and Food Safety and Inspection Service are moving forward with new leader development training programs to ensure that leaders and managers have the skills they need to manage the workforce of the future.

These are just some of the improvements in human capital during the past year. These improvements and others are benefiting employees and contributing to mission accomplishments.



● Status	<b>COMPETITIVE SOURCING</b>	● Progress
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USDA's Competitive Sourcing is overseen by the Office of the Chief Financial Officer (OCFO). 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 the competitive sourcing process by ensuring that the studies it conducts reflect more strategically grouped and related functions to maximize the impact of this initiative. USDA 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 positions to identify those that can be studied to achieve efficiency and/or quality improvement.

As a result of its achievements and improvements in the Competitive Sourcing Program, USDA has earned a "green" for status and a "green" for progress.


Actions taken by USDA to achieve this result include: (Competitive Sourcing results are reported to Congress annually on December 31 for the preceding fiscal year. The results provided in this report are for FY 2005 as reported to Congress on December 31, 2005.)

- Completed competitions to improve productivity and produce annual savings;
  - ◆ REE-ARS completed 2 studies on 270 FTEs in FY 2005. Estimated gross savings is \$8.1 million over a 5-year period with annualized savings of \$1.62 million for competitive sourcing studies completed in FY 2005. Actual savings on the studies completed in FY 2005 totaled \$568,000;
  - ◆ The Forest Service (FS) implemented the public-private competition of Information Technology services, which is expected to save \$146.7 million over 5 years demonstrating the Department's ability to use the competitive sourcing management tool to achieve positive results. FS achieved actual savings of \$16.8 million in FY 2005; and
  - ◆ In FY 2006, conducted feasibility studies covering more than 3,000 FTEs. If the results of the feasibility studies indicate a favorable return on investment and market research indicates potential qualified vendors exist, then an A-76 competition will be conducted. If the results are not favorable, competitions will not be conducted.
- Conducted training on feasibility studies, most efficient organization and FAIR Act inventory; and
- Convened a Department-wide group to review the FAIR Act inventory justifications for similar positions among different agencies Department-wide and addressed inconsistencies in the classification of like functions.

### Challenges

- **FS Legislative Restrictions**—House Appropriations Committee's Interior, Environment and Related Agencies Subcommittee limitations on competitive sourcing.

**■ Farm Service Agency and Rural Development Legislative Restriction**—The Appropriations Act prohibits funds to be used to study, complete a study of, or enter into a contract with a private party to execute, without specific authorization in a subsequent Act of Congress, a competitive sourcing activity of the Secretary of Agriculture, including USDA support personnel, relating to rural development or farm loan programs.

 Status	<b>FINANCIAL PERFORMANCE</b>	 Progress
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USDA's Financial Performance is overseen by the OCFO, which works in partnership with all USDA agencies and staff offices 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 2006.

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. The OCFO works to improve financial management, in partnership with the chief financial officers (CFOs) 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 financial management information by helping USDA's agencies develop and access useful and 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.

**Financial Management Modernization Initiative (FMMI)**—FMMI's primary objective is to improve financial management performance by efficiently providing USDA agencies with a modern, core financial management system that both complies with Federal accounting and systems standards and provides maximum support to the USDA mission. FMMI targets replacement of the Foundation Financial Information System (FFIS) and the replacement of the legacy financial and program ledgers used in the USDA programs. Replacing FFIS, the core financial management system, and program ledgers with a modern, Web-based core financial management system is also expected to eliminate the need to operate and maintain many of USDA's legacy feeder systems as well as the data warehouse currently required to produce timely external financial statements.

The FMMI investment has the following key attributes:

- Integration with existing and emerging eGovernment initiatives such as eGovernment Travel Services, ePayroll, Grants.gov, eLoans, (e.g., asset management and procurement), and program-specific systems that are subsidiary to the general ledger (e.g., programmatic loan systems);
- Integration with performance management and budgeting, allowing USDA to meet the President's Management Agenda and Government and Performance Results Act (GPRA) requirements; and
- Compliance with the Federal Financial Management Improvement Act (FFMIA), including Federal financial management system requirements, applicable Federal accounting standards, and U.S. Government Standard General Ledger at the transaction level performance and highest measure of accountability of taxpayer-dollar use.

**Reducing the Number of Financial System Feeders**—USDA's current financial management

system portfolio uses administrative systems to “feed” data into and provide an integrated financial system solution. Until the legacy applications are retired and replaced, they will be kept compliant with the Financial Systems Integration Office core financial systems requirements.

The Department began to modernize and retire the legacy administrative systems in FY 2003. USDA has retired several of the legacy applications including the Transportation System, the FTS Telephone System Program, Billings and Collections System, Fedstrip System and the Motor Pool System. The Personal Property System, Equipment Management System and Energy Reporting Systems are to be retired and replaced by a different portfolio and investment. The Personal Property System is to be retired at the end of FY 2007 and the Equipment Management System at the end of FY 2008. The Energy System will be retired when the data are integrated into another application during FY 2008. The Purchase Order System will be retired in FY 2007 following the implementation of the Integrated Acquisition System. The Travel (TDY Portion) and Government Transportation System applications will be replaced and retired by the eGovernment Travel Application Service provider during FY 2008. The Purchase Card Management System may be replaced in FY 2009 by an Application Service Provider since the purchase cards, which are part of the GSA Smartpay process will be renegotiated and in place by that time. Telephone and Utilities applications are being reviewed to be replaced by an Application Service Provider during FY 2007.

**FSA/CCC MIDAS The Modernize and Innovate the Delivery of Agricultural Systems (MIDAS)**—MIDAS will transform the delivery of farmer benefits through a direct linkage with USDA’s FMMI system. This link will help reduce erroneous payments. MIDAS will increase staff productivity through streamlined and automated farm program procedures. Fewer staff will be needed to handle the current program volume as staff will be freed from cumbersome manual processing,

duplicative data entry, and daily system maintenance activities required by the legacy environment. County office employees can focus on serving the customer while meeting program requirements. MIDAS also leverages modern technology to enable Web user interface and strengthens USDA’s considerable investment in geospatial technology. MIDAS will provide automated real-time centralized payment eligibility determination, thorough documentation of business ownership/participation, and automated adjustments to payments for outstanding producer obligations. This will reduce timeframes from application to receipt of benefits; add self-service channels via the Internet; and store data centrally so that the customer is not bound to a single service center. In addition, the computer system will provide a repository of data and legal transaction records that will allow real-time queries to support the needs of Congress, FSA headquarters, the Office of Management and Budget, and other Federal agencies and organizations.

**FFMIA Financial System Strategy**—USDA has evaluated its financial management systems to assess compliance with the FFMIA. Currently, the Department is not compliant with the Federal Financial Management System Requirements, applicable Federal accounting standards, the Standard General Ledger at the transaction level or the Federal Information Security Management Act (FISMA) requirement. USDA’s financial systems strategy is to continue working in FY 2007 to meet FFMIA and FISMA objectives. The Office of Inspector General identified material weaknesses for USDA’s information technology security and controls in FY 2006. The Department added new initiatives with several milestones to improve the controls over the CCC’s information security program and financial management systems and reporting, and the NRCS’ application controls for the Program Contracts System. While USDA has completed many of the FY 2006 initiatives to comply with statutory requirements, it will continue monitoring progress on plans to improve its financial management systems. The Department also will work to comply fully with FISMA requirements.

USDA's plans to improve financial management include:

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

USDA has scored red for status and green for progress on the September 30, 2006 scorecard.

Actions taken by USDA in FY 2006 to achieve these results include:

- Sustained an unqualified audit opinion on its FY 2006 consolidated financial statements;
- 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;
- Began Web enablement of USDA Corporate Financial and Performance Reporting, a quarterly performance system that the Secretary of Agriculture and his senior executives use to drive program results;
- Implemented the Account Relationship Tool (ART) dashboard, which is the OCFO's new research and analysis application, designed to improve financial management practices and mitigate weaknesses identified in previous audits. The ART dashboard provides financial managers, Department-wide, a standard analysis tool for quickly identifying where and why general ledger account relationships are out of sync, which promotes timely corrective action and more accurate financial reporting;
- Trained nearly 300 of the Department's approximately 2,500 financial managers to use ART. Initial user reactions indicate significant time savings when researching relationship anomalies allowing more time for analysis and corrective action;
- Improved agencies' financial performance measures, targets and milestones as part of their efforts to expand the use of financial information for decision-making;
- Continued reviews and analysis of year-end adjusting entries, standard general ledger abnormal balances, financial statement line-item variance and other aspects of financial statement preparation to assure quality of financial statement data throughout the fiscal year;
- Partnered with the U.S. Department of Veterans Affairs Financial Services Center in Austin, Texas, to process USDA telephone and utility bills through the Electronic Data Interchange (EDI) process. This new process will allow for the invoices to be received electronically rather than by mail in a paper invoice form. More than 250,000 bills will be processed annually through EDI. In addition, a vendor inquiry system will be implemented, which will allow USDA vendors and agencies to check on the status of invoices and submit electronic ones. The implementation of this process will greatly increase efficiency in the processing of requests for payments from utility and telephone service providers.
- During the past 18 months, replaced 350,000 paper checks, which previously would have been issued for payments to vendors, with electronic funds transfers (EFT), saving the taxpayer more than \$250,000 and providing better and faster service to customers and suppliers. USDA directly deposits funds into customers' and suppliers' accounts faster than they would have received a check and reduces costly manual effort and potential mistakes; and
- USDA completed all Risk Assessments, Flowcharts/Narratives, IT Information Gathering, Risk and Control Matrices, Entity-level Controls, General Computer Controls, Katrina Controls, Process and IT Test Plans and results as required to

implement A-123 Appendix A, "Internal Control over Financial Reporting." USDA agencies have finalized remediation summaries and corrective action plans to address reportable conditions and material weaknesses. USDA will track critical path activities related to its assessment of internal control over financial reporting and make monthly status reports on progress toward correcting material weaknesses.



