

FY

2004



United States Department of Agriculture

Performance and Accountability Report



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MESSAGE FROM THE SECRETARY

The United States Department of Agriculture (USDA) is pleased to share with Congress, the Executive Branch and all Americans the important efforts and progress undertaken over the course of the past year. From expanding the economic security and opportunities available to farmers and ranchers, to safeguarding the Nation's food supply, to enhancing the quality of life in rural America, to promoting nutrition and health, and to protecting our natural resources, USDA has a proud record of accomplishment in 2004. We are pleased to share the highlights of our efforts in this *FY 2004 Performance and Accountability Report*.



USDA and its more than 100,000 employees directly touch the lives of virtually every American every day. Evolving over 140 years, USDA is one of the most complex departments in the Federal Government, with more than 300 programs advancing a diverse array of significant public responsibilities. Annually, we spend more than \$75 billion. In 2004, these resources helped:

- Expand economic opportunities and security for farmers, ranchers and rural communities by effectively and efficiently implementing the Farm Security and Rural Investment Act of 2002;
- Aid U.S. agricultural producers impacted by severe weather conditions;
- Enhance U.S. farm export opportunities to record levels by advancing America's commitment to free trade;
- Implement the President's Healthy Forest Initiative and removed 4 million acres of hazardous fuels from our public lands;
- Provide access to a healthy diet for 10 million needy households;
- Improve the health of low-income pregnant and postpartum women, infants and children;
- Support the increased use of renewable fuels, such as ethanol and biodiesel, to provide new revenues to farmers while reducing our Nation's dependence on foreign fuel;
- Improve and expand conservation programs;
- Invest in infrastructure that can bring new economic opportunities and jobs to rural communities;
- Modernize the nutrition guidance we give the Nation to reflect the latest scientific information and to increase our efforts to combat obesity;
- Further advance food safety and protect U.S. agriculture from both existing and emerging threats; and
- Leverage technology to ensure the resources provided to us by Congress and the American people reach those who need them, with minimal expense and maximum impact.

This report reviews areas for improvement as well. Both Congress and taxpayers expect us to enhance our performance continually. Equally true, we at USDA expect it of ourselves.

To ensure we have a strong foundation for the performance and accountability process, USDA managers have reviewed the data used in this report. Except where we point out and discuss specific limitations, I hereby provide reasonable assurance that the data we provide are valid, reliable and an accurate measure of where we have made real progress and where we still have room for improvement. This effort complies with the Federal Managers' Financial Integrity Act (FMFIA), both in terms of the strength of our financial management systems and the overall efficient, effective operations of our programs.

FMFIA ensures that Federal programs are operated efficiently, effectively and in compliance with relevant laws. Therefore, except for those areas for improvement identified in this document, USDA is providing qualified assurance that our systems of internal control comply with FMFIA's objectives. FMFIA also requires financial systems to conform to certain standards, principles and other specifications to ensure timely, relevant and consistent financial information. The Department's financial management systems comply substantially with the objectives of FMFIA, with the exception of the financial system nonconformance identified in this report.

I am proud of our employees and the positive impact their diverse efforts have had on American life over the past year. I also want to thank you for your interest in USDA and its work. I am pleased to share this information with all of our stakeholders, and we look forward to reporting even more progress in the year ahead.



Ann M. Veneman
Secretary of Agriculture
November 15, 2004

ABOUT THIS REPORT

The Government Performance and Results Act of 1993 requires all Federal agencies to engage in a strategic planning process that directly aligns resources with results and enhances the accountability of all government endeavors to the American taxpayers who finance them.

This results-oriented process includes the development and implementation of a five-year strategic plan, as well as annual reporting that sets specific, measurable targets for performance at the beginning of each fiscal year and then offers a concrete, data-based assessment at year-end of the success of these endeavors.

This *FY 2004 Performance and Accountability Report* is the year-end progress report of the U.S. Department of Agriculture (USDA). It reviews the strategic goals and objectives the Department set for itself at the beginning of the fiscal year and compares initial targets to actual performance.

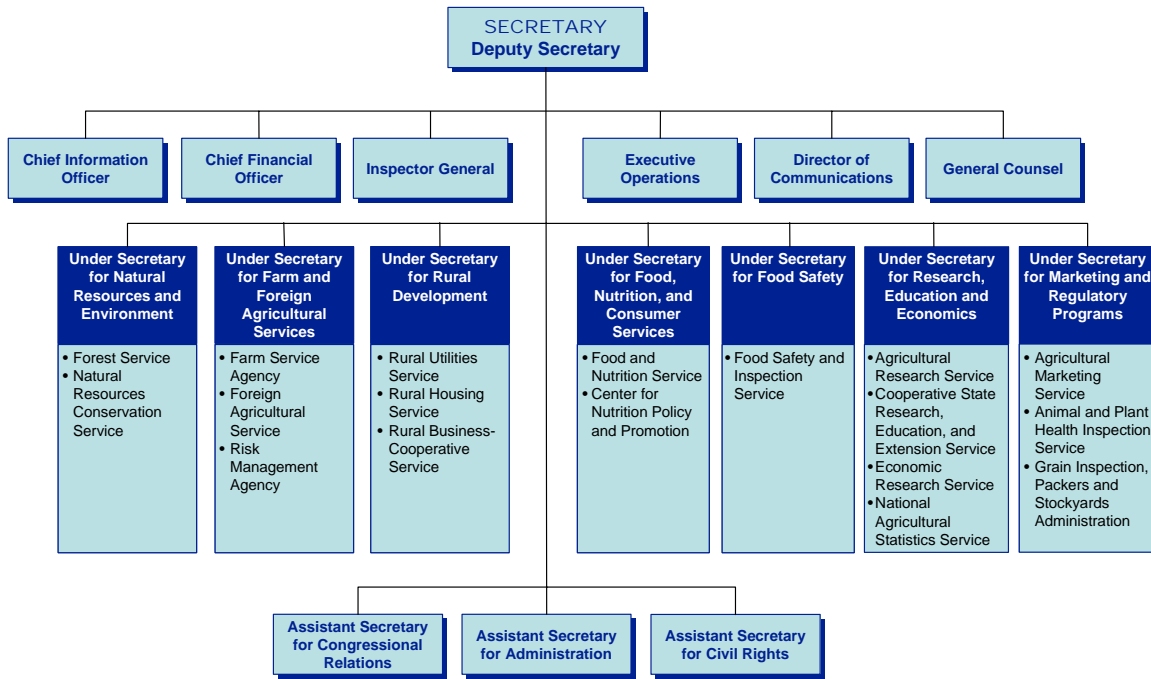
In addition to promoting accountability and enhancing the management of USDA programs, this reporting also helps illuminate the strategic allocation of resources in the future, by directly linking program performance to budgetary decisions.

This report aims to inform the decisions of policymakers who make critical choices that impact USDA programs. It also strives to provide transparency to all Americans who have an interest in the workings of their government and USDA's ability to "manage for results" in performing its many vital public functions.

I. MANAGEMENT DISCUSSION AND ANALYSIS

AN OVERVIEW OF THE UNITED STATES DEPARTMENT OF AGRICULTURE

Exhibit 1: Headquarters Organization



Mission Statement:

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

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

Founded by President Abraham Lincoln in 1862, when more than half of the Nation’s population lived and worked on farms, USDA’s role has evolved alongside the United States (U.S.) economy and America. Today, USDA improves the Nation’s economy and quality of life by:

- Enhancing economic opportunities for U.S. farmers and ranchers;
- Ensuring a safe, affordable, nutritious and accessible food supply;
- Caring for public lands and helping people care for private lands;
- Supporting the sound, sustainable development of rural communities;
- Expanding global markets for agricultural and forest products and services; and

- Working to reduce hunger and improve America's health through nutrition.

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

This report provides information on USDA's core performance measures as described in its revised *FY 2004 Annual Performance Plan*. There are five strategic goals that guide the Department today. They are:

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

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

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

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

As USDA moves into the third year of implementing this legislation, FY 2004 key milestones include:

- Releasing nearly \$1.5 billion in funding for conservation programs on working lands;
- Allocating States \$1.2 billion in financial assistance and \$305 million for technical assistance for FSRIA programs and other activities. USDA will use at least \$30 million for technical service providers and nearly \$41 million to implement the new Conservation Security Program (CSP) under a final rule that will be published shortly. The allocation also includes \$54 million in financial assistance for the Grasslands Reserve Program, which the Department hopes to operate this year under an interim final rule that will be published shortly;
- Publishing an interim final rule for Conservation Innovation Grants and announced the availability of \$15 million to fund selected grant proposals in 2004;
- Publishing a final rule for the McGovern-Dole International Food for Education and Child Nutrition Program and signing agreements with cooperating sponsors fully allocating \$100 million of assistance authorized for FY 2003;
- Publishing a final rule for the Technical Assistance for Specialty Crops Program and allocating \$2 million of assistance authorized for FY 2003;
- Issuing purchase specifications involving irradiated food products for use by schools wishing to purchase such products for school feeding programs;
- Awarding \$5 million in food stamp participation grants to State agencies;

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

MISSION AREAS

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

Natural Resources and Environment

The Natural Resources and Environment (NRE) mission area consists of the Forest Service (FS) and the Natural Resources Conservation Service (NRCS). These agencies work to ensure sustainable management of both public and private lands. FS manages 192 million acres of National Forests and Grasslands for the American people. NRCS assists farmers, ranchers and other private landowners in managing their acreage for environmental and economic sustainability. Both agencies work in partnership with Tribal, State and local Governments, communities, related groups and other Federal agencies to protect the Nation's soils, watersheds and ecosystems.

Farm and Foreign Agricultural Services

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

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

Rural Development

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

Food, Nutrition and Consumer Services

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

Food Safety

The Food Safety Mission Area is comprised of the Food Safety and Inspection Service (FSIS), which ensures the safety, wholesomeness and correct labeling and packaging of meat, poultry and egg products. FSIS sets public health performance standards for food safety, and inspects and regulates these products in interstate and international commerce, including imported products. This mission area has significant responsibilities coordinating efforts among various Federal agencies, including the Department of Health and Human Services and the Environmental Protection Agency.

Research, Education and Economics

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

Marketing and Regulatory Programs

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

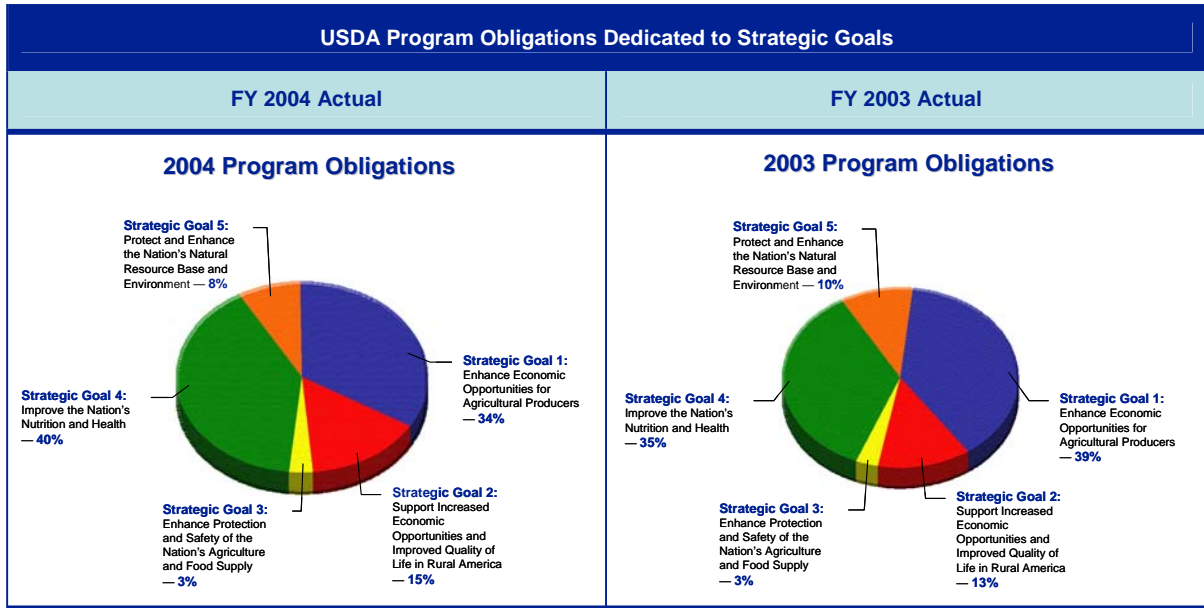
DEPARTMENTAL OFFICES

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

RESOURCES

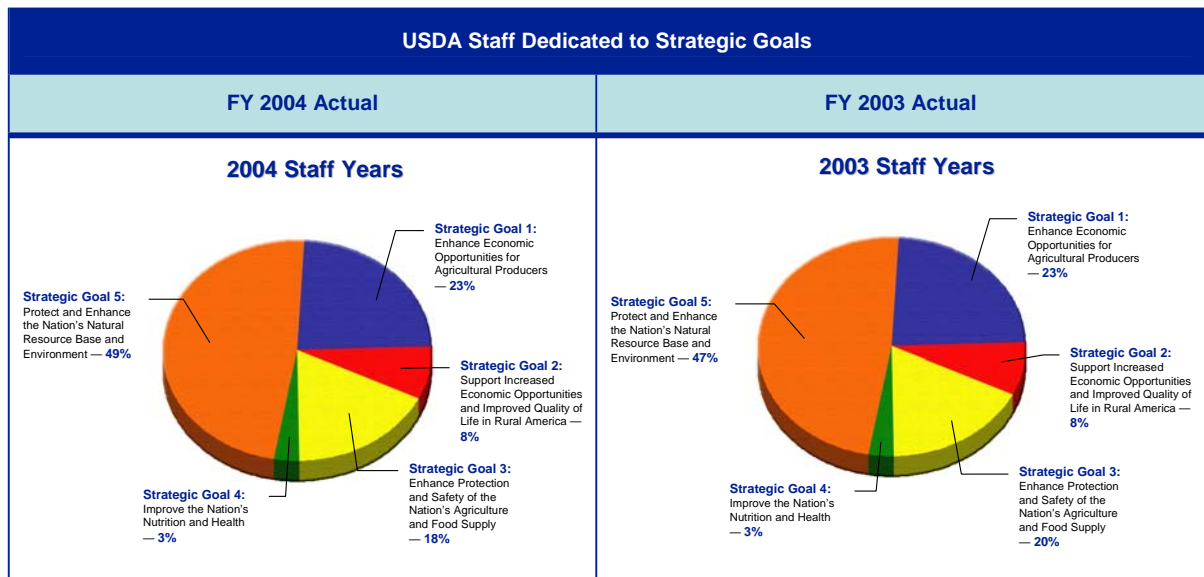
Congressional appropriations are the primary funding source for USDA operations. FY 2004 program obligations totaled \$114,289 million, a decrease of \$4,561 million compared to FY 2003. Staff year resources totaled 111,501, rising 2,258 compared to FY 2003.