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 information and services and reducing costs. USDA participates in 22 of the 26 Presidential eGovernment Initiatives and 8 of the 9 lines of business.

USDA is using its Enterprise Architecture (EA) to inform and guide its decision making. (EA refers to a strategic information asset base.) The base 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 activities for FY 2006 support the following goals:

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

USDA has scored red for status and yellow for progress on the September 30, 2006 scorecard.

Actions taken by USDA in FY 2006 to achieve these goals include:

- Expanding the IT capital planning process to include EA, IT governance, earned-value management and independent baseline reviews of all major IT investments;
- Receiving certification of USDA's eAuthentication Service as one of four GSA-approved, Government-wide credential service providers. This certification enables USDA to provide Level 2 credentials to other Federal agencies;
- Integrating USDA's eAuthentication Service with Grants.gov. Previously, the Service was integrated with the U.S. Department of Commerce ([www.export.gov](http://www.export.gov)), the National Park Service (Research Permit Reporting System), U.S. Department of Housing and Urban Development (FHA Connection mortgage lending) and National Science Foundation (FastLane);
- Integrating USDA's eAuthentication Service with another 78 USDA Web-based applications, bringing the total number of integrated applications to 211 — exceeding both the FY 2006 target of 175 and the FY 2007 target of 200;
- Authorizing more than 95,000 employees and 110,000 customers for USDA's eAuthentication Service;
- Continuing the promotion of AgLearn as USDA's official training system (AgLearn is the Department's implementation of the eTraining Presidential eGovernment Initiative). In a typical month, 45,000 employees completed 760 different courses on AgLearn;
- Integrating the USDA Graduate School's catalog of courses into AgLearn;
- Initiating a data feed from AgLearn to OPM to transmit mandatory employee training data

electronically. This information is then accessible through the Electronic Official Personnel Folder;

- Providing Department-wide, agency-specific mandatory training, e.g., security, privacy and ethics training, through AgLearn;
- Offering more than 3,000 agency-specific courses on AgLearn;
- Negotiating a volume discount for AgLearn that reduced the cost per license by 28 percent;
- Launching the Enterprise Correspondence Management Module (ECMM) to replace the legacy Staff Action system to manage the Secretary's correspondence. ECMM is designed to track incoming correspondence from public, private or political sources. Several agencies now use ECMM to track their own correspondence;
- Converting more than 730,000 staff action documents to ECMM. More than 120,000 documents have been created since ECMM launched at the beginning of FY 2006;
- Moving 20 business applications to the Enterprise Shared Services platform provided by USDA's National Information Technology Center (NITC). NITC operates 24 hours a day, 7 days a week, offers Level 4 security clearances and hosts GovBenefits.gov;
- Converting more than 40 agency Web sites to the standardized format established by the Department. Another 46 Web sites are in the planning/building phase; and
- Migrating four agencies (Animal and Plant Health Inspection Service, Foreign Agricultural Service, Farm Service Agency and Food Safety and Inspection Service) to the Federal Docket Management System (FDMS) in partnership with the E-Rulemaking Presidential Initiative. FDMS makes all information pertaining to Federal regulation available to the public via the Internet. All remaining USDA rulemaking agencies will convert to FDMS in FY 2007.

 Status	<b>BUDGET AND PERFORMANCE INTEGRATION</b>	 Progress
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USDA continues to improve how it integrates performance information into its budget decisions and throughout the budget process. This integration includes the use of the Program Assessment Rating Tool (PART) to assess and improve program performance and efficiency to achieve better results. USDA establishes its budget priorities based on the strategic goals and desired outcomes included in the Department's strategic plan. USDA continues to improve its ability to measure performance with an emphasis on measuring gains in efficiency.

USDA plans to:

- Continue using performance information during all stages of the budget 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;
- Improve measurement of program performance and efficiency improvements; and
- Develop the Department's budget focusing on achieving the goals and outcomes contained in the new strategic plan.

USDA has scored yellow for status and green for progress on the September 30, 2006, scorecard.

Actions taken by USDA in FY 2006 to achieve these results include:

- Publishing a new *Strategic Plan for 2005-2010* that identified key policy and management objectives. It focuses on providing effective management of the Department's resources to deliver its multifaceted programs most effectively;
- Working with OMB, USDA conducted 33 PART assessments during FY 2006 – 20 of these were new PARTs and 13 were reassessments of programs that

had previously earned a “Results Not Demonstrated” (RND) rating. Now less than 3 percent of funding goes to programs that have RND PART ratings. Additionally, no USDA programs have an “Ineffective” rating;

- Working with agencies to ensure that the specific plans and milestones developed to address PART recommendations are reasonable and detailed enough to fully address PART recommendations. The Department uses the internal scorecard process to track agency progress toward meeting performance targets and addressing PART recommendations;
- Developing budget requests and making budget decisions supported by sound and thorough analysis. This analysis considered the effects of funding decisions on costs and performance. These budget decisions were presented and justified to Congress and others using performance information;
- Improving its ability to track and demonstrate the efficient delivery of its programs. USDA worked with OMB to identify the cost savings related to efficiency measures and developed new ones for several programs; and
- Developing a new Management Initiatives Tracking System to enable more active and efficient participation by senior Department officials during the integration of budget and performance. This system will provide the ability to track implementation of the Budget and Performance Integration Initiative. System features include the implementation of PART improvement plans and achievement of performance targets.

 Status	<b>REAL PROPERTY</b>	 Progress
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Executive Order 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 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 actions. As the foundation of USDA’s real property asset management program, the following strategic objectives will be used for real property management improvement:

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

USDA’s plans include:

- Obtaining approval of the USDA Asset Management Plan (AMP), which features 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;
- Implementing the approved USDA AMP and accompanying agency building block plans (BBPs);
- Continuing to gather data to establish baselines and draft goals and targets for asset management performance measures;

- Identifying and analyzing best internal USDA practices for possible implementation Department-wide;
- Ensuring that agencies close any remaining data gaps for constructed asset-level reporting;
- 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;
- Continuing to draft the three-year rolling timeline for meeting goals and objectives of the AMP and BBPs. The timeline will include an initial list of assets for disposition and an investment prioritization list for mission critical and dependent assets; 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.
- Providing timely and accurate information for inclusion into the Government-wide real property inventory database; and
- Finalizing the three-year timeline for meeting goals and objectives of the AMP and agency BBPs, and included an initial list of assets for disposition and an investment prioritization list for mission critical and dependent assets.

USDA has scored red for status and yellow for progress on the September 30, 2006, scorecard.

Actions taken by USDA in FY 2006 to achieve these results include:

- Submitting and receiving approval of the comprehensive AMP, including agency-specific BBPs;
- Implementing the USDA AMP and agency BBPs;
- Establishing baselines and draft goals and targets for asset management performance measures;
- Identifying best internal USDA practices and including implementation plans in the AMP initiatives for those determined to be for Department-wide implementation;
- Ensuring that USDA agencies continued closing data gaps in constructed asset-level reporting;
- Maintaining a comprehensive inventory and profile of agency real property;



● Status	<b>RESEARCH AND DEVELOPMENT INVESTMENT CRITERIA</b>	● Progress
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This program initiative calls on Federal agencies to apply a framework for planning and assessing research programs 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); National Agricultural Statistics Service; and Forest Service Research and Development—have moved aggressively to integrate this framework into their program planning and management processes. The use of the criteria is an effective means to ensure that programs are addressing the right issues, meeting high-quality standards and accomplishing their respective goals.

USDA’s plans include:

- Continuing to apply the investment criteria in program planning, management and assessment;
- Promoting coordination among research agencies to ensure common criteria and performance measures are used when appropriate; and
- Using the results of program assessments to inform program management and budget decision making.

USDA has scored green for status and green for progress on the September 30, 2006 scorecard.

Actions taken by USDA in FY 2006 to achieve these results include:

- CSREES completed the last of 14 portfolio reviews covering its entire program. The reviews have stimulated additional program level activity, such as preparation of new strategic plans, reallocation of resources, hiring decisions and budget requests. Ongoing annual self-assessments of the portfolios assess progress;

- The FS Research and Development (R&D) Division designed its program assessment process based on the R&D criteria and completed its first program review. It also completed its first customer-satisfaction survey;
- ERS completing its first program review and drawing on the recommendations to enhance the program. A second review has begun;
- ARS continuing to conduct program reviews and establishing and filling a position to coordinate the program-review process; and
- ARS and CSREES using the R&D criteria in their PART analyses.

● Status	<b>ELIMINATE IMPROPER PAYMENTS</b>	● Progress
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The Improper Payments Information Act (IPIA) was implemented in FY 2004 and became a President’s Management Agenda (PMA) initiative in FY 2005. IPIA 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. OCFO has issued specific policy guidance including templates and timelines for implementing IPIA and meeting the goals of the PMA initiative.