Exhibit 2: FY 2004 and 2003 USDA Program Obligations Dedicated to Strategic Goals*



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

Exhibit 3: FY 2004 and 2003 USDA Staff Years Dedicated to Strategic Goals*



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

PERFORMANCE GOALS AND RESULTS

Of the 31 performance goals contained in USDA's FY 2004 Revised Annual Performance Plan, 24 were met or exceeded, three were reported as deferred (unable to report the necessary data until a specified date) and four were unmet. The following Performance Scorecard table, organized by USDA's strategic goals and objectives, provides a summary of the Department's performance results. Additional analyses of these results can be found in the Performance Section of this report. Information on data quality is contained in the Data Assessment of Performance Measures section.

Exhibit 4: USDA Scorecard for FY 2004

Performance Scorecard for FY 2004				
Objectives		Annual Performance Goals		Result
Strategic Goal 1: Enhance Economic Opportunities for Agricultural Producers				
1.1	Expand International Marketing Opportunities	1.1.1	Dollar value of trade preserved through FAS staff interventions and trade agreement monitoring	Exceeded
1.2	Support International Economic Development and Trade Capacity Building	1.2.1	Improve food security and nutrition through McGovern-Dole International Food for Education and Child Nutrition Program by providing daily meals and take-home rations for mothers, infants and school children	Met
1.3	Expand Alternative Markets for Agricultural Products and Activities	1.3.1	Increase in bioenergy production	Exceeded Unmet
		1.3.2	Number of generic groupings of biobased products designated for preferred procurement by Federal agencies	
1.4	Provide Risk Management and Financial Tools to Farmers and Ranchers	1.4.1	Increase the value of risk protection provided to agriculture producers through FCIC-sponsored insurance	Exceeded
		1.4.2	Increase the percent of loans to beginning and socially disadvantaged farmer/ranchers	Exceeded
Strategic Goal 2: Support Increased Economic Opportunities and Improved Quality of Life in Rural America				
2.1	Expand Economic Opportunities through USDA Financing of Businesses	2.1.1	Create or save additional jobs through USDA financing of businesses	Exceeded
2.2	Improve the Quality of Life in Rural America through USDA Financing of Quality Housing, Modern Utilities and Needed Community Facilities	2.2.1	Improve the quality of life in rural America through Homeownership	Exceeded
		2.2.2	Increase the number of subscribers receiving upgraded water and/or waste-disposal service	Exceeded
		2.2.3	Increase the number of subscribers receiving new and/or improved electric facilities	Exceeded
		2.2.4	Increase financing to support high-speed telecommunication services (broadband)	Unmet
		2.2.5	Provide access for residents to new and/or improved essential community facilities	Met
Strategic Goal 3: Enhance Protection and Safety of the Nation's Agriculture and Food Supply				
3.1	Enhance the Protection of Meat, Poultry and Egg Products from Foodborne Hazards in the United States	3.1.1	Prevalence of <i>Salmonella</i> on broiler chickens	Unmet
		3.1.2	Prevalence of <i>Listeria Monocytogenes</i> in ready-to-eat meat and poultry products	Met
		3.1.3	Prevalence of <i>E. coli</i> 0157:H7 on ground beef	Met
		3.1.4	Millions of viewings of food safety messages	Exceeded
3.2	Reduce the Number and Severity of Agricultural Pest and Disease Outbreaks	3.2.1	Number of significant introductions of foreign animal diseases and pests that spread beyond the original area of introduction and cause severe economic or environmental damage, or damage to the health of animals or humans	Met

Performance Scorecard for FY 2004			
Objectives	Annual Performance Goals		Result
	3.2.2	Number of animals affected by noncompliances documented on inspection reports	Unmet
	3.2.3	Percent of facilities in complete compliance at the most recent inspection	Met
	3.2.4	Improve the capabilities of animal and plant diagnostic laboratories	Met
	3.2.5	Provide scientific information to protect animals from pests, infectious diseases, and other disease-causing entities that impact animal and human health	Met
Strategic Goal 4: Improve the Nation's Nutrition and Health			
4.1	Improve Access to Nutritious Food	4.1.1 Improve Access to Nutritious Food	Deferred
4.2	Promote Healthier Eating Habits and Lifestyles	4.2.1 Healthy Eating Index (HEI) for people with incomes under 130% of poverty in the U.S. population	Deferred
		4.2.2 Determine food consumption patterns of Americans and provide sound scientific analyses of the U.S. food consumption information to enhance the effectiveness and management of the Nation's domestic food and nutrition assistance program	Exceeded
4.3	Improve Food Program Management and Customer Service	4.3.1 Improve Food Program Management and Customer Service	Deferred
Strategic Goal 5: Protect and Enhance the Nation's Natural Resource Base and Environment			
5.1	Implement the President's Healthy Forests Initiative and Other Actions to Improve Management of Public Lands	5.1.1 Number of acres of hazardous fuel treated that are in the wildland-urban interface (WUI)	Exceeded
		5.1.2 Number of acres of hazardous fuel treated that are in Condition Classes 2 or 3 in Fire Regimes 1, 2, or 3 outside the WUI	Exceeded
5.2	Improve Management of Private Lands	5.2.1 Conservation plans written for cropland and grazing lands (Mil acres)	Met
		5.2.2: Cropland and grazing lands with conservation applied to protect the resource base and environment	Met
		5.2.3 Agricultural wetlands created or restored through the Wetlands Reserve Program	Met
		5.2.4 Reduction in average annual flood damage	Exceeded

ACTIONS ON UNMET AND DEFERRED GOALS

USDA continuously works to improve its performance across all of its strategic goals and objectives. While substantial anecdotal information exists that USDA has been successful in pursuing its strategic objective to improve the Nation's nutrition and health, with the exception of research goals, the Department has deferred reporting on these goals until accurate and complete data is available to document the progress of these efforts in FY 2004. Sometimes circumstances arise that result in the Department falling short of its goals. At other times, the Department consciously alters its approach in ways that enhance its service to the public, but make a specific performance goal a less effective indicator of real progress. The Annual Performance Report section of this report offers further discussion of the Department's actions on its goals.

- Performance goal 1.3.2—Unmet.** Number of generic groupings of biobased products designated for preferred procurement by Federal agencies. While new regulations advancing this performance goal are moving forward, they were not published in the *Federal Register* in time to be counted appropriately as achieved in FY 2004.

- **Performance goal 2.2.4**—Unmet. Increase financing to support high-speed telecommunication services (broadband). Factors that contributed to this performance goal being unmet are new program authority allowing refinancing and making larger loans than anticipated (hence fewer loans). The first factor (refinance previous RUS loans) greatly altered the assumptions used in setting the target and may require adjustments of future targets. The second factor (fewer large loans) is a temporary anomaly and should not impact future targets. However, USDA will monitor this, and will reevaluate the target if any trends indicate the need to reevaluate how many loan dollars are needed per subscriber receiving new or improved service.
- **Performance goal 3.1.1**—Unmet. Prevalence of *Salmonella* on Broiler Chickens. USDA consistently strives to reduce the prevalence of all leading causes of foodborne illness. However, the percentage of positive *Salmonella* samples in broiler chickens increased by almost 2 percent, despite the fact that most establishments continued to pass the performance standard established in 1996.
- **Performance goal 3.2.2**—Unmet. Number of animals affected by noncompliances documented on inspection reports. While the number of animals involved in noncompliance findings increased by 5.7 percent to 364,773 in FY 2004, leaving USDA's performance goal unmet, these numbers contradict a positive story. During the course of the past year, USDA field inspectors focused primarily on high-risk facilities. With more animals to oversee, large facilities are more likely to carry higher risks. As a result, inspectors counted more animals being affected by noncompliances; however, this is mainly attributable to their vigilance over larger facilities.
- **Performance goal 4.1.1**—Deferred. Improve access to nutritious food. The measure has been deferred due to unavailable data.
- **Performance goal 4.2.1**—Deferred. Promote the Healthy Eating Index. The measure has been deferred due to unavailable data.
- **Performance goal 4.3.1**—Deferred. Improve Food Program Management and Customer Service. The measure has been deferred due to unavailable data.

FUTURE DEMANDS, RISKS, UNCERTAINTIES, EVENTS, CONDITIONS AND TRENDS

USDA is influenced by many of the same forces that shape the American economy—globalization of markets, scientific advances and fundamental changes in the Nation's family structure and workforce. U.S. farmers and food companies operate in highly competitive markets with constantly changing demand for high-quality food with a variety of characteristics, including convenience, taste and nutrition.

In addition to these enduring factors, homeland security has emerged as a significant, ongoing priority for USDA. The Department is working with the U.S. Department of Homeland Security to help protect agriculture from intentional and accidental acts that might affect America's food supply or natural resources.

External factors that will challenge USDA's ability to achieve its desired outcomes include:

- Weather-related hardships and other uncontrollable events at home and abroad;
- Domestic and international macroeconomic factors, including consumer purchasing power, the strength of the U.S. dollar, and political changes in other countries that can impact domestic and global markets greatly in any year;
- The availability of funds for financial assistance provided by Congress and the local and national economies. Sharp fluctuations in farm prices, interest rates and unemployment also impact the ability of farmers, other rural residents, communities and businesses to qualify for credit and manage their debts;
- The impact of future economic conditions and actions by a variety of Federal, State and local Governments that will influence the sustainability of rural infrastructure;

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

USDA’S RESULTS AGENDA—IMPLEMENTING FEDERAL MANAGEMENT INITIATIVES

USDA is working to strengthen its focus on results through vigorous execution of the President’s Management Agenda (PMA). This agenda focuses on management improvements that help USDA consistently deliver more efficient and effective programs to its stakeholders. This process is designed to improve customer service and provide more effective stewardship of taxpayer funds. In the Department’s current Strategic Plan, released in September 2002, USDA announced that it expected to:

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

USDA employees are charged with executing these management initiatives. Their work makes USDA’s programs real “on the ground”—where customer service is delivered. While USDA has achieved much, there is more to be done. The PMA calls for the Office of Management and Budget (OMB) to score departments on each initiative. Green indicates success, yellow indicates mixed results and red indicates an unsatisfactory score. There are two scores awarded. “Status” indicates that a department is meeting the standards established for success. “Progress” indicates that a department is progressing adequately in meeting established deliverables and timelines. As of September 30, 2004, USDA had earned a “green” progress score for all but one of its initiatives. The following is a summary of major USDA management initiatives and FY 2004 highlights.

HUMAN CAPITAL

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

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

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

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

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

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

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

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

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

COMPETITIVE SOURCING

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

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

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

organization implemented with lower costs and increased management efficiencies. Studies are now being linked to agency human capital plans to ensure work force planning and restructuring, and retention goals are met while achieving cost savings.

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

FINANCIAL PERFORMANCE

USDA's Financial Performance is overseen by the Office of the Chief Financial Officer (OCFO), which works in partnership with all USDA agencies to ensure the Department's financial management reflects sound business practices. The President's Management Agenda requires all Federal agencies to maintain an unqualified financial statement audit opinion, which indicates a Department's financial statements are free of significant errors or misstatements. In 2002, USDA—and all of its agencies—achieved their first unqualified consolidated financial audit opinion in the Department's 140-year history. USDA financial managers have focused significant attention on enhancing internal controls, improving asset management, implementing a standard accounting system and improving related corporate administrative systems across the Department. As a result, USDA's clean audit opinion was sustained in FY 2003 and FY 2004. Actions taken by USDA to achieve this result include:

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

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

Management Challenge

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

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

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

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

ENHANCING EGOVERNMENT

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

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

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

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

Management Challenge

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

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

Additional USDA information technology security initiatives include:

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

BUDGET AND PERFORMANCE INTEGRATION

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

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

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

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

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

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

PART findings have led USDA to:

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

FAITH-BASED AND COMMUNITY INITIATIVE

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

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

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

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

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

Additional accomplishments relating to this initiative include:

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

CIVIL RIGHTS

Management Challenge

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

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

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

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

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

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

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

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

FINANCIAL STATEMENT HIGHLIGHTS

BUDGETARY RESOURCES AND OUTLAYS

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

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

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

Restatement

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

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

Analysis of Resources

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

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

Assets and Liabilities

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

Assets

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

Cash and Other Monetary Assets

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

Accounts Receivable

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

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

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

Loans Receivable and Related Foreclosed Property

Loans Receivable and Related Foreclosed Property is the single largest asset on the USDA Balance Sheet. Rural Development offers both direct and guaranteed loan products for rural housing and rural business infrastructure. These represent 77 percent of the total USDA loan program. Commodity Loans and Credit Programs administered by CCC represent 14 percent of the total USDA loan program CCC's loans are used to improve economic stability and provide an adequate supply of agriculture communities. CCC credit programs provide foreign food assistance, expand foreign markets and provide domestic low cost financing to protect farm income and prices. The remaining 9 percent of loans receivable are the direct and guaranteed loan programs administered by the Farm Service Agency, providing support to farmers who are temporarily unable to obtain private, commercial credit.

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

Improvements to Land, which represents 50 percent of the net PP&E, consists primarily of forest road surface improvements. Other major categories include Building, Improvements and Renovations, Other Structures and Facilities, and Equipment that represent 37 percent of the total.

Liabilities

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

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

Debt-Intragovernmental

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

Loan Guarantee Liability

USDA's loan guarantee liability is affected by guaranteeing new loans, adjustments from loan activity (i.e. collecting fees, interest subsidies, claim payments), and the annual reestimate of loan costs. In FY 2004, the increased loan guarantee liability is primarily due to disbursing \$10.7 billion in new loans, resulting in the increased guarantee liability.

Other

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

NET COST OF OPERATIONS

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

DEBT MANAGEMENT

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

ERRONEOUS PAYMENTS

Management Challenge

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

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

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

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

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

MANAGEMENT ACCOUNTABILITY AND CONTROL

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

Within USDA, Subcabinet Officials, agency administrators and staff office directors are responsible for the efficient operation of their programs and compliance with relevant laws. These executives also ensure that their financial management systems conform to applicable laws, standards, principles and related requirements. USDA's goal is to eliminate the remaining material deficiencies by the end of FY 2005, and correct any new material deficiencies within one year.

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

SUMMARY OF MATERIAL DEFICIENCIES

Exhibit 5: List of Material Deficiencies

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

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

We hope this overview of the Department as a whole helps inform all stakeholders of the significant efforts underway to enhance, through sound management practices, the performance of all USDA programs and the Department's stewardship of the significant taxpayer dollars entrusted to it. Through the performance and accountability process, USDA has undertaken an intensive effort to link Departmental and program management to the only result that matters: the provision of valuable programs and services delivered in a high-quality, cost-effective way to the American people. While this section has focused on overall management efforts that encompass the Department as a whole, additional information on how these initiatives impact specific programs, agencies and USDA efforts can be found in the next section, Annual Performance Report, which offers a detailed, objective-by-objective discussion of the progress USDA made in reaching its FY 2004 goals.

II. ANNUAL PERFORMANCE REPORT

USDA's mission is to provide leadership on food, agriculture, natural resources and related issues based on sound public policy, the best available science and efficient management. The Department executed this mission in 2004 through such activities as:

- Providing farmers and ranchers with risk management and financial tools;
- Meeting with experts from around the globe to discuss current and new economic opportunities;
- Ensuring the safety and protection of the Nation's food supply;
- Helping millions of low-income households and most of America's children improve their diets via Departmental leadership of nutrition assistance programs;
- Delivering targeted nutrition assistance to children and low-income people;
- Fostering better nutrition and health with dietary guidance and promotion;
- Completing new Free Trade Agreements and opening new international markets;
- Fighting potential pests and disease outbreaks;
- Working to ensure the health and protection of the environment; and
- Providing aid to those impacted by severe weather and other disasters.

USDA's public performance management reporting process includes the following key components:

- A strategic plan that depicts the Department's long-term goals and strategies (<http://www.usda.gov>);
- An annual performance plan that outlines year-to-year strategies and targets for achieving USDA's long-term goals (<http://www.usda.gov>); and
- A performance and accountability report that shows Congress and the American people how well the Department did in reaching the goals established in the previous fiscal year.

Most of the Department's programs and activities are represented in specific performance goals and targets. USDA also conducts and supports a broad range of research, educational and statistical activities that contribute to the achievement of each of its overall goals. The creation of knowledge at the frontiers of biological, physical and social sciences, and the application of that knowledge to agriculture, forestry, consumers and rural America are core processes for USDA. Accordingly, selected accomplishments in research are presented throughout this report. Additionally, the report describes the data assessment used in the performance measures. These descriptions cover any material inadequacies in the completeness, reliability and quality of the performance data. Also included is a brief reason for why the data are inadequate and the actions USDA is taking to remedy such inadequacies. The thresholds, or ranges, for determining year-end performance results are also identified in the report. These thresholds are owner-identified and document the process for determining if a performance goal was exceeded, met or unmet. The owners also provided the rationale used to establish the met range.

The report includes a list of programs that have undergone the Office of Management and Budget (OMB) Program Assessment Rating Tool (PART). The PART identifies how well and efficiently a program is working and what specific actions can be taken to improve performance. Other program evaluations, which discuss the achievements or conclusions from the completion of internal and other external assessments conducted during FY 2004 related to the measures, also are included. Only Federal employees participated in the preparation of the performance information contained in the Annual Performance Report section.

Upon USDA's creation, it was President Abraham Lincoln's hope "that by the best cultivation in the physical world, beneath and around us, and the intellectual and moral world within us, we shall secure an individual, social and political prosperity and happiness, whose course shall be onward and upward, and which, while the earth endures, will not pass away." These next chapters of the *USDA Performance and Accountability Report* show how the Department committed itself to keeping President Lincoln's dream alive during 2004.

STRATEGIC GOAL 1: ENHANCE ECONOMIC OPPORTUNITIES FOR AGRICULTURAL PRODUCERS

The United States Department of Agriculture (USDA) continuously works to create more international economic opportunities for U.S. agricultural producers. The Department played a key role in negotiating free-trade agreements (FTAs) with Australia, Central America, the Dominican Republic, Morocco and Bahrain. It helped keep the Chinese market open for U.S. soybeans, leading to a record level of exports. USDA has taken the lead in reassuring its trading partners that it is safe to import U.S. meat and poultry. This effort follows several outbreaks of *Avian Influenza* and the finding of *Bovine Spongiform Encephalopathy (BSE)* in one U.S. cow that was imported from Canada. These animal disease outbreaks in the U.S. have caused export markets to close throughout the world.

Since the one case of *BSE* in December 2003, USDA has pursued actively the re-opening of key markets throughout the world. To date, more than \$4.5 billion in export markets have been regained. Most recently, in October, the U.S. reached agreements with Japan and Taiwan that pave the way to resume the beef trade. In July, a framework agreement was reached in the World Trade Organization (WTO) agriculture negotiations, which tracks closely with USDA objectives, including a commitment to eliminate export subsidies and further reductions in market access barriers. Bilateral and regional trade agreements have been finalized with Australia, Morocco, Bahrain the countries of Central America and the Dominican Republic.

Building trade capacity in future international markets is a companion goal in reducing trade barriers. Long- and short-term efforts to stabilize and improve the social and economic infrastructure boost opportunities for trade to and from international markets. Education, business law, food safety, sound science and food aid to stabilize developing countries assures future U.S. export opportunities with fewer risks and stable growth potential. Using every means available, USDA diplomats and scientists work to overcome barriers to international trade and create opportunities for U.S. agricultural producers.

The Department also continued to implement the framework for farm and commodity programs under the FSRIA. The act provided America's farmers and ranchers with a variety of financial assistance options including direct and counter-cyclical payments, marketing assistance loan benefits and farm operating and ownership loans to promote stability in the agricultural sector. The FSRIA also provided, under Title IX provisions through the Bioenergy Program, financial support to bioenergy (commercial fuel grade ethanol and biodiesel) producers to encourage them to increase domestic production of renewable fuels. The Bioenergy Program provides financial support to biodiesel producers on all production to aid the developing industry. Additionally, USDA continued its efforts to streamline and modernize its program delivery structure to provide more efficient service for its customers.

Farmers also benefit from FSRIA, which requires:

- Procuring of qualifying biobased products by Federal agencies
- Paying eligible producers to encourage increased purchases of eligible commodities for the purpose of expanding production of bioenergy and supporting new production capacity for bioenergy;
- Awarding grants to eligible entities to educate Governmental and private entities that operate vehicle fleets, other interested entities (as determined by the Secretary) and the public about the benefits of biodiesel fuel use;
- Authorizing loans, loan guarantees and grants to farmers, ranchers and rural small businesses to purchase renewable energy systems, and to make energy efficiency improvements; and
- Providing funding totaling \$75 million for Fiscal Years 2002 through 2007 from the Commodity Credit Corporation.

Successful use of biobased products by Federal agencies will serve as an important demonstration of the performance, efficiency and environmental benefit of using biobased products. This usage is expected to spur

the increased use of such products outside the Federal Government as well. That, in turn, will increase demand for agricultural, forestry and marine products for use as feedstocks in manufacturing biobased products.

USDA continued to expand the Federal Crop Insurance Program during 2004. The Agricultural Risk Protection Act of 2002 (ARPA) significantly changed how USDA conducts its new risk management pilot programs. This act also provides risk management education to farmers and ranchers. USDA has implemented the processes and vehicles needed for these new pilot programs through private and public organizations. USDA also has continued to maintain and improve its existing insurance products.

OBJECTIVE 1.1: EXPAND INTERNATIONAL MARKETING OPPORTUNITIES

Exhibit 6: Resources Dedicated to Expand Alternative Markets for Agricultural Products and Activities

USDA Resources Dedicated to Objective 1.1	FY 2004	
	Actual	Percent of Goal 1
Program Obligations (\$ Mil)	\$1,796.5	5%
Staff Years	5,809	23%

Introduction

The value of U.S. agricultural exports in FY 2004 is approximately 10 percent higher than last year. In FY 2004, total U.S. export sales likely will reach a record \$62 billion. U.S. soybean exports to China were a major contributing factor. Exports to China now are estimated at \$6 billion, compared with \$3.5 billion last year. Currently, China is the leading importer of U.S. cotton and soybeans and overall the fourth largest market for all U.S. agricultural exports. Total U.S. agricultural exports for FY 2005 are forecast at \$57.5 billion, down \$4.5 billion from FY 2004. Most of the projected decline is due to increased international competition and lower overseas prices for cotton, wheat and soybeans. Prices for these commodities are expected to decrease in response to their increased global production. While total U.S. cotton exports are expected to decrease 400,000 tons and wheat exports are expected to decline 6 million tons, corn exports are forecast to be 4 million tons higher and soybeans 3.8 million tons higher. The forecasted trade surplus for 2005 is expected to decline to \$2.5 billion, the lowest level since 1972. While the growth in the volume of U.S. imports has remained stable, between 2002 and 2004, the total cost of U.S. imports has grown even more due largely to a weakening dollar, making foreign processed products more expensive. This climb in U.S. import costs based on exchange rates is expected to slow in 2005.

Overview

While progress has been less than initially hoped for in recent global trade negotiations conducted through the World Trade Organization (WTO), member countries did reach a framework agreement in July. The agreement outlines basic commitments that all participating countries will continue to work toward, including eliminating export subsidies, reducing trade-distorting and domestic support, and increasing market-access opportunities. USDA continues to work bilaterally to create new export opportunities through free-trade agreements (FTA) with individual countries. However, reducing trade barriers and creating opportunities is just the beginning for U.S. exporters. Opportunities are potential exports pending development. In order for U.S. exporters to capitalize on free-trade agreements, the Department is active in assuring that new and current market opportunities are maintained. This creates U.S. exporter confidence in taking the risks associated with developing export sales, which depend on consistent and reliable market access. As more international trade agreements are concluded, additional Department resources for monitoring and compliance efforts are necessary to assure sustainable export opportunities. Nearly 5,000 notifications of intent, to alter or create new import requirements, are submitted by WTO members annually. This is up from about 500 notifications annually just 10 years ago. While the number of notifications affecting agricultural trade is between 10 and 15 percent a year, every notification must be translated and evaluated for U.S. impacts, and immediately addressed if U.S. exports or export opportunities are affected negatively. A good many WTO notifications are a result of

the success of free-trade expansion. Developing countries in particular find that writing import regulations and instituting the details of new, official trade rules and scientific requirements create new unforeseen issues. With agriculture being a central focus for upcoming WTO negotiations, future notifications affecting agricultural trade likely will increase. The Department is working to secure long-term resolutions to challenges as they arise, such as *BSE*, *Avian Influenza* and individual countries' restrictions on bio-engineered crops.

According to U.S. Department of Commerce (DOC) trade statistics, through July of this year, U.S. exports to China rose 77 percent over the same period the previous year to a record \$5.3 billion. While soybeans and cotton imports account for the majority of growth, wheat, consumer ready foods, and forest and seafood products also jumped in sales. This figure makes China the fastest growing U.S. export market and the fourth largest overall, behind Mexico, Japan and Canada. With a growth rate of only 25 percent, China easily could become the U.S. Government's second largest market in just a few years. Adding to this growth was a joint effort of USDA and the Office of the U.S. Trade Representative (USTR) to successfully reopen China's markets for U.S. soybeans. China threatened to suspend U.S. imports of several major soybean traders in 2003 because of the alleged presence of the fungus *Phytophthora sojae* in shipments. Although China's threatened suspension never was made official, it had the effect of shutting down nearly all soybean imports from the U.S. Importers and traders feared significant losses if shipments were denied entry at Chinese ports. Coordinating with other agencies, USDA ensured that this issue was raised during high-level meetings between the U.S. and Chinese Governments. China lifted its threat partially because of domestic market pressures. The move also signaled that *Phytophthora*, which is present in China, is not a threat. By late October 2003 (FY 2004), the soybean shipping season, which had a late start due to other market barriers, began in earnest. Soybean shipments to China are now at record levels. U.S. soybean exports to China totaled \$1.8 billion in 2003. China purchased a record \$2.4 billion of the crop through July 2004, an increase of 40 percent from the previous year.

In terms of agricultural trade, China's first year of WTO membership in 2002 involved implementing regulations relating to biotechnology safety, testing and labeling. These rules, issued by China's Ministry of Agriculture shortly before the country's WTO accession, did not provide adequate time for scientific assessment and the issuance of final safety certificates for U.S. biotechnology products. Following concerted high-level pressure from USDA and other U.S. agencies, China agreed to issue temporary safety certificates. China issued final safety certificates in February 2004 for all but one biotech corn variety.