Based on recent audit estimates, Federal agencies make annually improper payments totaling more than \$37.2 billion. USDA’s FY 2006 sampling estimated that the Department’s improper payments totaled \$4.634 billion. Of this amount, \$1.975 billion was due to incorrect disbursements amounts and \$2.659 billion was due to incomplete paperwork. USDA has identified 15 programs that are at risk for improper payments. Of these 15 programs, the Department has measured 13. The Department has prepared corrective action plans for these programs to reduce and recover improper payments. Reductions in improper payments include decreasing errors for direct benefit programs and contracting/administrative payments.

Improper payment sampling in FY 2006 showed that 2 USDA high-risk programs no longer meet the 2.5 percent error rate needed to be considered susceptible to improper payments. They are the Farm Security and Rural Investment Programs and Wildland Fire Suppression Management. Based on these results, USDA met with OMB to discuss removing these programs from the high-risk list. Based on this meeting, USDA will be requesting that 5 of the 6 subcomponents of the Farm Security and Rural Investment Programs be removed from the high-risk list. It is anticipated that this request will be approved. The last component of the Farm Security and Rural Investment Programs and the Wildland Fire Suppression Management program will remain on the high-risk list and be statistically tested in FY 2007. It is expected that these programs will be removed from the high-risk list in future years if they continue to perform below the 2.5 percent error rate. Below is a breakout of the two programs.

- Farm Security and Rural Investment Programs (no longer high risk)
  - ◆ Wildlife Habitat Incentive Program (no longer high risk)
  - ◆ Conservation Security Program (remains high risk in FY 2007)
  - ◆ Grassland Reserve Program (no longer high risk)
  - ◆ Wetlands Reserve Program (no longer high risk)
  - ◆ Farm-Ranch Lands Protection Program (no longer high risk)
  - ◆ Environmental Quality Incentive Program (no longer high risk)
- Wildland Fire Suppression Management (remains high risk in FY 2007)

The Farm Service Agency (FSA) made improvements to the quality of its risk assessments and statistical sampling. Unfortunately, these improvements resulted in significant increases in improper payment rates for programs already designated as high risk, and four additional programs being declared susceptible to improper payments. The improved statistical sampling focused on verifying program eligibility and uncovered administrative weaknesses that prevent FSA from determining if payments are proper. Thus, CCC is reporting more than \$2.8 billion in estimated potential

improper payments in this report. Aggressive corrective action plans are being developed to improve the quality of documentation for program eligibility.

USDA's plans include:

- Assessing the risk of improper payments in all its programs (programs and activities) annually;
- Working at the Department and agency levels to reduce the number of improper payments made;
- Recovering, where possible, overpayments made to individuals and organizations;
- Creating aggressive correction plans with measured performance;
- Reporting and prosecuting fraud;
- Training field personnel on key controls and teaching the importance of control procedures and the potential risks of noncompliance. Training will be delivered through various means including in person and via AgLearn, a USDA enterprise-wide learning management system. Communications and job aids then will follow to help facilitate compliance to controls;
- Enhance individual accountability of controls by performing quarterly control testing on each employee's program-related payment transactions. A sample of five producer payments will be selected for each employee for quarterly testing. The results from these tests will be included as part of the employee's annual performance plans for the county, district and State executive directors;
- Integrate the employee's individual results into his or her annual performance rating; and
- Reiterating current program policies regarding program compliance through the issuances of national notices to State and county office personnel.

USDA has scored yellow for status and green for progress on the September 30, 2006, scorecard.

Actions taken by USDA in FY 2006 to achieve these results include:

- Consolidated small and similar programs together for improved focus in the risk assessment process. USDA moved from 286 programs in FY 2005 to 146 programs in FY 2006;
- Revised risk assessment processes to allow stable programs previously determined to be at low risk and with no significant changes to reassess the risk of improper payments triennially. In FY 2006, 94 stable low-risk programs relied on the conclusions reached in FY 2005;
- Reassessed the risk of improper payments in 41 programs and concluded that 4 new programs are at high risk of improper payments;
- Statistically, or other approved method, sampled 13 of 15 programs determined to be high risk. The results of these tests are shown in Appendix B of this report; and
- Planned corrective actions and set targets to both reduce and recover improper payments. USDA submitted these plans to OMB for approval.



Improved Credit Program Management is a new initiative under the President's Management Agenda. Beginning in FY 2006, this initiative required USDA to:

- Develop risk factors for predicting the cost of loan programs;
- Require that guaranteed lending partners have effective loan-portfolio management and loss recovery rates;
- Verify that lending partners have established quality collateral valuation processes;
- Calculate the cost of originating, servicing and liquidating loans; and

- Comply with all relevant provisions of the Debt Collection Improvement Act of 1996.

USDA's loan portfolio is approximately \$100 billion in outstanding public debt. It represents nearly one-third of all debt in the Federal Government. USDA often is the lender of last resort, making many loans to borrowers who are at a higher risk for default.

USDA is committed to achieving the goals of its credit programs while effectively managing its portfolio's performance. While USDA's initial scorecard rating was "Red" overall and "Red" in progress, the Department also is developing plans to meet the initiative's goals. USDA hopes to receive OMB approval soon. Thus, the Department was upgraded to "Yellow" in progress in the fourth quarter.

USDA's plans include:

- Setting goals related to reaching target borrowers and reducing deviation from risk standards;
- Setting goals to reduce the total cost of servicing and liquidating loans, and improve the debt-recovery rate;
- Establishing customer satisfaction ratings that meet or exceed industry standards;
- Defining its target borrower segments clearly, regularly assessing whether its borrowers meet that definition and whether such borrowers comprise an acceptable risk that can be managed effectively;
- Establishing or verifying that partner lenders have established sound lending policies and procedures implemented in effective transaction-approval processes, loan portfolio management and loss recovery;
- Establishing or verifying that partner lenders have created collateral valuation processes with clear policies and procedures ensuring independence in appraisals and valuations, and adequate monitoring of appraisers' quality and certification;
- Maintaining a reasonable level of risk and productivity of taxpayer cash used in lending programs through effective management information reporting. This reporting includes indicators of loan

volume, exceptions to underwriting standards, concentrations of credit risk, delinquency and default rates, rating changes, problem loans, and charge offs, and using such information to improve program results;

- Establishing mutually agreeable goals that can be justified by comparisons to relevant programs to control the total cost of originating, servicing and liquidating loans and improve the rate of debt recovery; and
- USDA complying with all relevant provisions of the Debt Collection Improvement Act of 1996.

Actions taken by USDA in FY 2006 include detailed plans to achieve the requirements for improving credit program management, which were developed and submitted to OMB, June 15, 2006.

 <b>Status</b>	<b>FAITH-BASED AND COMMUNITY INITIATIVE</b>	 <b>Progre ss</b>
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This initiative supports the essential work of faith-based and community organizations serving those in need. 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 these 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's 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.

USDA has scored green for status and green for progress on the September 30, 2006, scorecard.

Actions taken by USDA in FY 2006 to achieve these results include:

- Conducting almost 4,600 outreach and technical assistance activities throughout the country to help engage faith-based and community organizations as partners;
- Developing a wide range of Web-based information and resources promoting partnership opportunities and information on applying for programs;
- Establishing systems to ensure monitoring and compliance of the Equal Treatment Rule and related regulations for Federally and State-administered programs;
- Removing key barriers to access for faith-based and community organizations; and
- Expanding efforts and improving data-collection quality at the Federal and State levels to measure progress on ensuring results for Americans in need.

## Financial Statement Highlights

### BUDGETARY RESOURCES AND OUTLAYS

USDA receives most of its funding from appropriations authorized by Congress and administered by the U.S. Department of the Treasury. 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 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.

	2006	2005	% Change
Appropriations	109,856	88,940	24%
Obligations Incurred	145,458	140,835	3%
Net Outlays	99,674	89,799	11%

Data in millions

Appropriations increased by \$20.9 billion during FY 2006. Commodity Credit Corporation (CCC) received \$12.7 billion in funds for its prior year realized losses. The Food and Nutrition Service (FNS) reflected an increase of

\$6.4 billion, which was attributed primarily to greater participation in the Food Stamp Program and for higher food costs.

### Obligations and Outlays

Obligations Incurred increased in FY 2006 by \$4.6 billion. \$2.8 billion is attributable to the dissolution of Rural Telephone Bank and 100-percent redemption of Class B and C stock. FNS' obligations for the Food Stamp and Child Nutrition Programs accounted for an additional \$2.6 billion.

Net Outlay increases in FY 2006 amounted to \$9.9 billion. These directly relate to the Program Obligations as described above. In addition, \$1.3 billion of disbursement increases in the Electric and Telephone direct financing fund due to the new "Underwriters" program, and \$1.6 billion incurred in FY 2006 by NRCS due to the increase in the management for the Environmental Quality Incentive Program (EQIP).

## 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, 2006 and September 30, 2005  
(in millions)

	FY 2006	FY 2005	% CHANGE
Fund Balance with Treasury	\$42,191	\$42,327	0%
Accounts Receivable, Net	8,881	10,154	-13%
Loans Receivable & Related Foreclosed Property	77,791	75,176	3%
General Property, Plant, and Equipment, Net	4,905	4,885	0%
Other	461	442	-18%
<b>Total Assets</b>	<b>134,229</b>	<b>132,984</b>	<b>1%</b>
Debt	83,447	83,516	0%
Loan Guarantee Liability	1,296	1,214	7%
Other	39,210	46,276	-20%
<b>Total Liabilities</b>	<b>123,953</b>	<b>131,006</b>	<b>-5%</b>
Unexpended Appropriations	26,385	21,490	23%
Cumulative Results of Operations	(16,109)	(19,512)	-17%
<b>Total Net Position</b>	<b>10,276</b>	<b>1,978</b>	<b>420%</b>

<b>Total Liabilities and Net Position</b>	\$134,229	\$132,984	1%
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## 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.

### Accounts Receivable

In FY 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. In FY 2006, \$.9 billion was collected from assessments levied upon manufacturers and importers of tobacco products and importers of foreign tobacco.

### 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 83 percent of the total USDA loan programs. Commodity Loans and Credit Programs administered by Commodity Credit Corporation represent 9 percent 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 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 represent 46 percent of the net PP&E, consist primarily of forest road surface improvements. Building Improvements and Other Structures represent an additional 23 percent. Other categories of PP&E include equipment and software.

### 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

Debt of \$83 billion represents amounts owed to Treasury from CCC and RD. For CCC, the represents financing to support Direct and Counter Cyclical programs, Crop Disaster and Loan Deficiency programs. For RD, the debt represents Single and Multi Family Housing Loans and other Loan Programs.

### 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.

### Other

Of the \$7 billion decrease in other liabilities, \$3.9 billion represents the return of monies to Treasury. These are for excess funds generated by RD in the pre-Credit Reform, Rural Housing Insurance and Electric and Telephone Funds. For CCC, the payments to Treasury related to collection of loans made to Russia.

### 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 increase in Net Position by approximately \$8.3 billion can be attributed primarily to the receipt of appropriations in the current year for CCC's realized loss in the prior year.

## NET COST OF OPERATIONS

### CONDENSED STATEMENT OF NET COST

	FY 2006	FY 2005	% CHANG E
Enhance International Competitiveness and Sustainability of Rural and Farm Economies:	\$24,862	\$26,773	-7%
Support Increased Economic Opportunities and Improved Quality of Life in Rural America:	3,068	1,014	203%
Enhance Protection and Safety of the Nation's Agriculture and Food Supply:	2,980	2,441	22%
Improve the Nation's Nutrition and Health:	53,028	50,987	4%
Protect and Enhance the Nation's Natural Resource Base and Environment:	11,488	9,798	17%
<b>Net Cost of Operations</b>	<b>\$95,426</b>	<b>\$91,013</b>	<b>5%</b>

USDA Net Cost of Operations totaled \$95 billion and \$91 billion for FY 2006 and FY 2005, respectively. FNS and RD represent the largest portion of the cost increases. For FNS, the goal to improve the Nation's nutrition and health amounted to an increase of \$2 billion due to increased participation and food costs. For RD, the Single Family Housing reestimates and liquidating loan allowance changes in 2006 contributed to approximately \$2 billion in increased costs associated with the goal to support increased economic opportunities and improved quality of life in rural America.





## Systems, Controls and Legal Compliance

### Management Assurances

#### STATEMENT OF ASSURANCE



The United States Department of Agriculture's (USDA) management is responsible for establishing and maintaining effective management control, financial management systems and internal control over financial reporting that meet the objectives of the Federal Managers' Financial Integrity Act (FMFIA). USDA provides a qualified statement of assurance that internal control, financial management systems and internal controls over financial reporting meet the objectives of FMFIA, with the exception of four material weaknesses. The details of the exceptions are provided in the FMFIA section of this report.

USDA conducted its assessment of the financial management systems and internal control over 1) the effectiveness and efficiency of operations and compliance with applicable laws and regulations as of September 30, 2006, and 2) financial reporting as of June 30, 2006, which includes safeguarding of assets and compliance with applicable laws and regulations, in accordance with the requirements of the Office of Management and Budget Circular A-123, "Management's Responsibility for Internal Control." Based on the results of these evaluations, USDA identified four material weaknesses in its internal control over financial reporting.

Other than the exceptions noted in the FMFIA section, financial management systems conform substantially with the objectives of FMFIA and the internal controls were operating effectively and no other material weaknesses were found in the design or operation of the internal control over 1) the effectiveness and efficiency of operations and compliance with applicable laws and regulations as of September 30, 2006, and 2) financial reporting as of June 30, 2006. However, Departmental management identified potential violations of the Anti-Deficiency Act. These potential violations relate to restrictions on the use of funds to combat forest fires and transportation costs for donated food commodities. The latter transaction also potentially violated the Commodity Credit Corporation Charter Act.

Mike Johanns  
Secretary of Agriculture  
November 15, 2006

## Federal Managers' Financial Integrity Act Report on Management Control

### BACKGROUND

The Federal Managers' Financial Integrity Act of 1982 (FMFIA) requires ongoing evaluations of internal control and financial management systems culminating in an annual statement of assurance by the agency head that:

- Obligations and costs comply with applicable laws and regulations;
- Federal assets are safeguarded against fraud, waste and mismanagement;
- Transactions are accounted for and properly recorded; and
- Financial management systems conform to standards, principles and other requirements to ensure that Federal managers have timely, relevant and consistent financial information for decision-making purposes.

Furthermore, FMFIA provides the authority for the Office of Management and Budget (OMB), in consultation with the Government Accountability Office (GAO), to establish and revise periodically the guidance to be used by Federal agencies in executing the law.

In addition to FMFIA, the Federal Information Security Management Act (FISMA) requires agencies to report any significant deficiency in information security policy, procedure or practice identified (in agency reporting):

- As a material weakness in reporting under FMFIA; and
- If relating to financial management systems, as an instance of a lack of substantial compliance under the Federal Financial Management Improvement Act (see the Report on Financial Management Systems). The act requires that financial management systems comply substantially with: (1) Federal financial management system requirements; (2) applicable Federal accounting standards; and (3) the Standard General Ledger at the transaction level.

On December 21, 2004, OMB revised Circular A-123, "Management's Responsibility for Internal Control." Circular A-123 provides guidance to Federal managers on improving the accountability and effectiveness of Federal programs and operations by establishing, assessing, correcting and reporting on internal control. It also provides updated internal control standards by GAO and new specific requirements for conducting management's assessment of the effectiveness of internal control over financial reporting (A-123, Appendix A).

In November 2005, USDA adopted the governance structure recommended by OMB in the revised circular. The Department also established a Senior Management Control Council (SMCC) and Senior Assessment Team (SAT) to ensure the highest levels of management commitment to compliance with the objectives of internal control. The SMCC is chaired by the Deputy Secretary and co-chaired by the Chief Financial Officer. Undersecretary and staff agency leaders comprise the committee. The SMCC monitors the Department-wide assessment activities and progress in correcting USDA's material weaknesses. It also ensures that appropriate follow-up is executed. Ultimately, the SMCC recommends to the Secretary of Agriculture the level of assurance to be provided in the annual assurance statement. SAT derives its authority from the SMCC and oversees the assessment process for internal control of the financial reporting. A Department-wide Assessment Implementation Team also was established to plan and execute the process for assessing the effectiveness of the Department's internal control over financial reporting.

USDA operates a robust internal control program to ensure compliance with the requirements of FMFIA and other laws, OMB Circulars A-123, "Management's Responsibility for Internal Control," and A-127, "Financial Management Systems." All USDA managers are responsible for ensuring that their programs operate efficiently and effectively, and comply with relevant laws. They also must ensure that financial management systems conform to applicable laws, standards, principles and related requirements. In conjunction with OIG and

GAO, USDA management works aggressively to determine the root causes of its material weaknesses to correct them promptly and efficiently. The term “material weakness” describes both material weaknesses and financial system non-conformances, collectively.

USDA remains committed to reducing and eliminating the risks associated with its deficiencies and operating its programs efficiently and effectively in compliance with FMFIA.

### FY 2006 Results

The “Secretary’s Statement of Assurance” provides qualified assurance that USDA’s systems of internal control comply with FMFIA’s objectives. During FY 2006, USDA completed a single-year implementation of OMB Circular A-123, *Management’s Responsibility for Internal Control*, Appendix A. Management’s assessment of internal controls over financial reporting, as of June 30, 2006, identified four material weaknesses, three existing and one new material weakness.

Corrective action plans have been prepared for each deficiency. Progress toward correcting them will be monitored monthly, as required. A description of each weakness as of June 30, 2006, is described below.

- **USDA Information Technology (IT)**—Management identified internal control deficiencies in the design and operating effectiveness of controls in the following four general computer control areas which aggregate to an overall IT Material Weakness: Logical Access Controls, Physical Access Controls, Software Change Controls and Disaster Recovery. Agency internal control weaknesses were aggregated and contribute to the USDA material weakness as identified below.
  - ◆ **Logical Access Control**—Weaknesses include user accounts without approved access request forms, lack of certification of access to critical files and databases, weak password parameters, lack of audit logs, lack of audit log review and

terminated users whose access to IT systems has not been removed;

- ◆ **Physical Access Control**—Weaknesses include lack of access approval documentation to data centers, and financially significant systems and software operating outside of controlled data centers;
  - ◆ **Software Change Control**—Weaknesses include changes made to software without testing, unauthorized users with the ability to update production data and incomplete change control documentation; and
  - ◆ **Disaster Recovery**—Weaknesses pertain to the lack of timely recovery capability and controls in the event of a disaster, such as established agreements for backup recovery sites.
- **USDA County Office Operations**—The Commodity Credit Corporation (CCC) issues payments and loans to farmers through the Farm Services Agency’s 2,400 county offices. Given the large number of offices and the limited resources available to staff them, management acknowledged that segregation of duties and access issues exist because a single employee can record, approve and issue payments, and create and maintain producer information, and approve and issue commodity loans and receive loan repayments.
  - **Financial Accounting and Reporting**—CCC and FS management reported a lack of effective preventive and detective controls around the completeness, accuracy and validity of accrual estimate calculations. While the FS was successful in downgrading accruals from a standalone material weakness, the reportable condition when aggregated at the Department level remains a material weakness.
 