Selected Results in Research, Extension and Statistics

Global Markets for High-Value Foods—USDA research on high value product markets produced initial findings that support future research on the complex trade patterns for these products. The report "International Evidence on Food Consumption Patterns" provides statistical evidence of global food consumption patterns across levels of income and products. Among high value products, trade in fruits and vegetables has increased rapidly in recent years. This increase is in response to consumer demand for fresh products and variety. The report "Global Trade Patterns in Fruits and Vegetables" documents the importance of regional markets centered on Europe, Asia and the Western Hemisphere. It also covers the growth in exports of juices and off-season fresh fruits from Southern Hemisphere countries. Information learned from this research is enabling the U.S. to participate competitively in international trade.

Serving the Public

Expanding market opportunities through trade negotiations is a major benefit to U.S. exporters. Each year, USDA reaches new agreements that expand market opportunities. On January 1, 2004, the U.S. and Chile entered into an historic and cutting-edge FTA that will eliminate bilateral tariffs, lower trade barriers, promote economic integration and expand opportunities for Americans and Chileans. Within four years, U.S. farmers will gain duty-free access to the Chilean market for such important U.S. products as pork, beef, soybeans, durum wheat, feed grains, potatoes and many processed food products. An FTA with Singapore also took effect on January 1, 2004. USDA also reached FTAs with Australia, Morocco, Bahrain, Central America and the Dominican Republic. U.S. agricultural exports to these countries currently total nearly \$2.5 billion. Future market opportunities soon will be available for development. The Department, working with the U.S. Trade Representative's Office, launched new negotiations in 2004 with Panama, Thailand and the Andean countries of

Colombia, Peru and Ecuador. The new export opportunities created by these agreements typify the benefit derived from USDA's work in international trade policy.

Challenges for the Future

The next few years present exciting challenges for the Department, and increased export opportunities for the U.S. by reaching agreement in the WTO on new rules for agricultural trade while working towards additional FTAs. Agriculture is a central theme for this round of WTO negotiations and a sensitive issue for most developing countries. In these countries, food and agriculture are the dominant economic driver and the singular focus in establishing a stable social environment and a sustainable market infrastructure. New WTO trade rules will eliminate export subsidies, decrease trade distorting domestic support and reduce market access barriers around the world. Additional FTAs will address country or region specific market access issues. These issues are designed to boost U.S. export opportunities immediately while enhancing the impact of global agreements through the WTO. U.S. export opportunities will increase in large and important export markets and in emerging markets. This increase could push total U.S. agricultural exports to record levels in the next few years. U.S. meat, grains, soybeans, cotton and especially value-added, consumer-ready products will benefit from expanding export sales. On the U.S. import side, consumers are expected to continue their interest in high-value, internationally produced agricultural products. Additionally, developing countries will want more access to U.S. markets. This new access will allow them to benefit mutually from agreements on opening markets and conforming to international food and health standards. Along with additional agreements will come additional vigilance by USDA to monitor trade policy implementation to assure that export opportunities can materialize into U.S. sales.

KEY OUTCOME: IMPROVE INTERNATIONAL MARKETING OPPORTUNITIES

USDA works closely with USTR to pursue new trade agreements and enforce the provisions of existing agreements. The Department's industry partners promote trade and outreach activities to educate producers, processors and exporters on emerging market opportunities as a result of trade agreements. To capitalize on trade opportunities, USDA offers market intelligence, supply and demand forecasts, and sales development assistance to enhance U.S. exporters' success in the highly competitive global marketplace.

New export opportunities are realized by agriculture producers when:

- New opportunities and existing market access remains open and stable; and
- Better requirements are negotiated for certifying or testing the health of animals and plants with international destinations.

USDA seeks to lessen the financial burdens on U.S. exporters and adhere more closely to international science based standards. The U.S. agricultural sector and export businesses benefit from fewer barriers when moving products overseas.

The most effective means of expanding international market opportunities is to ensure that trade agreements with other countries covering the conditions applied to imports. A predictable system with basic sanitary and phytosanitary standards for fair and safe trade assures partners that those products will harm neither humans nor any agricultural resources. U.S. Government agricultural attachés, with 65 overseas posts, help retain, expand and open international markets for U.S. food and agricultural products. These officials discuss pest and disease issues affecting food and agricultural commodities.

In cooperation with its stakeholders, USDA's National Center for Import and Export (NCIE) develops scientifically based protocols and health certification procedures for exporting U.S. livestock, wild or exotic zoological animals, poultry, other birds, germplasm and animal-derived products and by-products. NCIE reviews import requirements and, where it finds unjustified requirements or restrictions, proposes changes to that country's requirements. These changes reflect advances in scientific knowledge and incorporate technically sound risk management procedures.

Exhibit 7: Increase U.S. Marketing Opportunities

Annual Performance Goals and Indicators		Fiscal Year 2004		
		Target	Actual	Result
1.1.1	Dollar value of trade preserved through FAS staff interventions and trade agreement monitoring (\$ Mil)	\$2,000	\$3,950	Exceeded

Analysis of Results

USDA exceeded its performance goal by \$1.95 billion. This was accomplished by trade opportunities preserved through monitoring and compliance enforcement, overseas advocacy services and trade negotiations. Contributing to the performance were two permanent trade agreements with China. At risk was \$2.7 billion in annual U.S. exports to China due to issues over biotechnology and other U.S. soybean concerns.

This FY 2004 performance compares with FY 1999's baseline of \$1.9 billion. There are billions of dollars worth of new trade opportunities waiting to be developed every year thanks to successful trade negotiations. The exact value of new markets opened through trade agreements is difficult to determine using traditional economic models. In a new market, there is little quantifiable data to estimate how consumer demand will react to import opportunities. Market development takes time and centers on consumer and wholesaler education to create a desire to purchase U.S. products, rather than those of competitors. Only after observing international import demand and growth rates over a few years can an estimate of total import opportunities be estimated with confidence. Assuring promised market access is a critical part of stable free trade. From year to year, the number of trade issues and their potential impact on U.S. exports depends on international reaction to such issues as biotechnology, plant and livestock diseases, pests, pesticides and sanitation. Addressing issues can be a quick agreement of mutual understanding or a long negotiation process, depending on the issue's complexity. While some of these trade-disrupting events occur in time to set work priorities and annual goals based on expected international reactions, additional events could occur that require immediate regrouping and realigning of staff and work priorities. While realigning goals mid-year can result in maximized market access for U.S. exporters, initial goals can appear either too low or too high at year's end. USDA projected a target of \$2 billion in trade access and opportunities preserved in FY 2004. The target level was based partly on the value of last year's market access assistance to individual U.S. exporters by overseas-based agricultural Foreign Service officers. These U.S. agricultural officers reported more than 200 successful interventions for U.S. exporters having trade difficulties with international customs agents. This translated to more than \$500 million in U.S. sales. The target also reflects the ongoing progress of active trade negotiations on market access. These negotiations cover new issues on old agreements and fresh and ongoing concerns about product standards, health issues, sanitation, diseases and biotechnology. A complicating factor is the limited availability of trade negotiations staff and resources. USDA's selecting this performance measure demonstrates the critical role that trade monitoring and compliance enforcement play in protecting U.S. exporter opportunities to capture sales as an outcome of successful negotiations. The successful China negotiations in FY 2004 that reopened U.S. soybean sales demonstrate how U.S. agriculture benefits from this activity. As the U.S. Government continues to negotiate new bilateral, regional and multilateral trade agreements, the challenge will be to monitor and enforce compliance effectively. This monitoring will ensure that U.S. agriculture receives full benefits from negotiated reductions in tariff and non-tariff barriers.

Exhibit 8: Expand and Retain Market Access

Trends	Fiscal Year 2004				
	2000	2001	2002	2003	2004
Dollar value of trade preserved through FAS staff interventions and trade agreement monitoring (\$ Mil) Baseline: 1999 = \$2,567	\$837	\$1,329	\$1,327	\$2,713	\$3,950 ¹

¹Result based on projected estimate. See the Data Assessment of Performance Measures section for more information.

Through diligent monitoring and resolution of trade disputes with countries' notification processes, USDA has made remarkable progress in retaining sales of U.S. agricultural products that likely would have been lost without active market intervention. Sales retained or expanded are estimated at \$3.9 billion. This is \$1.33 billion higher than the baseline. The hard work of USDA's domestic and overseas field offices and the Department working with other Federal and State agencies, and industry and international Government officials made this achievement possible. Next steps include completion of the "Doha Round" agriculture negotiations and bilateral and regional FTA trade agreements.

OBJECTIVE 1.2: SUPPORT INTERNATIONAL ECONOMIC DEVELOPMENT AND TRADE CAPACITY BUILDING

Exhibit 9: Resources Dedicated to Support International Economic Development and Trade Capacity Building

USDA Resources Dedicated to Objective 1.2	FY 2004	
	Actual	Percent of Goal 1
Program Obligations (\$ Mil)	\$2,891.5	7%
Staff Years	979	4%

Introduction

The ultimate goal for supporting developing countries is to help them become economically stable and capable of supporting their populations with jobs, affordable food and a vibrant trade capacity. USDA participates in this effort with food aid, development programs and research programs. These services are carried out by USDA and with other Federal agencies and countries through projects aimed at building trade capacity and socio-economic infrastructure. In combination with food aid that covers gaps in supplies and keeps the population healthy, economic development projects cover an array of social and economic needs. For USDA, these projects mainly address food safety and inspection, potable water, soil erosion, productive and sustainable growing, harvesting and storage techniques, and market infrastructure. These projects also facilitate progress towards building policy and regulatory frameworks consistent with international standards and a foundation for successfully participating in international trade. The primary focus for USDA food aid in developing countries is for school children and mothers, regulatory standards for sanitary and phytosanitary issues, and biotechnology. The standardization of forms will facilitate future U.S. trade in biotechnology products.

The McGovern-Dole International Food for Education and Child Nutrition Program, with funding levels at \$100 million in FY 2003 and \$50 million in FY 2004, is only in its second year of operation. The program provides for the donation of U.S. agricultural commodities and associated financial and technical assistance for pre-school and school feeding programs in developing countries. The program also authorizes maternal, infant and child nutrition programs. Its purpose is to support a healthy future population necessary for a stable society and a capable workforce. This workforce, healthy and literate, is a requirement for attracting jobs, supporting a sustainable economy and a secure food supply through domestic production and imports.

Overview

Like their international counterparts, Americans want a world where all countries are stabilized through economic development and trade capacity building. In developing and transitioning economies, USDA focuses on:

- Trade and investment liberalization to stimulate job and income growth;
- Research, education and development of market information systems to support production and marketing decisions;
- Institution building to support sustainable agriculture and market infrastructure; and
- Food support to assist social stability and enhance the health of current and future workers.

A recent example of this is USDA technical assistance to Central American Free Trade Agreement (CAFTA) countries to help align their meat inspection systems with U.S. import requirements. This assistance enhances trade between CAFTA countries and the U.S., since these countries now acknowledge and accept the U.S. inspection system. USDA also is providing technical assistance to all Latin American countries to advance the adoption of standard documentation for trade in biotechnology products throughout the Western Hemisphere. It also will advance trade in these products around the world. CAFTA is a free trade agreement between the U.S. and Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua.

Selected Results in Research, Extension and Statistics

Science and Technology Initiative to Reduce World Hunger—USDA launched the Norman E. Borlaug International Science and Technology Fellows Program to provide short-term training and exchanges in the U.S. for agricultural researchers, policymakers and university faculty from developing countries. The goal is to promote the development, adoption and transfer of agricultural and food-related technologies. Two regional ministerial conferences were held in Central America and West Africa to reinforce new priorities that emerged from the global Science and Technology Ministerial in Sacramento, California in June 2003. Participants at the Central American Ministerial Conference agreed on the importance of consistent and transparent regulatory frameworks to promote free trade. The conference also stimulated new ideas on regional integration and cooperation on agricultural research priorities. In West Africa, ministers adopted a resolution calling for greater research and investment in agricultural biotechnology, and recommended the creation of a center for biotechnology. They also asked how best to use these technologies to address the serious problems of hunger and malnutrition, and benefit small African farmers, consumers and the environment. USDA and the African Agricultural Technology Foundation signed a memorandum of understanding at the conference, providing access for Governments and researchers across Africa to USDA's vast scientific resources and experience.

International Research Partnerships—To help solve critical problems affecting food and agriculture in both the U.S. and cooperating countries, USDA supported a diverse group of American institutions in international research partnerships in more than 50 countries. Each joint project increased the pool of scientists with experience in agricultural biotechnology and other scientific techniques. Among these projects was Tuskegee University's cooperation with India to reduce the level of foodborne pathogens in poultry.

Collaborative Research—Innovative approaches to extension helped ensure use of new technologies developed from collaborative research. USDA scientists collaborated with the University of Hawaii, the California Extension Service and South African research centers to prevent the introduction of pathogens on Protea flowers. The flowers represent a multi-million dollar industry with tremendous growth potential for farmers in the U.S. and South Africa. Additionally, USDA researchers and scientists in the Pacific Islands collaborated to identify slug and snail pests that cause losses in food crops and hinder the export of specialty crops. The group will use a resulting manual to train quarantine and extension personnel in the Pacific region who are the first line of defense against the spread of new pests.

Sustainable Production in Developing Countries—Development activities and management of projects across Federal agencies, is a specialty of USDA's International Cooperation and Development staff. In FY 2004, more than 900 projects were ongoing, many affecting sustainable production in Africa, Central and South America, and Asia. Projects can be very short-term or last two to three years. At least 25 percent are completed each year and new efforts begun, which roll over to subsequent years. A good example is the soil fertility project in Haiti. For years, farmers in Haiti and other countries have used unsustainable farming practices that depleted the fertility of land. These actions forced them to abandon their sites and clear new ones. In Haiti, which has a small land mass but dense population, this has caused poverty and flight to the cities. With partial support from USDA, Experiment Station researchers at Auburn University are participating in a program in Haiti on soil management practices for sustainable production on densely populated tropical steepplands. The research is focused specifically on a system called alley cropping. Alley cropping involves planting nitrogen fixing trees in hedgerows between crops. This process is an alternative to "slash-and-burn" agriculture in Indonesia, Nigeria and Haiti in which the vegetation on a plot of rain forest is chopped down and then burned. After several years of farming, the plot is abandoned after exposure to tropical sunlight hardens the typically

thin and fragile soil. This exposure leaves it unproductive and exposed to erosion. In contrast, alley cropping promotes sustainable agricultural production by reducing surface water runoff and erosion, improving utilization of nutrients, and reducing wind erosion, while modifying the microclimate for improved crop production.