Additionally, the CCC financial statement audit revealed deficiencies in the compilation of the Statement of Financing.
  - **Funds Control Management**—Internal controls supporting the accuracy, completeness and validity of obligations were not operating effectively at

Commodity Credit Corporation (CCC) and Forest Service (FS) through June 30, 2006. Additionally, the audit found that the FS year-end process was not operating effectively.

The consolidated financial statement audit also disclosed that certain component agencies were not effectively reviewing all unliquidated obligations and taking appropriate actions as of September 30, 2006.

areas of concern for the IT material weakness were added as a result of the assessment of internal control over financial reporting.

**Exhibit 5: Material Weaknesses Increased Slightly**

Fiscal Year	Beginning Weaknesses	Corrected/Downgraded Weaknesses	New Weaknesses	Remaining Weaknesses
2003	19	12	1	8
2004	8	7	2	3
2005	3	1	1	3
2006	3	0	1	4

**Historical Data on Material Weaknesses**

In FY 2005, USDA identified three material weaknesses. In FY 2006, one new material weakness and additional

**SUMMARY OF MATERIAL WEAKNESSES**

**Exhibit 6: Summary of Outstanding Material Weaknesses and Estimated Completion Dates**

Material Weakness	1. USDA Information Technology	Overall Estimated Completion Date	FY 2008
<p><b>Description</b>—Weaknesses have been identified in changes made to software without testing, unauthorized users updating production data, incomplete change-control documentation, lack of timely recovery capabilities in the event of a disaster, lack of certification of access to critical files and databases, weak password parameters, lack of audit logs and reviews, users without appropriate access forms, terminated users not being removed from IT systems, and mission-critical and software operated outside of controlled data centers or in data centers without adequate physical and environmental protection.</p> <p><b>Responsible Agency(ies)</b>—Multiple agencies.</p>			
<p><b>Initiative 1.1—Software Change Control</b></p> <p>Critical Corrective Action Milestones:</p> <ul style="list-style-type: none"> <li>Evaluate options and conduct market research based on requirements analysis to determine configuration management software;</li> <li>Update policies, procedures and directives over systems design life cycle development, testing approval and implementation;</li> <li>Implement procedures, processes and tools and train all staff;</li> <li>Implement Virtual Local Area Network to install separate environments;</li> <li>Test implementation of processes and procedures regularly by selecting changes moved to production for appropriate documentation;</li> <li>Ensure new users, who require the ability to move code to production in accordance with configuration management procedures, complete an access-request form and obtain appropriate security officer approval prior to obtaining access;</li> </ul>			
<ul style="list-style-type: none"> <li>Perform quarterly reviews of access permissions to production servers, security logs, critical folders, file creation, file modification for the separate environments to ensure controls are operating effectively;</li> <li>Develop and execute a project to clean up Access Control Facility (ACF2) access rules;</li> <li>Review all systems for the presence of outdated software and update or delete any identified;</li> <li>Review all systems for missing critical patches and/or updates;</li> <li>Review any improperly configured services, servers or systems and configure them in accordance with best practices and Federal criteria.</li> </ul>			
<p><b>Initiative 1.2—Disaster Recovery</b></p> <p>Critical Corrective Action Milestones:</p> <ul style="list-style-type: none"> <li>Purchase and install servers in alternate Web farm locations;</li> <li>Ensure that contingency and disaster recovery plans are in</li> </ul>			
<ul style="list-style-type: none"> <li>Review failover test results, update disaster recovery plans and implement required changes for all USDA financially significant</li> </ul>			

Material Weakness	1. USDA Information Technology	Overall Estimated Completion Date	FY 2008
<ul style="list-style-type: none"> <li>compliance with NIST Special Publication 800-34.</li> <li>Develop comprehensive test plans for testing critical applications;</li> </ul>		<ul style="list-style-type: none"> <li>applications;</li> <li>Implement contract for recovery services on critical WebFarm applications; and</li> </ul>	
<ul style="list-style-type: none"> <li>Conduct annual disaster recovery failover tests for all USDA financially significant applications;</li> </ul>		<ul style="list-style-type: none"> <li>Develop continuity of operations plan, regional service-level agreements, contracts for back-up sites and business impact analyses for critical data centers.</li> </ul>	
<p><b>Initiative 1.3—Logical Access Controls</b></p>			
<p>Critical Corrective Action Milestones:</p> <ul style="list-style-type: none"> <li>Develop procedures and provide training on approving and granting access to financially significant applications and general support systems;</li> <li>Conduct quarterly reviews of access requests to ensure compliance with procedures;</li> <li>Develop procedures and provide training to ensure that the quarterly verification process is performed by the appropriate official for user recertification of access to financially significant applications and general support systems;</li> <li>Identify user role types and definitions, and map the current users to roles by job assignments;</li> <li>Increase application password parameters to greater than six characters and enforce lockout after a limited number of failed login attempts for financially significant applications;</li> <li>Develop processes and procedures for distributing audit log report covering security violations, database administrator activity logs, network administrator activity logs and access to sensitive datasets and resources;</li> <li>Develop process to monitor the review of reports using tracking tools;</li> <li>Generate reports and notification to recipients of security reports and produce monthly status reports showing reports created and received (information security chief approves and signs the status);</li> <li>Perform independent verification to determine that audit logs are being reviewed by management and responses monitored by information security;</li> <li>Prepare cost summary and justification to fund additional servers, central processing units and storage to support audit log software;</li> <li>Implement database audit logging and initiate supervisory review of database administrator activity;</li> <li>Implement an automated process that runs nightly to identify and disable user accounts on general support systems with more than 120 days of inactivity;</li> <li>Develop an employee-transfer policy addressing handling of property, purchase cards and access to information systems;</li> <li>Establish a process to identify financially significant applications and general support systems to review against human resource report of active employees and conduct periodic reviews;</li> <li>Develop process to validate the completion of reviews and independently verify if separated or transferred employees still possess information system access;</li> <li>Ensure that all third-party connections to USDA networks are identified and conform to security standards by obtaining Interconnection Security Agreements, performing security scans prior to network connection and implementing detective controls to identify unapproved devices; and</li> <li>Revise USDA network firewall rules to restrict access to only protocols and ports specifically required for USDA-agency mission delivery.</li> </ul>			
<p><b>Initiative 1.4—Physical Access Controls</b></p>			
<p>Critical Corrective Action Milestones:</p> <ul style="list-style-type: none"> <li>Review data center physical access policies and procedures, and revise where necessary;</li> <li>Update computer room facilities or migrate to alternative approved data centers;</li> <li>Test all environmental controls regularly, at least annually;</li> <li>Perform recertification of all users with physical access to data center(s) on an ongoing basis at least annually;</li> <li>Obtain physical access request forms for all new users or users for whom an initial form was never completed;</li> <li>Test for completion of new access request forms and successful completion of data center access recertification;</li> <li>Conduct site surveys to determine county office physical access baseline;</li> <li>Develop uniform access policies for county offices; and</li> <li>Consolidate county office data centers.</li> </ul>			

Material Weakness	2. USDA County Offices Operations	Overall Estimated Completion Date	FY 2009
<p><b>Description</b>—Segregation of duties and compliance with manual controls in FSA county offices has become difficult to maintain. Controls and procedures developed to function with previous staffing are no longer effectively maintaining internal control over financial reporting.</p>			
<p><b>Responsible Agency(ies)</b>—FSA/CCC</p>			
<p><b>Initiative 2.1—Management of Producer Banking Information Changes</b></p>			
<p>Critical Corrective Action Milestones:</p> <ul style="list-style-type: none"> <li>• Perform monthly spot checks of changes made to producer banking information;</li> <li>• Use automated monitoring to identify potentially suspicious change activity;</li> <li>• Process bank account changes centrally using Form 1199A and maintain adequate segregation of duties; and</li> <li>• Automate notification to producers of banking information changes.</li> </ul>			
<p><b>Initiative 2.2—Centralize Checkwriting</b></p>			
<p>Critical Corrective Action Milestones:</p> <ul style="list-style-type: none"> <li>• Conduct monthly spot checks of State and County Office Automation Project (SCOAP) disbursements for compliance policy and procedure;</li> <li>• Verify check stock inventory monthly;</li> <li>• Centralize the payment process through the National Processing Service and remove the paper-based certification from SCOAP;</li> <li>• Implement an automated monitoring tool to ensure proper roles are maintained; and</li> <li>• Remove paper checks, conduct check inventory, destroy checks and notify financial-processing institutions.</li> </ul>			
<p><b>Initiative 2.3—Internal Control over Collections</b></p>			
<p>Critical Corrective Action Milestones:</p> <ul style="list-style-type: none"> <li>• Formalize remittance acceptance controls;</li> <li>• Test these controls quarterly; and</li> <li>• Eliminate cash collections.</li> </ul>			
<p><b>Initiative 2.4—Training and Improved Accountability</b></p>			
<p>Critical Corrective Action Milestones:</p> <ul style="list-style-type: none"> <li>• Train field personnel on the nature and importance of controls and potential risks of non-compliance; and</li> <li>• Provide for testing of individual accountability and relate results to the annual performance process.</li> </ul>			
Material Weakness	3. Financial Accounting and Reporting	Overall Estimated Completion Date	FY 2007
<p><b>Description</b>—Improvement needed in financial accounting and reporting policies, practices and procedures.</p>			
<p><b>Responsible Agency(ies)</b>— CCC and FS</p>			
<p><b>Initiative 3.1—Accruals</b></p>			
<p>Critical Corrective Action Milestones:</p> <ul style="list-style-type: none"> <li>• Develop a decision-tree to define the appropriate accounting treatment for different types of accruals;</li> <li>• Refine the accrual methodology to consider seasonality;</li> <li>• Include additional variables into the accrual statistical model to better substantiate the correlation of unliquidation obligations and payment data;</li> <li>• Review and enhance policies and procedures specific to each producer payment program to specifically describe the mechanics of the accrual calculation and key program expense drivers to be used to perform the final program accrual analytical review; and</li> <li>• Reassess the frequency of review for approved accrual entries.</li> </ul>			

**Initiative 3.2— CCC Financial Statements**

Critical Corrective Action Milestones:

- Assess and revise the overall process used to compile and review the financial statements and notes;
- Document the Statement of Financing compilation process; and
- Implement quality review procedures to comply with OMB Circular A-136, Financial Reporting Requirements.