Serving the Public

The McGovern-Dole International Food for Education and Child Nutrition Program has gained efficiencies of delivery over the first year of operation, reducing the initial cost of meal distribution by more than 40 percent. This program has reduced the cost of its overall delivery. Using paperless Internet applications by private voluntary food-distribution organizations, USDA and organization staff hours and processing time were cut significantly. USDA offered a Web-based application process to receive proposals for FY 2003 and FY 2004. The Department received more than 50 funding applications from these private voluntary organizations. Internet submissions accounted for 31 of the proposals. Additionally, for the first time, a number of faith-based organizations successfully applied and were selected as partner-distributors.

Challenges for the Future

USDA's trade capacity building efforts are aimed at helping developing countries participate in negotiations, implement agreements and connect trade liberalization to a program for reform and growth. Helping these countries achieve sustainable economic development and capacity to trade helps build future growth markets for the U.S.

Unfortunately, significant food needs continue to limit development of trade capacity in many countries. USDA works closely with the World Food Program and private voluntary relief organizations to ensure that the U.S. commitment to alleviating global hunger and malnutrition remains strong.

KEY OUTCOME: SUPPORT FOREIGN FOOD ASSISTANCE

More than 800 million people worldwide suffer from hunger and malnutrition—most of them children. These children are the basis for a sustainable economic future. In many developing countries, children represent most of the total population. A healthy and educated young population is necessary to advance economic development, food security and a stable social structure. Activities aimed at market-capacity building for both domestic and international trade are enhanced by, and in-turn support, these basic requirements for a sustainable economic infrastructure. The U.S is the world's leader in international food aid, providing more than 50 percent of total worldwide food assistance to combat this challenge. U.S. food-aid programs are a joint effort across a number of Federal departments. USDA works with the U.S. Agency for International Development, not-for-profit organizations and American universities, to provide food-aid support and assistance. These activities foster a stable society, economic growth and market structure development. This development, in turn, increases the recipient countries' ability to reduce their dependence on food aid and boosts domestic production. It also allows these countries to become economically healthy and sustainable participants in global agricultural trade. The principal programs supporting these efforts are concessional food-aid sales under Title I of Pub. L. No. 83-480, the Food for Progress Program and McGovern-Dole International Food for Education and Child Nutrition Program and the Bill Emerson Humanitarian Trust.

Exhibit 10: Support Foreign Food Assistance

Annual Performance Goals and Indicators		Fiscal Year 2004		
		Target	Actual	Result
1.2.1	Improve food security and nutrition through McGovern-Dole International Food for Education and Child Nutrition Program by providing daily meals and take-home rations for mothers, infants and school children (Mil.)	1.25	1.25	Met

Analysis of Results

The performance goal was met. An important overall goal of USDA's economic development and trade capacity building objective is to help other countries reduce their dependence on food aid. Schools in food-

emergency countries frequently do not provide lunches to students. The Food for Education Program promotes school attendance while supplementing food-aid supplies designed to meet temporary domestic consumption needs. The Food for Education Program is unique in that its primary goal of increasing school attendance can be measured with confidence. In FY 2003, \$100 million began the initial program and, on average, 1.75 million meals per day were distributed to school children and mothers. While the FY 2004 funding declined to \$50 million, 1.25 million meals per day were distributed.

Exhibit 11: McGovern-Dole International Food for Education and Child Nutrition Program

Trends	Fiscal Year Actual				
	2000	2001	2002	2003	2004
Improve food security and nutrition through McGovern-Dole International Food for Education and Child Nutrition Program by providing daily meals and take-home rations for mothers, infants and school children (Mil.)	N/A	N/A	N/A	1.75 Baseline	1.25

An extensive operational and results survey is conducted by every private voluntary organization participating in the delivery of food aid through McGovern-Dole International Food for Education and Child Nutrition Program. A thorough review and evaluation of the survey by USDA will cover the progress, results and challenges faced by the participating food distributors. The survey will be used to develop a strategy to address challenges to effective food distribution and barriers to better results.

OBJECTIVE 1.3: EXPAND ALTERNATIVE MARKETS FOR AGRICULTURAL PRODUCTS AND ACTIVITIES

Exhibit 12: Resources Dedicated to Expand Alternative Markets for Agriculture Products and Activities

USDA Resources Dedicated to Objective 1.3	FY 2004	
	Actual	Percent of Goal 1
Program Obligations (\$ Mil)	\$4,458.2	11%
Staff Years	3,608	14%

Introduction

FSRIA provides new opportunities for USDA to foster the development and production of bioenergy (commercial fuel grade ethanol and biodiesel) through the Bioenergy Program. This program encourages the production of renewable energy and lessens U.S. dependence on international oil. At the same time, it supports market prices for commodities used in bioenergy production, which assists farmers, ranchers and small rural communities. Commodity Credit Corporation (CCC) Charter Act authority also is used by the Bioenergy Program to make payments on biodiesel production that is not supported under the FSRIA authority. This support has been critical in sustaining the developing biodiesel industry. The programs and authorized funding, along with funding from the CCC to support certain programs, enable USDA to strengthen its role in biomass and renewable resources.

FSRIA authorized a program for the preferred procurement of biobased products by Federal agencies. Currently, the rulemaking process necessary to establish this program is underway. The discussion for this objective, as related to biobased products, details the benefits, challenges and progress in implementing the Federal Biobased Products Preferred Procurement Program. The Office of Energy Policy and New Uses (OEPNU) is engaged in implementing the Federal Biobased Products Preferred Procurement Program. The

program is expected to increase the use of biobased products within the Federal Government significantly. This, in turn, will boost the production of biobased products for that market.

FSRIA also is designed to increase public awareness about the benefits of using biobased products. Additionally, the act authorizes loans, loan guarantees and grants to farmers, ranchers and rural small businesses to purchase renewable energy systems, and to make energy efficiency improvements. Farmers across the country are being introduced to a new energy source and given the opportunity to transition into this new venture.

Overview

The Bioenergy Program stimulates industrial consumption of agricultural commodities by promoting their use in bioenergy production. The increased use of these commodities supports demand and prices in the areas around the facilities. The bioenergy plants also have a significant financial impact in the communities where they are located, including creating new and supporting existing jobs.

USDA's programs are designed to:

- Develop alternative markets for agricultural products;
- Stimulate new sources of demand that will benefit farmers by increasing economic activity and job opportunities in rural America;
- Create a portfolio of more environmentally friendly products; and
- Enhance the energy security of the U.S. by reducing dependence on imported energy.

The Federal Biobased Products Preferred Procurement Program will increase the demand for processing facilities in rural areas. It also will boost the demand for biomass material from agricultural, marine and forest sources. Currently, USDA is working to make the program fully functional. Once this is complete, the aforementioned benefits will be realized.

Selected Results in Research, Extension and Statistics

Feather Fiber Technology—Turning agricultural waste products into assets is crucial to increasing farm income. USDA scientists developed a process that converts chicken feathers into industrial fiber. The researchers found that feathers can be added to plastic used in car parts, such as dashboards, to strengthen them while reducing their weight. They also discovered that feather fiber could be combined with wood pulp to make filter and decorative paper as well as other products. Processed chicken feather fiber, because of its super-fine size and shape, may be used in filtration for trapping minute airborne particles. The feather-fiber technology has been patented and licensed.

Biotech Supports Biomass-to-Ethanol—Breakthrough biotechnology developed by a University of Florida scientist, with USDA support, helps produce 20 million gallons of ethanol fuel annually at the world's first commercial biomass-to-ethanol plant. This discovery creates an alternative to petroleum-based fuels and enhances demand for agricultural products. The plant's technology and operating system is based upon genetically engineered bacteria. The university's bioconversion technology is the world's first genetically engineered *E. coli* 0157:H7 bacteria capable of converting all sugar types found in plant cell walls into fuel ethanol for automobiles. By cloning the unique genes needed to direct the digestion of sugars into ethanol, genes were inserted into a variety of bacteria with the ability to use all sugars found in plant material. The ethanol genes redirected the digestive processes in the bacteria to produce ethanol at 90-to-95-percent efficiency.

Lubricants From Soybeans 90 to 95—New industrial applications for soybeans present a unique niche market for producers. USDA's Ag-Based Industrial Lubricants Program has proven that soy-based industrial fluids and grease products offer specific performance features. These features include better lubricity and adherence to metal, unique energy efficiency and improved environmental advantages derived from being biodegradable. Confirmation of these advantages over petroleum-based counterparts have led Norfolk Southern

railroad to use a soy-based rail curve grease exclusively to meet the demanding requirements of freight railroads with an environmentally friendly, cost-effective product.

New Paints and Coating Provide Markets for Soybeans—Soy-based substitutes for polymers used in paints and protective coatings are expanding the markets for agricultural materials and stimulating new business opportunities. Emissions of volatile organic compounds from polymer-based paints cause significant environmental and health problems. University of Southern Mississippi researchers, with financial support from USDA, have developed an indoor latex paint made with a castor oil-based additive substitute for the polymer solvent. The resulting product contains neither an odor nor toxic emissions. Additionally, the paint demonstrated superior quality when used in the renovation of the Pentagon. The same unique chemistry is being used for the permanent-press treatment of military uniforms.

Serving the Public

Through the Bioenergy Program, producers receive payments to offset part of their cost of buying commodities used to expand eligible bioenergy (commercial fuel grade ethanol and biodiesel) production. Increased bioenergy production helps strengthen the income of soybean, corn and other producers, and lessens U.S. dependence on traditional energy sources. It also supports rural communities through the jobs created and maintained by the production facilities.

USDA's Federal Biobased Products Preferred Procurement Program serves the agricultural sector, rural communities and their residents, and the broader U.S. economy. Farmers and ranchers benefit from increased demand for their products and new crops used as feedstocks in biobased-product production. Rural communities and their residents benefit from the new investment in handling and processing facilities used in the production of these commodities. New jobs in rural communities related to biobased handling and processing create new economic vigor and bring opportunities to the families living there.

Challenges for the Future

The challenges to future success are:

- The development of an infrastructure to support the efficient and economically viable development of biobased products;
- Informing rural America about the benefits of biodiesel fuel use and helping farmers transition to a new style of operating;
- The continued need for public policies supporting the development and use of biobased products;
- The need for public education about the environmental, performance and energy-security benefits of using biobased products, and more effectively managing the carbon cycle;
- The development and valuation of measures that identify and assess the benefits that flow from increased use of biobased products, including benefits internal to the seller and user of the products and external benefits that affect society and the environment;
- The willingness of manufacturers and vendors of biobased products, working with USDA, to provide material and data necessary for testing and evaluation of biobased content, environmental attributes and life-cycle costs that will be required for the Department to designate generic groupings of products for preferred procurement within the program; and
- The willingness of manufacturers and vendors of biobased products that have been designated by rulemaking for preferred procurement within the program to cooperate with USDA in publicizing their availability. This can be done by their voluntarily posting their product and contact information on the program Web site at www.biobased.oce.usda.gov. This will allow Federal agencies to find biobased products for procurement. Without that cooperation, it will be difficult for the agencies to learn of the availability of biobased products.

In response to these challenges, USDA is creating regulations and operating procedures under which the Bioenergy and the Federal Biobased Products Preferred Procurement Programs will operate. The Department

also is developing a model procurement program for Federal agencies to help them meet their responsibilities within the program's parameters. This model will educate and train Federal agencies about procurement and how to use related informational resources. It also will allow manufacturers and vendors to identify and evaluate biobased products available in the marketplace for their use. The Department's Office of Procurement and Property Management will announce the model procurement program once USDA agencies have implemented the model. If successful, this model procurement program will make an important contribution toward creating market-based opportunities to produce and consume increased amounts of biobased products.

KEY OUTCOME: INCREASE SUPPLY OF DOMESTICALLY PRODUCED RENEWABLE FUELS

Through USDA's Bioenergy Program, producers receive payments to offset part of their cost of buying commodities used to expand eligible bioenergy (commercial fuel grade ethanol and biodiesel) production. The program stimulates industrial consumption of agricultural commodities by promoting their use in bioenergy production. This is a significant element of the U.S. Government's energy development policy, which calls for increased production from renewable energy sources. Increased bioenergy production helps strengthen the income of soybean, corn and other producers. It also lessens U.S. dependence on traditional energy sources. Payments are based on bioenergy production increases from eligible commodities compared with the year earlier period. USDA provided additional support to the developing biodiesel industry by making payments on base level biodiesel production. For FY 2004, the payment rate on base level production was equal to 30 percent of the payment rate on the increased production.

Exhibit 13: Expanding Bioenergy Production

Annual Performance Goals and Indicators		Fiscal Year 2004		
		Target	Actual	Result
1.3.1	Increase in bioenergy production (Mil Gal)			Exceeded
	▪ biodiesel	4	9.2	
	▪ ethanol	200	442.4	

FY 2004 results as of July 23, 2004.

Analysis of Results

The performance goal was exceeded significantly. The ethanol industry is experiencing a dramatic increase in demand. Biodiesel production increased 8.7 million gallons, exceeding the target by 4.7 million gallons. Ethanol production surpassed the 200 million-gallon target by 221.5 million gallons. These results indicate an important rise in the supply of domestically produced renewable fuels and expanded consumption of agricultural commodities (feed stocks) used in production.

Performance targets were developed with industry and OMB input with the goal of moving the U.S. to more energy independence, supporting the ethanol industry and helping the establishment of the biodiesel industry. Baseline should equal total biodiesel production of 6.4 million gallons and total ethanol of 141.3 million in 2001.

Exhibit 14: Bioenergy Production Levels

Trends	Fiscal Year Actual				
	2000	2001	2002	2003	2004
Increase in bioenergy production (Mil Gal)					
▪ biodiesel	N/A	6.4 Baseline	8.9	12.6	9.2*
▪ ethanol	N/A	141.3 Baseline	219.3	615.9	442.4*

*Third quarter actual numbers.

A significant future challenge to the effectiveness of bioenergy programs is that large production increases combined with historic high prices for associated feed stocks used in production, as experienced in FY 2004, results in significant program payment prorations (reductions). Recent market forecasts project decreased prices for certain commodities. The FY 2005 sign-up completed in August suggests that the ethanol industry may have another record growth year ahead with more than 1 billion gallons under the program. Biodiesel producers also predicted record increases in production. Payments to biodiesel producers help make the product competitive with traditional diesel.

Due to high production levels and feedstock prices, payments were reduced 37 percent for the second quarter and 46 percent for the third quarter so that program expenditures would not exceed the amount of available funding. These reductions occurred with full funding (\$150 million) in FY 2004. Fourth quarter payments, which will be issued in December, are expected to be reduced 50 percent or more. The proposed funding reduction to \$100 million for FY 2005 will further reduce payments.

KEY OUTCOME: INCREASE THE PURCHASE OF BIOBASED PRODUCTS BY FEDERAL AGENCIES, RESULTING IN INCREASED DEMAND FOR FARM COMMODITIES AND INCREASED INVESTMENT IN PROCESSING AND MANUFACTURING ACTIVITY BASED IN RURAL AMERICA

A final rule establishing the program's operation is expected to be published in the *Federal Register* by the end of 2004. The first of a continuing series of rules to designate generic groupings of biobased products for preferred procurement is expected to be available as a proposed rule for public comment by the end of calendar year 2004. Rulemaking to designate generic groupings of biobased products for preferred procurement will continue for a number of years as rapidly as the statutory data requirements to support designation can be developed. A proposed rule to establish a voluntary labeling program for biobased products is expected to be available for public comment by the end of the calendar year 2004, with a final rule in place by mid-calendar year 2005.

This program will help the U.S. economy move toward increased leadership in biobased-products technology. This will create profitable and environmentally friendly markets for these products, which will benefit the rural communities that produce them.

USDA received \$1 million in funding for testing biobased products. That funding has enabled the Office of Energy Policy and New Users (OEPNU) to develop a Web-based information system for the Federal Biobased Products Preferred Procurement Program. USDA's Office of Procurement and Property Management currently is developing a model procurement and training program for agencies within the Department. That program will be extended to all Federal agencies later. One of the objectives of that program will be to create a system for measuring Federal agency purchases of biobased products. No such system currently is available. OEPNU also has launched a testing program to gather the necessary data on products within selected generic groupings of biobased products. This is designed to satisfy the information requirement the statute poses for the designation of these groupings for preferred procurement. The Web-based information system accomplishes three objectives. First, it is a primary source of information to manufacturers and vendors of biobased products and to Federal agencies, about the Federal Biobased Products Preferred Procurement Program. (A program under which Federal agencies are required to purchase biobased products that fall within generic groupings of biobased products that have been designed for preferred procurement). Second, this Web-based information system has directions on how manufacturers can work with USDA to qualify generic groupings of biobased products for preferred procurement. Third, the Web-based information system will be a primary source of information about biobased products available to be procured by Federal agencies. This information will be posted voluntarily on the site by manufacturers and vendors of the biobased products.

Exhibit 15: Increase the Use of Biobased Products

Annual Performance Goals and Indicators		Fiscal Year 2004		
		Target	Actual	Result
1.3.2	Number of generic groupings of biobased products designated for preferred procurement by Federal agencies	2	0	Unmet

Analysis of Results

The performance goal was unmet because a final rule had not been published. The final rule implementing the Federal Biobased Products Preferred Procurement Program is currently under review within the Administration. USDA expects to have published the final rule establishing the *Federal Biobased Products Preferred Procurement Program* in the Federal Register by the end of calendar year 2004.

The statute creating this preferred procurement program specifies that “items” will be designated for preferred procurement under this program through a process of regulatory rulemaking. “Items” are generic groupings of biobased products. For example, such a generic grouping could be “biobased hydraulic fluids for mobile use” which would include all biobased products in the market intended for that use. Another example could be “janitorial cleaners” which would include all biobased products used in janitorial cleaning applications. “Items,” or generic groupings of biobased products, are made up of individual branded products that fit within the definition of the generic groupings. Such a grouping can include several dozens of individual branded products.

USDA has identified more than 80 generic groupings of biobased products for potential designation. The items in the FY 2004 target that the Department designated for rulemaking were selected based on the availability of test data and other information. That availability was based upon the level of cooperation from manufacturers and vendors of products that fell within these items. The manufacturers and vendors provided test material and other product information to USDA to support its designation rulemaking.

Manufacturer and vendor cooperation is crucial in developing the information required to support designation. Once items are designated and Federal agencies begin to purchase biobased products that fall within the designated generic groupings, USDA anticipates that manufacturers and vendors will become increasingly interested in cooperating with USDA to develop the information necessary for designation of additional groupings. As more groupings are designated and the benefits of preferred procurement demonstrated, USDA expects Federal agencies to increase their purchases of biobased products substantially. The Department also anticipates even stronger cooperation from manufacturers and vendors as they see this program’s value.

Since FY 2004 is the first year for the program’s operation, USDA will use performance information from both this year and FY 2005 in determining a baseline for it.

Exhibit 16: Biobased Products Performance

Trends	Fiscal Year Actual				
	2000	2001	2002	2003	2004
Number of generic groupings of biobased products designated for preferred procurement by Federal agencies	N/A	N/A	Authorized in FSRIA	Developmental stage	0

USDA has made substantial progress in establishing the regulatory framework necessary for operating the preferred procurement program. It also has created the necessary electronic information system to provide a timely and efficient communication mechanism. Federal agencies can use the system to learn which biobased products are available. It also will provide them with information on qualifying for preferred procurement and contacting the manufacturers and vendors of those products. Manufacturers and vendors of biobased products that fall within “items,” or generic groupings of biobased products, designated for preferred procurement by regulatory rulemaking will be invited to post product and contact information on those biobased products on the Web-based electronic information system developed by the Office of Energy Policy and New Uses (OEPNU).

That Web-based information system will be the primary source of information on the identity and availability of biobased products for Federal agencies required to purchase such products. Moreover, it is expected that this Web site also will be used by the general consuming public to gather information on the availability and identity of biobased products, thus facilitating broader use of such products.

In FY 2005, manufacturers and vendors will begin to reap the benefits of the program as measured in increased sales of biobased products to Federal agencies. Voluntary cooperation by manufacturers and vendors with OEPNU in gathering the information needed to designate generic groupings of biobased products by rulemaking and providing information on those products to USDA's electronic information system remain major challenges that will determine how quickly the program grows.

USDA is undertaking a substantial outreach effort to manufacturers and vendors of biobased products to help them assess the benefits of the program and develop the needed cooperation. The Department has entered into a cooperative agreement with Iowa State University to identify biobased products, manufacturers and vendors. The agreement also seeks their cooperation in developing data and other product information needed for the designation of groupings by rulemaking. In turn, Iowa State has developed cooperative relationships with the Biobased Manufacturers Association, the United Soybean Board, the National Corn Growers, the National Biodiesel Board, the Renewable Fuels Association and USDA's Forest Products Laboratory. These relationships are designed to identify biobased products and manufacturers and vendors of those products, and enlist their cooperation in obtaining information necessary to designate biobased products by rulemaking. USDA also is increasing its efforts to test selected biobased products within generic groupings to speed the collection of a database needed to support designation by rulemaking of these products.

Description of Actions and Schedules

The clearance process for the final rule establishing guidelines for the Federal Biobased Products Preferred Procurement Program extended far longer than expected. The same problem existed for the proposed rule to designate items for preferred procurement. Both rules are expected to be ready for publishing in the *Federal Register* by the end of the 2004 calendar year.

OBJECTIVE 1.4: PROVIDE RISK MANAGEMENT AND FINANCIAL TOOLS TO FARMERS AND RANCHERS

Exhibit 17: Resources Dedicated to Providing Risk Management and Financial Tools to Farmers and Ranchers

USDA Resources Dedicated to Objective 1.4	FY 2004	
	Actual	Percent of Goal 1
Program Obligations (\$ Mil)	\$30,221.8	77%
Staff Years	14,888	59%

Introduction

Agricultural producers face severe economic losses annually due to unavoidable causes such as low prices and/or reduced yield due to drought, excessive moisture, hail, wind, hurricane, tornado and insects. The agricultural production sector is characterized by small profit margins and ever changing cycles of good and bad production years. USDA provides and supports cost-effective means of managing risk for agricultural producers. This assistance is designed to improve the economic stability of agriculture by developing a variety of risk management tools and continuing to assess producers' needs. These tools range from yield-based insurance products that protect individual crops against loss of field and/or price reduction to whole farm products which protect the producer's entire farming operation against loss. Providing risk management tools to farmers and ranchers assists them in protecting their livelihood in times of disasters or other uncontrollable conditions. The value of risk protection denotes the amount of insurance in force protecting and stabilizing the

agricultural economy. It also illustrates the acceptance of these products by producers and indicates a broadening of economic stability across the agricultural spectrum.

The economic stability of farms and ranches is critical for protecting the Nation's agricultural industry. USDA programs support the financial viability of the Nation's farmers and ranchers by providing a financial "safety net" that helps ensure productive and viable farms and ranches. USDA's loan assistance and income support and disaster assistance programs work to ensure that food producers receive the financial assistance and support necessary to maintain and grow.

USDA strives to improve its program delivery structure by ensuring fair and equitable services to all of its customers. This includes all beginning, socially disadvantaged and limited-resource farmers. Departmental activities aimed at preventing civil rights program complaints will minimize associated risk, ensure equal access to financial tools and enhance economic opportunities.

Overview

The USDA Federal Crop Insurance Program provides an actuarially sound risk management program to reduce agricultural producers' economic losses due to unavoidable causes. Recently, USDA has seen dramatic growth in this program. It now insures an additional 20.5 million acres more than in 1999, and 45 percent or 119.5 million acres more than it did 10 years ago. Federal crop insurance is available to producers solely through private insurance companies that market and provide full service on the insurance policies upon which these companies share the risk. Principally, the Standard Reinsurance Agreement (SRA) defines the amount of risk they share. Under this agreement, insurance providers agree to deliver risk management insurance products to eligible entities under certain terms and conditions. Providers are responsible for all aspects of customer service and guarantee payment of premium to the Federal Crop Insurance Corporation (FCIC). In return, FCIC reinsures the policies and provides reimbursement for administrative and operating expenses associated with delivering the insurance products. In 2004, USDA updated the SRA. Each insurance company intending to write new business for the 2005 reinsurance year is required to submit a signed copy in order to participate in the Federal Crop Insurance Program. During 2004, the number of participating companies increased by 1 to bring the total to 15. USDA continues to receive inquiries from additional insurance companies interested in joining the program. Additional companies are in various stages of applying. For FY 2004, the value of risk protection provided to agriculture producers through FCIC-sponsored insurance reached \$46.7 billion.

Producers have access to a number of USDA farm income support programs that bring much needed economic stability to the agricultural sector. Assistance is provided through direct payments, which are based on historical planting and yields. These payments are not tied to the production of specific crops and counter-cyclical income support payments based on market prices in relation to target prices. Marketing assistance loans provide producers interim financing at harvest time. These loans help producers meet their cash flow needs without having to sell their commodities at harvest time when prices are low. With adequate financing, producers store their production at harvest. These loans facilitate orderly marketing of commodities throughout the year. In FY 2004, USDA issued approximately 430,000 marketing assistance loans valued at more than \$9 billion.

Additionally, to ensure the effectiveness of its credit programs, it is important to provide timely financial resources and other assistance to borrowers when a need arises. Therefore, USDA plans to continue to reduce processing times for loan requests each year. The Department also will continue to monitor closely the delinquency and loss rates of the direct loan portfolio. Borrower ability to pay installment debt on time is a strong indicator of financial strength and viability. Reduced losses in the program indicate that borrowers are experiencing greater success in meeting their financial obligations.

Selected Results in Research, Extension and Statistics

Farm Bill Technical Assistance—The counter-cyclical payment introduced in FSRJA is calculated in part by Marketing Year Average prices estimated by USDA. The large magnitude of payments potentially affected by the accuracy of these averages led to a self initiated review of the Prices Received by Farmers Survey, which reports average prices of all commodities sold. All procedures and documentation have been reviewed and updated as appropriate, increasing data quality and ensuring consistent data collection activities by States.

Real-Time Pricing and Market Simulation—Keeping a competitive edge in the cattle fed industry requires understanding such complex concepts as price discovery, market dynamics, breakeven analysis, derived demand and industry structure conduct performance. Oklahoma State University, with funding support from USDA, developed a Fed Cattle Market Simulator, a computerized simulator for adult groups of 24 to 48 people. In workshops, two or more agricultural economists lead the program simulator and fielded questions that emerge from the simulators multiple teachable moments. The workshops become simulations of the daily trials of cattle feeders and beef packers interacting with each other as they buy and sell. The program since has expanded to Colorado, Florida, Iowa, Kansas, Kentucky, Michigan, Tennessee, Texas and Utah.

Assessment of Agricultural Policy—USDA led the development of analytical studies that responded to requests for information on the FSRIA. For example, the USDA report, “Economic Effects of U.S. Dairy Policy and Alternative Approaches to Milk Pricing,” provides a comprehensive assessment of the effects of current U.S. dairy programs. This assessment considers the ongoing structural change in consumer demand, farm structure and the processing industry. Other reports on specific commodities where FSRIA changed programs include *Policy Change and Adjustment in the U.S. Peanut Sector and Trends in the U.S. Sheep Industry*.