**Material Weakness**

**4. Funds Control Management**

**Overall Estimated Completion Date**

**FY 2007**

**Description**—Improvements needed in funds control mechanisms.

**Responsible Agency(ies)**—Department-wide

**Initiative 4.1—Unliquidated Obligations**

Critical Corrective Action Milestones:

- Document CCC obligation business events and develop solutions for providing pre-authorization of funds;
- Prepare system requirements documentation;
- Complete systems modernization business case;
- Develop the to-be process design;
- Prepare a request for proposal for replacement of non-compliant processing systems;
- Select and implement software package;
- Establish a Department-wide approach to ensure the effectiveness of control procedures related to unliquidated obligations; and
- Implement revised policy for certification of outstanding obligations.

**Federal Financial Management Improvement Act Report on Financial Management Systems**

**BACKGROUND**

The Federal Financial Management Improvement Act (FFMIA) is designed to improve financial and program managers' accountability, provide better information for decision-making and improve the efficiency and effectiveness of Federal programs. FFMIA requires that financial management systems provide reliable, consistent disclosure of financial data in accordance with generally accepted accounting principles and standards. These systems must also comply substantially with: (1) Federal financial management system requirements; (2) applicable Federal accounting standards; and (3) the Standard General Ledger at the transaction level. Additionally, the Federal Information Security Management Act (FISMA) requires that there be no significant weaknesses in information security policies, procedures or practices to be substantially compliant with FFMIA (referred to as Section 4 in the accompanying table).

**FY 2006 RESULTS**

During FY 2006, USDA evaluated its financial management systems to assess substantial compliance with the act. The Department is not substantially compliant with the Federal Financial Management System Requirements, applicable Federal accounting standards, the Standard General Ledger at the transaction level or the FISMA requirement. As part of its financial systems strategy, USDA agencies will work continuously to meet FFMIA and FISMA objectives. A new Executive Information Technology Steering Committee has been formed to develop an integrated strategy for monitoring and correcting information technology weaknesses in USDA's financial systems. This committee is comprised of senior representatives from the Office of the Chief Information Officer and the Office of the Chief Financial Officer.

In assessing on FFMIA conformance, USDA considered all the information available. This information included the auditor's opinions on component agencies' financial statements, the work of independent contractors and

progress made in addressing the material weaknesses identified in the *FY 2005 Performance and Accountability Report* — Report on Management Controls section.

While USDA's FY 2006 and FY 2005 Consolidated Financial Statements received an unqualified audit opinion from the Office of Inspector General (OIG), the auditor's Report on Compliance with Laws and Regulations also disclosed that the Department was not substantially compliant with FFMIA requirements. As a result of the assessment of internal control over financial reporting and the financial statement audit, additional weaknesses were identified in information technology

management, financial accounting and reporting, and funds control. These material weaknesses also constitute non-compliances with FFMIA. Planned corrective actions to address these material weaknesses/system non-compliances are included in the preceding FMFIA Report on Management Control. The Department made some progress in addressing its information technology weakness. However, additional effort is required to comply substantially with the Act's requirements. USDA will continue monitoring progress on plans to improve its financial systems to comply fully with FFMIA and FISMA requirements. Significant accomplishments in FY 2006 are listed in the following exhibit.

**Exhibit 7: Initiatives Completed**

Initiatives Completed to Achieve FFMIA Compliance		
Agency	Initiatives Completed	Completion Date
<b>Section 1—Federal Financial Management System Requirements</b>		
CCC	Software change/configuration management	06/30/2006
	Contingency planning	06/30/2006
APHIS	Cyber Security – Scanning and Patching	5/19/2006
NRCS	Application controls – ProTracts	3/31/2006
<b>Section 2—Applicable Federal Accounting Standards</b>		
FS	SFFAS 2, Unliquidated Obligation errors; problems with preparing note disclosures; not assessing impact of remaining abnormal balances	6/30/2006
	SFFAS No. 5 – Accounting for Liabilities of the Federal Government (Incorrect accruals)	6/30/2006
	SFFAS 7, Errors with recording timber and non-timber revenue	7/30/2006
<b>Section 3—Standard General Ledger at the Transaction Level</b>		
FS	Compliance with the United States Standard General Ledger	6/30/2006
<b>Section 4—Information Security Policies, Procedures or Practices<sup>1</sup></b>		

<sup>1</sup>Completed corrective actions for this initiative apply to both Section 1 and Section 4 (information security policies, procedures or practices) noncompliances and therefore and not repeated in Section 4.

**Exhibit 8: Initiatives To Be Completed**

Outstanding Initiatives to Achieve FFMIA Compliance			
Initiative	Section of Non-compliance	Agency	Target Completion Date
Software Change Control	Section 1 and Section 4	Multiple	9/30/2008
Disaster Recovery	Section 1 and Section 4	Multiple	9/30/2008
Logical Access Controls	Section 1 and Section 4	Multiple	9/30/2008
Physical Access Controls	Section 1 and Section 4	Multiple	9/30/2008
Financial Accounting and Reporting	Section 2	CCC and FS	9/30/2009*
Funds Control Management	Section 3	Multiple	9/30/2009*



**Outstanding Initiatives to Achieve FFMIA Compliance**

Initiative	Section of Non-compliance	Agency	Target Completion Date
Sections: FFMIA: 1 – Federal financial management system requirements. 2 – Applicable Federal accounting standards. 3 – Standard General Ledger at the transaction level.	FISMA: 4 – Information security policies, procedures or practices.		

\*Mitigating controls will be placed into operation in the short-term for FSA until the Modernize and Innovate the Delivery of Agricultural Systems (MIDAS) initiative becomes fully operational.

## Inspector General Act Amendments of 1988 Management's Report on Audit Follow-Up

### BACKGROUND

During the fiscal year, the Office of Inspector General (OIG) audits USDA's programs, systems and operations. OIG then recommends improvements to management based on its findings. USDA management may or may not agree with the audit's findings and/or recommendations. An agreement is reached during the management-decision process. If management agrees with a recommendation, a written plan for corrective action with a target completion date is developed. The plan then is submitted to OIG for its concurrence. If both OIG and management agree that the proposed corrective action will correct the weakness, management decision is achieved for that recommendation. Once management decision is reached for each recommendation in the audit, it is considered resolved.

Audit follow-up ensures that prompt and responsive action is taken. USDA's Office of the Chief Financial Officer (OCFO) oversees audit follow-up for the Department. An audit remains open until all corrective actions for each recommendation are completed. As agencies complete planned corrective actions and submit closure documentation, OCFO reviews them for sufficiency and determines if final action is completed.

### FY 2006 Results

USDA agencies closed 53 audits in FY 2006. The Department's current inventory of audits that have reached management decision and require final action to close totals 168 which includes 47 new audits in FY 2006. One of these audits is in appeal status. As shown in the accompanying exhibit, the Department continues its decline in its inventory of open audits in FY 2006. This is a 26-percent decrease over the past 5 years.

**Exhibit 9:** Decrease in Total Open Audit Inventory



Note: The FY 2005 ending balance was revised from 164 to 174 to include 9 audits that reached management decision in September 2005. One additional audit was issued in FY 2005, but was not transmitted to OCFO until FY 2006. These adjustments are also reflected in the beginning balances for audits with disallowed costs and funds to be put to better use shown in Exhibit 11 and Exhibit 13.

### Audit Follow-Up Process

The Inspector General Act Amendments of 1988 require an annual report to Congress providing status of resolved audits that remain open. Reports on resolved audits must include the elements listed in the first three of the accompanying bullets. Resolved audits that remain open one year or more past the management decision date require an additional reporting element, as described in the last bullet below:

- Beginning and ending balances for the number of audit reports and dollar value of disallowed costs and funds to be put to better use (see definitions below);
- The number of new management decisions reached;
- The disposition of audits with final action (see definition below); and
- For each audit report that remains open more than one year past the management decision date, the date issued, dollar value and an explanation of why final action has not been taken. For audits in formal administrative appeal or awaiting a legislative solution, reporting may be limited to the number of affected audits.