Farm Households and the Rural Economy—“Farm Policy, Farm Households, and the Rural Economy,” which can be accessed electronically at <http://ers.usda.gov/Briefing/Adjustment>, discusses the links between agricultural policy, the diverse set of U.S. agricultural producers and the rural communities in which they live. The findings show the broad effects of policies and explore alternative types of policies and the adjustments associated with various scenarios.

Improved Access to Market Outlook and Analysis—USDA initiatives have increased the accessibility, timeliness and breadth of the data and analysis of agricultural markets. The Department launched a Web page that offers the latest outlook information, data and links through a central location. Additionally, USDA’s agricultural baseline projections now are more readily available through the release of components as they are completed. For more information, visit <http://ers.usda.gov>.

Serving the Public

Agricultural production is an inherently risky enterprise. Producers are exposed to both production and price risks daily. They can benefit from the crop insurance to protect themselves against these economic risks. Over the years, USDA has played an active role in helping producers ease the effects of these risks on farm income. The Department promotes the use of crop insurance and other risk management tools. Federal crop insurance offers producers various types of coverage and other tools to protect against crop and revenue loss.

USDA also offers direct and guaranteed farm ownership and operating loans to family-sized farmers and ranchers who cannot obtain commercial credit from a bank, farm credit system institution or other lender. Department loans can be used to purchase land, livestock, equipment, feed, seed and supplies. The loans also can be used to construct buildings or make farm improvements. These loans are particularly important to beginning, minority and women farmers whose limited cash flow may preclude them from qualifying for a commercial loan.

USDA’s commodity programs continue to be a testament to the country’s commitment to maintaining a balanced food and fiber industry for its consumers. The assistance made available under these programs helps stabilize American farming and ranching operations. This assistance enables farmers and ranchers to reduce their risk of financial loss due to inclement weather or unfavorable global market conditions.

Direct and counter cyclical payments reduce financial risks and help producers meet their cash flow needs. Marketing-assistance loans provide producers interim financing at harvest time to meet cash flow needs without having to sell their commodities when market prices are at harvest time lows. Enabling producers to store production at harvest facilitates more effective commodity marketing throughout the year.

USDA is working continuously to ensure the public knows about all of its programs and services. The efficient processing of civil rights program complaints will decrease lawsuits, reduce civil rights complaints, decrease delays and lower costs to the Department. These reductions will assist in achieving the goal of ensuring that USDA provides fair and equitable services and benefits to all of its customers.

Challenges for the Future

Today, approximately 78.5 percent of the acreage planted in major crops is at least minimally insured. Coverage is expanded by providing existing crop insurance programs into new counties and States. It also occurs by developing new types of coverage, such as for livestock pasture, forage, rangeland and revenue protection. These programs, along with diversified production, marketing and the use of futures and options, allow each producer to customize his or her risk management strategy. These products can help producers protect themselves from yield and/or market risks. To meet producer needs, USDA continues to seek out actuarially sound innovative risk management solutions for providing coverage suited for a diverse agriculture. For example, in 2004, USDA awarded four contracts to develop new and very innovative risk management solutions for insuring pasture, rangeland, forage and hay. They include developing a new plan for pasture, rangeland and dryland hay using a dual index consisting of such tools as a satellite-based vegetative index and a proxy crop, and a Temperature Constrained Normalized Difference Vegetation Index. This index uses data derived from satellite-based remote sensing imagery that will describe the seasonal growth dynamics of vegetation for target areas. Other tools include a Seasonal Growth Constrained Rainfall Index, which uses a weighted warm season/cool season indexing period and the National Oceanic and Atmospheric Administration rainfall data system; and a Precipitation Index using a rainfall index based on a weighted average amount of precipitation during a particular time period.

USDA's challenge is to continue expanding and improving coverage, particularly for the underserved States, communities and commodities. To do this, the Department needs to address the information technology cost increase associated with maintaining and upgrading existing product data needs. This technology also services new or revised products. It has become increasingly more difficult to bring new products online with the existing information systems. USDA is researching how to deliver more products suited for a diverse agriculture. USDA will continue to evaluate risk management delivery of products, review and approve private sector insurance products to be reinsured by FCIC, and ensure the effective delivery of products to agricultural producers. To further contribute to the producers' ability to protect their financial stability, USDA will continue to provide education, outreach and non-insurance risk management assistance initiatives and tools through partnerships.

USDA consistently reviews its farm loan program activities to assess the effectiveness and impact of its programs. Ensuring an efficient delivery of services is affected by the availability of funds for financial assistance and the local and national economies. It also depends on training, human capital planning and organizational efficiencies. Farm loan program challenges include ensuring a highly trained staff, assisting farmers during economic distress and natural disasters, and offering credit to eligible buyers unable to obtain it from other sources.

One challenge is a lack of customer focus at the service delivery point. USDA will improve technical assistance and education, and provide workshops for farmers, farming-related associations and civil rights organizations with an interest in farming and agriculture. These targeted, multi-agency efforts will provide greater awareness of USDA program availability and inform its customers of participation requirements.

Management Challenge

Agencies' coordination of program delivery and control is a management challenge for the Department. (Appendix A contains the Office of the Inspector General's report on USDA's major management challenges.) In response to this challenge, USDA agencies are working together to identify and review potential program integrity issues. This includes conducting producer spot-checks, referring potential issues to county offices, and consulting with State committees on program matters. The Department is progressing with the eGovernment initiative for USDA agencies and insurance providers to share and report on common information that producers must provide. The system is scheduled for completion in FY 2006. The Department also is piloting an agency software project. The software can draw on a variety of databases and information sources to present progress and financial information graphically in an integrated display. This display is designed to provide real-time information for managers to use in decision making.

An electronic Loan Deficiency Payments (e-LDP) system was deployed nationwide in September 2004 allowing producers and other entities to apply for LDPs from their home or work computer. Because it is a Web-based application, county USDA offices also will be able to enter requests they receive through the system. Within 24 to 48 hours after an application is submitted electronically, and if all requirements are met, the funds will be disbursed electronically to the proper bank account. This process should alleviate the long lines and extended waits producers experience during times of heavy LDP activity.

KEY OUTCOME: INCREASED VALUE OF RISK PROTECTION PROVIDED TO AGRICULTURAL PRODUCERS THROUGH FCIC SPONSORED INSURANCE

FCIC improves economic stability by ensuring that new and innovative risk management alternatives are available. The increased value of risk protection provided to agricultural producers through FCIC-sponsored insurance illustrates the acceptance of these products by producers and the broadening of economic stability across the agricultural spectrum.

FCIC is a wholly owned Government corporation created in 1936, to provide for nationwide expansion of a comprehensive crop insurance program. This program consists of many public and private risk management alternatives designed to improve the economic stability of agriculture. The long-term agricultural producers' ability to supply U.S. and global food-related markets depends on their ability to manage financial and natural risks associated with production. FCIC promotes the availability of a sound system of crop insurance for American agricultural producers. FCIC sponsored insurance provides assistance in managing this risk. Private sector insurance companies sell and service these policies. FCIC develops and/or approves the premium rates, administers premium and expense subsidies, approves and supports products, and reinsures the companies. Contracts or partnerships are used for research and development of new and innovative insurance products. It also provides the means for the research and experience helpful in devising and establishing such a system. Private entities also may submit unsolicited proposals for insurance products to the FCIC for approval. During 2004:

- The FCIC Board of Directors approved a pilot program to provide crop insurance coverage for sorghum silage. Sorghum is a grain used to feed livestock. Grain sorghum varieties grown for harvest as silage in 2 counties in Colorado and 37 in Kansas will be eligible for coverage under the new pilot program beginning in the 2005 crop year;
- USDA County Crop Programs rose by 3,774 over the previous year for a total of 43,433. Fifty-three percent of this increase was in the expansion of livestock programs;
- USDA requested proposals to develop new or revised methods for mitigating declines in an insured's approved yield following successive years of low yield. The evaluation of these contract proposals is expected to occur later this year;
- Sales of the Livestock Risk Protection (LRP) and Livestock Gross Margin (LGM) insurance policies resumed September 30, 2004. LRP is designed to insure against declining market prices available for swine, feeder cattle, and fed cattle in selected States. Producers may select from a variety of coverage levels and periods of insurance. Sales of LRP feeder cattle and fed cattle were suspended in December when *Bovine Spongiform Encephalopathy* was detected within the U.S. USDA made several modifications to the LRP program to include six new States, and to allow the availability of all 3 LRP products in the 13 existing pilot States;
- USDA issued provisions to convert the pecan revenue and the blueberry pilot crop insurance programs to permanent insurance programs for the 2005 and succeeding crop years. USDA also amended the apple crop insurance provisions to better meet the needs of the insured;
- USDA sponsored educational and outreach programs and seminars on risk management. There were 99 agreements utilizing approximately \$14.1 million to expand the amount of risk management information available. The FCIC also promoted risk management education opportunities, informed agribusiness leaders of increased emphasis on risk management, delivered training to producers,

emphasizing small farm, limited-resource and other traditionally underserved producers, and reached producers of speciality crops; and

- In response to the catastrophic damage to crops in Florida due to hurricanes, USDA authorized emergency loss procedures that streamline certain loss determinations and assisted the adjustment of losses and issuance of indemnity payments to crop insurance policyholders in the affected areas.

USDA continues to assess producers' needs and private risk management tools to ensure that new and innovative alternatives are available.

Exhibit 18: Expand Use of Risk Management Tools

Annual Performance Goals and Indicators	Fiscal Year 2004		
	Target	Actual	Result
1.4.1 Increase the value of risk protection provided to agriculture producers through FCIC sponsored insurance (\$ Bil)	\$42.7	\$46.7	Exceeded

Analysis of Results

USDA exceeded its target by \$4 billion. During FY 2004, the economic risk of American agricultural producers was reduced by approximately \$46.7 billion through Federal crop insurance coverage. This is approximately \$6 billion more than in 2003. The performance measure illustrates the dollar value of FCIC insurance in force within the agricultural economy. Since FY 1999, the value has increased by approximately \$11 billion. While there are a number of factors that influence these numbers, including increases in market values and inflation, it still represents a major growth in the amount of the agricultural economy insured via the FCIC-sponsored insurance. For example, the program now insures approximately 1.7 million acres more than it did in FY 2003.

In the *FY 2003 Performance and Accountability Report*, this measure was deferred. However, the FY 2003 target of \$40.6 billion was found to be met for FY 2003 when the actual results were reported in Spring 2004.

Exhibit 19: Providing Risk Management and Financial Tools to Farmers and Ranchers

Trends	Fiscal Year Actual				
	2000	2001	2002	2003	2004
Increase the value of risk protection provided to agriculture producers through FCIC sponsored insurance. (\$ Bil) Baseline: 1999 = \$30.9	\$34.5	\$36.7	\$37.3	\$40.6	\$46.7

USDA has enhanced the value of risk protection significantly through FCIC-sponsored insurance since FY 2000. The Department continues to work closely with insurance providers that market and provide full service on crop insurance policies. It also researches and develops new products that address the needs of producers. Additionally, USDA has partnered with State Departments of Agriculture, universities and farm organizations to deliver regionalized risk management education programs for producers in the historically underserved States and specialty crop producers. Due to these efforts, the Federal Crop Insurance Program should continue to provide actuarially sound risk management solutions to strengthen and preserve the economic stability of American agricultural producers.

Management Challenge

Ensuring the integrity of Federal crop insurance programs, improved quality control systems and information technology processing is a management challenge for USDA. (Appendix A contains the Office of the Inspector General's report on USDA's major management challenges.) In response to this challenge, USDA has issued Appendix IV, Quality Standards and Controls, of the 2005 Standard Reinsurance Agreement outlining the quality control guidelines that insurance providers are required to follow. Some of the requirements include:

- Providing a plan outlining the company's quality control program;

- Reviewing claims in excess of \$100,000 and reporting the results to the FCIC;
- Reviewing anomalies identified by FCIC (data mining) that suggest abnormal or unusual underwriting or loss performance (not to exceed 3 percent of indemnified eligible crop insurance contracts for the crop year); and
- Immediately notifying FCIC of any potential claim likely to exceed \$500,000.

Additionally, RMA's compliance operation reviews insurance provider adherence to the Standard Reinsurance Agreement requirements.

KEY OUTCOME: IMPROVE ECONOMIC VIABILITY OF BEGINNING AND SOCIALLY DISADVANTAGED FARMERS AND RANCHERS

While the future of farming in America depends on the continued entry by new operators and owners, the agricultural census reveals that there are fewer young farmers today than in the past, and that the number of new entrants into farming has fallen over time. To help offset this trend and encourage new entrants to farming, USDA targets a portion of its lending each year to beginning farmers. Beginning farmers are defined as those who have not operated a farm or ranch for more than 10 years, and who participate substantially in the operation of a farm or ranch. USDA credit assistance is particularly vital to beginning farmers as they tend to have smaller operations and lower equity levels. This limits their ability to obtain commercial credit.

Similarly, USDA also targets its lending to socially disadvantaged farmers. Socially disadvantaged farmers are members of a group who have been subjected to racial, ethnic, or gender prejudice because of their identity as a member of that group without regard to individual qualities. Women also are considered a socially disadvantaged group. Socially disadvantaged farmers are more likely to have smaller farming operations lower average incomes and a limited asset base. As a result, they are less likely than other farmers to qualify for credit from commercial sources.

Farm loan programs provide support to family farmers and ranchers who otherwise would be unable to contribute to the agricultural sector. Assistance is offered through the Direct Loan Program and the Guaranteed Loan Program. Through the Direct Loan Program, USDA makes and services farm operating and farm ownership loans, and provides customers credit counseling and loan supervision so they have a better chance of success in their farming operations. The Guaranteed Loan Program provides agricultural lenders with up to a 95-percent guarantee of the principal loan amount for farm operating and farm ownership loans. The lender is responsible for servicing a borrower's account for the life of the loan. All loans must meet certain qualifying criteria to be eligible for guarantees. USDA has the right and responsibility to monitor the lender's servicing activities.