**Exhibit 10: Audit Follow-Up Definitions**

Term	Definition
Disallowed Cost	An incurred cost questioned by OIG that management has agreed should not be chargeable to the Government.
Final Action	The completion of all actions that management has concluded is necessary in its management decision with respect to the findings and recommendations included in an audit report. In the event that management concludes no action is necessary, final action occurs when a management decision is accomplished.
Funds To Be Put to Better Use (FTBU)	An OIG recommendation that funds could be used more efficiently if management took actions to implement and complete the recommendation, including: <ul style="list-style-type: none"> <li>• Reductions in outlays;</li> <li>• De-obligation of funds from programs or operations;</li> <li>• Withdrawal of interest subsidy costs on loans or loan guarantees, insurance or bonds;</li> <li>• Costs not incurred by implementing recommended improvements related to the operations of the establishment, a contractor or grantee;</li> <li>• Avoidance of unnecessary expenditures noted in pre-award reviews of contract or grant agreements; or</li> <li>• Any other savings which are identified specifically.</li> </ul>
Management Decision	Management's evaluation of the audit findings and recommendations, and the issuance of a final decision on corrective action agreed to by management and OIG concerning its response to the findings and recommendations.

OCFO works with component agencies and OIG to identify and resolve issues that affect the timely completion of corrective actions. USDA agencies are required to prepare combined, time-phased implementation plans and interim progress reports for all audits that remain open more than one year beyond the management decision date. Time-phased implementation plans are updated and submitted at the end of each quarter. They are updated to include newly reported audits that meet the one-year-past-management decision criterion. These plans contain corrective action milestones for each recommendation and corresponding estimated completion dates.

Quarterly interim progress reports are provided to OCFO on the status of corrective action milestones listed in the

time-phased implementation plan. These reports show incremental progress toward completion of planned actions, changes in planned actions, actual or revised completion dates and explanations for any revised dates.

As USDA implements the Office of Management and Budget's revised Circular A-123, "Management's Responsibility for Internal Control," greater emphasis is placed on documenting, monitoring, correcting and reporting on internal controls. The Department is implementing an online Web-based Audit Tracking Module (ATM) that will help USDA meet key program objectives that will: 1) improve the audit integration process; 2) streamline the audit tracking process; 3) improve data integrity within the online system; 4) provide the ability to track multiple types of audits and findings; and 5) provide online real-time management reporting. The ATM system includes several scheduler tools that will track automatically due dates for corrective action items and send reminders to USDA Agency Audit Liaison Officials (AALO) of impending estimated completion dates for open items. Additionally, AALOs will be able to request closure of audit recommendations and submit corrective action plans on-line.

**Beginning and Ending Inventory for Audits with Disallowed Costs (DC) and Funds to Be Put to Better Use (FTBU)<sup>1</sup>**

Of the 53 audits that achieved final action during the fiscal year, 19 contained disallowed costs (DC). The number of DC audits remaining in the inventory at the end of the fiscal year is 59 with a monetary value of \$90,723,102.

For audits with disallowed costs that achieved final action in FY 2005, OIG and management agreed to collect \$6,223,103. Adjustments were made totaling \$2,069,952 (33 percent of the total) because of: 1) changes in management decision; 2) legal decisions; 3) write-offs; 4) USDA agencies' ability to provide sufficient documentation to substantiate disallowed costs; 5) agency discovery; and 6) appeals. Management recovered the remaining \$4,153,151.

**Exhibit 11: Inventory of Audits with Disallowed Costs<sup>1</sup>**

Audits with Disallowed Costs	# of Audits	Amount (\$)
Beginning of the Period	68	68,693,567
Plus: New Management Decisions	10	28,252,638
Total Audits Pending Collection of Disallowed Costs	78	96,946,205
Adjustments		(2,069,952)
Revised Subtotal		94,876,253
Less: Final Actions (Recoveries)*	19	(4,153,151)
Audits with DC Requiring Final Action at the End of the Period	59	90,723,102

\*Recoveries do not include \$48,270 of interest collected.

**Exhibit 12: Distribution of Adjustments to Disallowed Costs**

Category	Amount (\$)
Changes in Management Decision	72,529
Legal Decisions	1,529,991
Write-Offs	382,577
Agency Documentation	56,503
Agency Discovery	-352
OIG Agreed Amount System Error	11,500
Appeals	17,204
<b>Total</b>	<b>2,069,952</b>

Final action occurred on 12 audits that involved FTBU amounts. USDA projects more efficient use for 99.8 percent of the amount identified based on the corrective actions implemented. The number of FTBU audits remaining in the inventory to date is 22 with a monetary value of \$223,178,271.

**Exhibit 13: Inventory of Audits with Funds To Be Put to Better Use**

Audits with Funds to be Put to Better Use	# of Audits	Amount (\$)
Beginning of the Period	30	954,103,210
Plus: New Management Decisions	4	163,191,103

<sup>1</sup> Exhibit 11 and Exhibit 13 include only those open audits with disallowed costs and funds to be put to better use, respectively. Additionally, some audits contain both DC and FTBU amounts. For these reasons, the number of audits shown as the ending balances in Exhibit 11 and Exhibit 13 will not equal the total resolved audit inventory balance in Exhibit 9.

Audits with Funds to be Put to Better Use	# of Audits	Amount (\$)
Total Audits Pending	34	1,117,294,313
Less: Final Actions	12	894,116,042
Audits with FTBU Requiring Final Action at the End of the Period	22	223,178,271
Disposition of Funds to Be Put to Better Use:		
FTBU Implemented		892,774,600
FTBU Not Implemented		1,341,442
<b>Total FTBU Amounts for Final Action Audits</b>		<b>894,116,042</b>

**Audits Open One or More Years Past the Management Decision Date**

The number of audits open one or more years without final action increased slightly from 101 to 123 audits. USDA attributes much of the increase to the additional time required to finalize publication of guidance, e.g., IT related issues, and system development and enhancements. However, with increased monitoring of agency corrective action plans, USDA expects that these audits will decrease during the current fiscal year.

**Exhibit 14: Increase in Audits Open One or More Years Past Management Decision Date**



One audit is proceeding as scheduled, 86 are behind schedule and agencies have completed corrective actions on 36 audits that are pending collection of associated disallowed costs. While an additional 13 audits were scheduled for completion by September 30, 2006, final action documentation will not be evaluated this reporting period.

Audits without final action one or more years past the management decision date and behind schedule are listed individually in the table that follows. They are categorized by the reason final action has not occurred. More detailed information on audits on schedule and audits under collection is available from OCFO. The categories are pending the following actions:

- Issuance of policy/guidance;
- Conclusion of investigation, negotiation or administrative appeal;
- Receipt and/or processing of final action documentation;
- Systems development, implementation, reconciliation or enhancement;
- Results of internal monitoring or program review;
- Results of agency request for change in management decision;
- Office of the General Counsel or OIG advice;
- Conclusion of external action; and
- Administrative action.

**Exhibit 15:** Distribution of Audits Open One or More Years Past the Management Decision Date, Disallowed Costs and FTBU

Agency	Audits On Schedule			Audits Behind Schedule			Audits Under Collection		
	No.	DC(\$)	FTBU (\$)	No.	DC (\$)	FTBU (\$)	No.	DC (\$)	FTBU (\$)
<b>Totals</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>86</b>	<b>7,981,969</b>	<b>44,210,397</b>	<b>36</b>	<b>54,259,969</b>	<b>18,531,314</b>

## Management's Report on Audit Follow-Up

**Exhibit 16:** Audits Open One Year or More Past the Management Decision Date and Behind Schedule

Audits	Date Issued	Revised Completion Date	Audit Title	Monetary Amount	
				DC	FTBU
<b>(29) Pending issuance of policy/guidance</b>					
02007-1-AT	3/13/03	TBD	ARS Florida Agricultural and Mechanical University – Specific Cooperative Agreements for Establishment of a Science Center	\$421,764	-
03099-3-HQ	08/18/04	09/30/06	FSA Controls Over Contracting for the Disposal of Surplus Tobacco	-	-
05600-1-TE	09/28/89	9/30/06	RMA Crop Year 1988 Insurance Contracts with Claims	-	-
04801-4-CH	02/12/99	TBD	RHS Evaluation of Rural Rental Housing Tenant Income Verification Process	-	-
08016-1-SF	09/30/03	6/30/07	FS Follow-Up Review of FS Security Over Aircraft & Aircraft Facilities	-	-
08401-3-FM	1/26/04	9/30/07	FS Audit of Fiscal Year 2003 Financial Statements	-	-
08601-1-HY	3/31/05	3/31/07	FS Implementation of the Government Performance and Results Act	-	-
08601-2-TE	9/27/04	12/31/06	FS Survey of Timber Theft Controls	-	-
08601-30-SF	03/31/03	03/31/07	FS Review of FS Security Over Explosives/Munitions/Magazines Located Within National Forest System	-	-
08601-38-SF	9/23/04	6/30/07	FS Review of Firefighting Safety Program	-	-
08601-40-SF	7/6/05	9/30/07	FS Emergency Equipment Rental Agreements Audit	-	-
08801-2-TE	09/24/98	12/31/06	FS Assistance Agreements with Nonprofit Organizations	\$140,497	\$1,173,925
10099-1-TE	02/01/02	09/30/06	NRCS Security Over IT Resources	-	-

MANAGEMENT'S DISCUSSION AND ANALYSIS

Audits	Date Issued	Revised Completion Date	Audit Title	Monetary Amount	
				DC	FTBU
10099-10-KC	09/30/03	12/30/06	NRCS Homeland Security Protection of Federal Assets	-	-
23099-2-FM	05/22/02	6/30/07	DA Security of Information Technology Resources at USDA Departmental Administration	-	-
24099-3-HY	6/21/00	TBD	FSIS Imported Meat and Poultry Inspection Process	-	-
24099-4-HY	02/25/03	TBD	FSIS Imported Meat and Poultry Inspection Process, Phase II	-	-
24601-4-HY	5/18/05	TBD	FSIS Oversight of the 2004 Quaker Maid Meats Recall	-	-
27601-3-CH	03/22/96	03/31/07	FNS Food Stamp Program—Disqualified Recipient System	-	-
27601-27-CH	04/30/02	06/30/07	FNS Food Service Management Companies	-	-
34099-2-AT	09/14/01	03/37/07	RBS Business and Industry Loan Program, Omnivest Resources, Inc.	\$4,052,351	-
34601-1-HY	07/22/98	03/31/07	RBS Business and Industry Loan Program—Morgantown, West Virginia	-	-
34601-3-CH	03/11/03	12/31/06	RBS Processing of Loan Guarantees to Members of the Western Sugar Cooperative	-	-
34601-7-SF	12/04/02	03/31/07	RBS B&I Liquidation of Loans to the Pacific Northwest Sugar Company in Washington State	-	\$14,000,000
50099-17-KC	2/17/05	12/31/06	CSREES Biosecurity Grant Funding Controls over Biosecurity Grants Funds Usage	-	\$4,318
50601-9-AT	3/24/04	TBD	HS Controls Over Chemical and Radioactive Materials at U.S. Department of Agriculture Facilities	-	-
50601-9-KC	08/18/04	TBD	APHIS (FSIS) Phase I Review of BSE Surveillance	-	-
50601-10-AT	3/8/04	TBD	HS Follow-up Report on the Security of Biological agents at USDA Laboratories	-	-
89099-1-HQ	10/21/02	10/31/06	OPPM Audit of Compliance with the National Energy Conservation Policy Act of 1978, Energy Act of 1992 and Executive Order Number 13123	-	-
<b>(2) Pending conclusion of investigation, negotiation or administrative appeal</b>					
04801-3-KC	03/31/99	07/31/07	RHS Bosley Management, Inc. – Sheridan, Wyoming	\$146,690	\$85,516
34004-5-HY	02/18/00	TBD	RBS Audit of Procurement Operations, Virginia State Office, Richmond, Virginia	-	-
<b>(27) Pending receipt and/or processing of final action documentation</b>					
01001-2-HY	7/14/05	9/30/06	AMS National Organic Program	-	-
03099-32-KC	12/22/99	10/31/06	FSA Controls Over Administrative Payment Operations	-	-
04016-01-CH	9/30/04	12/31/06	RHS Rural Rental Housing Project Management	-	-
05401-11-FM	1/9/03	12/31/06	RMA FY 2002 FCIC Financial Statements	-	-
08003-5-SF	12/15/00	3/31/07	FS Land Acquisitions and Urban Lot Management Program	-	\$10,329,300
08401-4-FM	11/10/04	12/31/06	FS Audit of Fiscal Year 2004 Financial Statements	-	-
10099-4-TE	12/22/04	12/30/06	NRCS Survey of Controls Over Centers and Institutes	-	-
10501-1-SF	11/2/1999	12/30/06	NRCS Review of Application controls Over the Water and Climate Information System	-	-
12099-1-AT	1/23/04	12/29/06	OCE Management and Security of IT Resources	-	-
13001-3-TE	8/16/04	12/31/06	CSREES Implementation of Agricultural Research, Extension, and Education Reform Act of 1998	\$3	\$482,400
13501-1-HY	7/8/05	10/31/06	CSREES Application controls review of the Cooperative Research Education and Extension Management System	-	-
33001-5-HY	07/21/00	9/30/06	APHIS Wildlife Services Controls Over Hazardous Materials Inventory	-	-
33099-4-CH	03-03-04	9/30/06	APHIS Management and Security of Information Technology Resources	-	-
33501-1-CH	03/31/05	9/30/06	APHIS Review of Application Controls for the Import	-	-

MANAGEMENT'S DISCUSSION AND ANALYSIS

Audits	Date Issued	Revised Completion Date	Audit Title	Monetary Amount	
				DC	FTBU
			Tracking System		
33601-1-AT	09/14/04	9/30/06	APHIS Security Over Owned and Leased Aircraft	-	-
34601-15-TE	09/30/03	3/31/07	RBS National Report on the Business and Industry Loan Program		
50099-13-AT	03/29/02	12/31/06	Multi-Agency Audit Oversight and Security of Biological Agents at Laboratories Operated by USDA	-	-
50099-14-AT	9/29/03	12/31/06	HS Homeland Security Controls Over Biological, Chemical and Radioactive Materials at Institutions Funded by USDA	-	-
50099-27-FM	03/30/01	9/30/06	OCIO Security Over USDA Information Technology Resources Needs Improvement	-	-
50401-39-FM	2/26/01	10/31/06	OCFO USDA Consolidated Financial Statements FY 2000	-	-
50801-2-HQ	2/27/97	3/31/07	OCRE Evaluation Report for the Secretary on Civil Rights Issues, Phase I	-	-
50801-6-AT	3/31/99	9/30/06	FAS Private Voluntary Organization Grant Fund Accountability	-	-
50801-12-AT	9/9/02	12/31/06	DA Management of Hazardous Materials Management Funds	-	\$1,813,809
60016-01-HY	9/8/05	3/31/07	OCRE Follow up on the Recommendations made to the Office of Civil Rights for Program and Employment	-	-
60801-1-HQ	9/30/98	3/31/07	OCRE Evaluation of the Office of Civil Rights Efforts to Reduce Complaints Backlog	-	-
60801-3-HQ	3/10/00	3/31/07	OCRE Evaluation Report for the Secretary on civil rights Issues (Phase 7)	-	-
85401-9-FM	11/7/03	03/31/07	RD Financial Statements for FY 2003 and 2002	-	-
<b>(1) Pending systems development, implementation, or enhancement</b>					
03099-27-TE	5/24/01	10/01/06	FSA Payment Limitations – Majority Stockholders of Corporations	-	-
06401-17-FM	11/5/04	06/30/07	CCC Financial Statements for FY 2004	-	-
08001-1-HQ	06/28/00	12/31/06	FS Implementation of the Government Performance and Results Act	-	-
08099-6-SF	03/27/01	09/30/06	FS Security Over USDA Information Technology Resources	-	-
08401-2-FM	02/28/03	09/30/06	FS Audit of FY 2002 Financial Statements – Summary of Information Technology Findings	-	-
11401-20-FM	10/25/04	10/31/06	OCFO FY 04 Review of NFC General Controls	-	-
24099-1-FM	08/11/03	9/30/06	FSIS Security Over Information Technology Resources at FSIS	-	-
33601-1-HY	2/14/05	TBD	APHIS (FSIS) Oversight of Beef Products from Canada	-	-
33601-4-CH	03/31/03	TBD	APHIS Controls Over Permits to Import Biohazardous Materials	-	-
50401-53-FM	11/15/04	12/30/06	OCFO USDA Consolidated Financial statements FY 2004 and FY 2003	-	-
50501-1-FM	10/6/04	TBD	OCIO Fiscal Year 2004 Federal Information Security	-	-
<b>(2) Pending results of internal monitoring or program review</b>					
05099-8-KC	03/31/00	TBD	RMA Standard Reinsurance Agreement Reporting Requirements	-	-
06401-16-FM	11/7/03	09/30/06	CCC Financial Statements for FY 2003	-	-
<b>(3) Pending results of request for change in management decision</b>					
04601-5-KC	08/08/02	TBD	RHS Rural Rental Housing Program Insurance Expenses, Phase III	\$418,321	\$15,500,000
04801-6-KC	12/18/00	TBD	RHS Rural Rental Housing Program Insurance Expenses,	\$1,029,999	\$9,000

MANAGEMENT'S DISCUSSION AND ANALYSIS

Audits	Date Issued	Revised Completion Date	Audit Title	Monetary Amount	
				DC	FTBU
			Phase I		
33004-1-AT	03/07/00	TBD	APHIS Plant Protection and Quarantine Activities in Florida	-	-
<b>(2) Pending Office of General Counsel (OGC) or OIG advice</b>					
23801-1-HQ	08/20/98	TBD	OO Review of Office of Operations Contract with B&G Maintenance, Inc.	-	\$249,866
34601-14-TE	09/27/02	TBD	RBS Business and Industry Direct Loan Program – Arkansas	-	-
<b>(4) External Action Required</b>					
06401-4-KC	2/26/02	TBD	CCC Financial Statements for FY 2001	-	\$19,586
24601-1-CH	06/21/00	TBD	FSIS Laboratory Testing of Meat and Poultry Products	-	-
27010-3-KC	3/22/00	12/31/06	FNS Child and Adult Care Food Program Wildwood Inc.	\$199,759	-
39099-1-AT	1/12/04	TBD	OBPA FY 2003 Information Technology Security Review	-	-
<b>(6) Pending Administrative Action</b>					
05099-18-KC	6/1/04	12/31/06	RMA Management and Security of Information Technology Resources	-	-
05099-109-KC	1/27/05	9/30/10	RMA Activities to Renegotiate the Standard reinsurance Agreement	-	-
05601-7-AT	2/10/05	12/31/06	RMA Cotton Crop Insurance Premium Rates	-	-
06401-15-FM	12/26/02	TBD	CCC Financial Statements for FY 2002	-	-
13099-2-TE	8/6/02	TBD	CSREES Review of Research Grants to the National Center for Resource Innovation	\$919,287	-
50601-5-AT	9/30/98	12/31/06	CSREES Managing Facilities Construction Grants	\$653,298	\$542,677
<b>Total Number Audits (86)</b>			<b>Total</b>	<b>\$7,981,969</b>	<b>\$44,210,397</b>

## Conclusion

It is hoped that 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 2006 goals.