Exhibit 20: Providing Credit Assistance

Annual Performance Goals and Indicators		Fiscal Year 2004		
		Target	Actual	Result
1.4.2	Increase the percent of loans to beginning and socially disadvantaged farmers/ranchers ¹	35%	40%	Exceeded

¹Includes Direct and Guaranteed Farm Operating and Farm Ownership loans.

Analysis of Results

USDA exceeded its goal of providing increased assistance to beginning and socially disadvantaged farmers. In FY 2004, 40 percent of all direct and guaranteed farm loans were provided to these groups. This represents a nearly 18 percent increase from FY 2003 and a 48 percent increase from the FY 2000 baseline. In all, 12,063 farm loans totaling \$1.2 billion were issued. Loan proceeds are used to acquire, enlarge or improve a farm (farm ownership loans) or provide short- to intermediate-term production or chattel financing (farm operating loans). As the following table indicates, the long-term trend of providing increased credit assistance to beginning and socially disadvantaged farmers and ranchers has continued.

The improved efficiency is attributed to the comprehensive streamlining of the Guaranteed Loan Program, which was completed in 2001. This effort essentially reinvented the guaranteed loan program. In addition to the streamlining effort, USDA created a Preferred Lender Program that continues to yield positive results. The program was established to reward experienced agricultural lenders by streamlining and adding flexibility to the loan application and servicing requirements. It also expedites loan approval and other USDA decisions and allows lenders to originate and service guaranteed loans the way they do other loans in their portfolio.

USDA also is implementing a Web-based farm planning software application, Farm Business Plan, which will be used to develop farmers' business plans and manage their loan portfolio. This is a significant undertaking, changing the way USDA has operated for more than 50 years. The Farm Business Plan will provide much improved borrower information, allowing the Department to improve the measuring of borrowers' financial viability, perform more in-depth portfolio analysis and focus resources on problem areas. Once implemented for the Direct Loan Program, the system will be available to lenders participating in the Guaranteed Loan Program and eventually directly to farmers.

Exhibit 21: Trends in Lending to Beginning and Socially Disadvantaged Farmers/Ranchers

Trends	Fiscal Year Actual				
	2000	2001	2002	2003	2004
Increase the percent of loans to beginning and socially disadvantaged farmers/ranchers	27% Baseline	30%	33%	34%	40%

During FY 2004, USDA further strengthened its loan programs designed for beginning and socially disadvantaged farmers. The Department continued its comprehensive streamlining program for the Direct Loan Program regulations, handbooks and information collections. This ongoing streamlining effort has reduced the burden for both applicants and USDA dramatically. It also has contributed to the continued improvement in loan processing efficiencies. Loan processing timeliness continued to improve. The average time to process a direct loan has decreased from 46 days in FY 2000 to 37 days in FY 2004. Likewise, guaranteed loan processing times continued their downward trend, with an average processing time of 14 days—a 30-percent decline from FY 2000.

Implementing these projects allows USDA to focus more resources on providing the technical assistance, services, monitoring and oversight essential to supporting high-risk beginning and socially disadvantaged farmers. USDA helps customers identify problems and develop solutions. This leads to lower loan delinquencies and reduced losses, and assists USDA in accomplishing its objective of improving the economic viability of farmers.

STRATEGIC GOAL 2: SUPPORT INCREASED ECONOMIC OPPORTUNITIES AND IMPROVED QUALITY OF LIFE IN RURAL AMERICA

The United States Department of Agriculture (USDA) focuses on expanding economic opportunities and improving the overall quality of life in rural America. According to the most recent USDA statistics, while rural poverty rates in 2000 and 2001 were some of the lowest on record, they still continued to be higher than that of their urban and suburban counterparts. In 2002, one in five rural children lived in poverty, and a similar proportion resided in households unable to acquire enough food for all its members. Additionally, based on 1999 date, the poverty rate is 16.8 percent in rural areas versus 11.5 in urban areas. Many rural communities lag behind suburban and urban America because of their remoteness, lower educational attainment and specialized economic base.

USDA programs offer these rural communities opportunities for improvement. To expand economic opportunities, the Department provides loans, grants and infrastructure to rural entrepreneurs. To improve the quality of life in rural communities, USDA offers assistance to upgrade the quality and quantity of housing,

water- and waste-disposal facilities, electric facilities, telecommunications infrastructure and community facilities.

In all, USDA programs are designed to make a significant difference in the rural economy and other aspects of the rural quality of life.

OBJECTIVE 2.1: EXPAND ECONOMIC OPPORTUNITIES THROUGH USDA FINANCING OF BUSINESSES

Exhibit 22: Resources Dedicated to Support Expanding Economic Opportunities Through Financing of Businesses

USDA Resources Dedicated to Objective 2.1	FY 2004	
	Actual	Percent of Goal 1
Program Obligations (\$ Mil)	\$7,374.8	44%
Staff Years	2,595	30%

Introduction

Financing of businesses led to the creation and saving of 81,010 jobs in FY 2004. As a result, economic opportunities for rural communities have expanded.

Overview

USDA focuses on expanding economic opportunities in rural areas, the heartland of American values. Declining economies challenges many rural communities. This is caused by the transition away from traditional economic bases. Key challenges include their distance from input or product markets, poor labor-force skills and rising international competition. The Department makes a variety of investments in rural communities, including:

- Guarantees of bank loans to rural businesses;
- Capitalizing local revolving microloan funds that assist local small and emerging businesses;
- Grants to develop business infrastructure, such as industrial parks and incubators, and feasibility studies;
- Grants for business planning, public transportation and re-training;
- Technical assistance to help communities develop strategic plans for economic development;
- Loans and technical assistance to agricultural cooperatives;
- Grants to develop energy savings and alternative energy sources; and
- Grants to create new enterprises based on value-added products.

Selected Results in Research, Extension and Statistics

Understanding Rural Diversity—The economies, resources, opportunities and challenges of individual rural areas differ. USDA has developed a new county classification, also called a typology, which captures the broad economic and social diversity among rural areas. This typology is used widely by policy analysts and public officials to determine eligibility for and effectiveness of Federal programs to assist rural America. It identifies six discrete economic types of non-metro counties based on the primary economic activity of the county. They include:

- Farming;
- Manufacturing;
- Mining;
- Service;

- Federal/State Government; and
- Other.

The typology also identifies seven county types that distinguish important policy themes. These themes are:

- Persistent poverty;
- Persistent population loss;
- Housing stress;
- Retirement destination;
- Recreation;
- Low education; and
- Low employment.

Small Business Support—Through a variety of education programs, USDA helped minority residents gain the necessary skills to meet employer demands and pursue their own businesses. In Alabama, the Department worked with a local chamber of commerce to offer a Franchise Entrepreneurship Workshop for 200 minority individuals. Ten percent of the participants later started their own businesses. Five others plan to open a franchise. A South Carolina State University Small Business Workshop Series taught 22 small business owners and entrepreneurs different aspects of business planning, marketing, bookkeeping, employee management and technology solutions. Small business owners who attended use their new skills to operate more effectively. Alabama Cooperative Extension launched a Hispanic/Latino Initiative to provide Web-based links to Spanish educational materials to ease the transition into community life for newcomers. Extension established a diversity council to address language and cultural differences and hired a bilingual agent to conduct programs. Twenty-three food service workers with limited English language skills passed a food-safety certification test USDA taught in Spanish. Colorado State University researchers verified that Hispanic workers are meeting seasonal production, harvesting employment demands and contributing to the local economy.

2002 Census of Agriculture—The 2002 Census of Agriculture was released in June 2004. This census provides the only source of detailed, comprehensive agricultural facts for every county in America. For the first time, data for every county and State were adjusted statistically to account for farms missed or misclassified in the census. The 2002 census revealed that:

- 90 percent of farms are operated by an individual or family;
- The value per farm averaged \$537,833, up 24 percent from 1997; and
- Direct sales to consumers increased 37 percent from 1997.

Serving the Public

USDA programs help create and save jobs in rural America. USDA manages several programs designed to support businesses in rural communities. For example, the Business and Industry (B&I) Guaranteed Loan Program can help a rural business get needed credit by guaranteeing as much as 90 percent of a business loan made by a commercial lender. Loan proceeds may be used for working capital, machinery and equipment, buildings and real estate, and certain types of debt refinancing. B&I expands the lending capacity of private lenders in rural communities. Typically local lenders are small banks with limited lending authority under banking laws. The guarantee allows these lenders to make bigger loans and avoid a “concentration of credit” problem. With the guarantee, lenders can make, sell and service quality loans that provide lasting community benefits. Businesses in rural communities tend to buy local goods and services and boost employment. This investment stimulates the economy. The B&I program represents a true private-public partnership in rural communities. USDA also provides loans to establish revolving loan programs to local not-for-profit organizations. These revolving loan programs are capitalized by 1-percent loans from USDA. Revolving loan funds provide financing to help develop small or emerging private business enterprises in rural areas for land acquisition, working capital, building renovation, new construction, new equipment and equipment upgrading. This program helps the beginning entrepreneur and the small business by providing low cost loans, usually coupled with mentoring. For example, such loans might enable the one local taxi service to buy a newer, fuel-

efficient car; let a dentist buy equipment or expand; or give a local craftsman the wherewithal to buy in larger quantity to gain some savings. As these loans are repaid, additional local businesses can borrow. Grants permit local fire departments to purchase improved equipment, communications and training.

Challenges for the Future

Rural economies face different challenges than urban and suburban areas. These challenges include:

- Historic dependence on natural resources, mostly commodities, which are subject to cyclical trends;
- Low profit margins on commodity sales;
- Large-scale changes in technology and the resulting efficiency gains in these industries; and
- Their inaccessibility and low-density populations.

Also, rural areas typically are caught in a cycle of underdevelopment of public services that make it difficult to attract or retain businesses. Education, health care and entertainment are typically only marginally acceptable. Every rural area has its unique concerns.

KEY OUTCOME: ENHANCE CAPITAL FORMATION FOR RURAL COMMUNITIES

Many rural communities are challenged by declining economies due to a combination of factors. These factors include transitioning away from traditional economic bases, efficient and competitive access to input or product markets, outmoded labor force skills, and rising international competition. USDA seeks to address these circumstances by expanding economic opportunities in rural areas through the stimulation of capital investment. The variety of investment strategies used includes guarantees of bank loans to rural businesses, capitalizing local revolving loan funds that assist rural small businesses, grants to develop business-friendly infrastructure, business planning grants and guarantees on bank loans, direct loans and grants to foster energy savings. The resulting enhanced capital formation is linked directly to the USDA Strategic Objective of expanding economic opportunities.

In many rural communities, farm families seek part-time and seasonal work to supplement on-farm income. USDA programs support skill development (marketing, finance) and small financial incentives to lenders who help broaden and stimulate local employment. Job growth and employment in rural communities lag behind that in urban areas. According to 2001 figures, while rural communities account for about 20 percent of the Nation's population, they represent only 18 percent of all jobs in the U.S.

Physical conditions and credit terms in rural areas are inferior to those in metropolitan and urban areas. For example, rural banks are smaller and bank regulations impose more restrictive lending limits (size of loans and concentration of industry) than for larger urban institutions. The availability of the Internet and other Web services is inconsistent in rural areas. Even telephone access is uneven in rural areas. Access to computer servers for business use may be unavailable or cost prohibitive. Phone lines are often too slow to accommodate high-data needs of businesses. This is a distinct disadvantage to business growth. The rare publicly financed rural industrial park is smaller and has fewer amenities than its urban counterparts. While rural areas tend to grow during national economic expansions, sometimes at faster rates than metro areas, many have neither the size nor depth of tax bases to finance the direct amenities and conditions that businesses can demand from metro governments. These amenities include transportation links, necessary sewer and water, adequate fire protection, attractive downtowns, well-regarded school systems, reliable and accessible health care, and publicly financed training of workers.

B&I can guarantee loans for satisfactory credit risks. This program allows lenders to offer competitive terms and make loans of up to \$25 million in eligible areas. Up to \$40 million may be guaranteed for certain value-added cooperative enterprises. USDA also provides technical assistance and modest grants (frequently as a catalyst for attracting local private funds) for communities to launch the infrastructure necessary for businesses. Funding of small revolving loan funds encourages business growth by helping new borrowers and emerging local entrepreneurs without a credit history or adequate collateral for a commercial lender.

A small Montana consulting firm expanded its staff from 23 to 50 by using an USDA-capitalized revolving loan fund to cover short-term cash needs during its expansion. Relatively new service businesses like this one, with few tangible assets to pledge as collateral, are not offered affordable terms by traditional lenders.

Exhibit 23: Strengthen Rural Businesses

Annual Performance Goals and Indicators	Fiscal Year 2004		
	Target	Actual	Result
2.1.1 Create or save additional jobs through USDA financing of businesses.	73,569	81,010	Exceeded

Analysis of Results

The performance goal was exceeded for the number of jobs computed to be created or saved. The amount of carryover funding had a direct impact on performance. Another factor in variation is that three of the eight business programs awards were made in the third and fourth quarters. These factors had a profound impact on both estimating and establishing jobs saved/created targets. The number of jobs created or saved is related directly to the funding levels for each program and business conditions in regional and national economies. There is an unequal relationship between program dollars provided and jobs resulting. There are six different programs, which count jobs created differently. The B&I guarantee program counts the jobs when the loan is closed. This also is true for some of the grant programs. The major revolving loan fund uses a formula based on a study, as the cost of actually acquiring job information on each loan was determined not to be cost effective. These factors are beyond USDA's control. Additionally, State offices substantially improved their ability to gather, record and report job information on all programs consistently

The 81,010 jobs resulting from USDA's programs for expanding economic opportunities in FY 2004 exceeded the target level. While this number is less than the 2003 number, it is proportionate to funding. The clear controlling factor is funding availability. USDA also used some carryover funds from FY 2003.

In addition to direct jobs created or saved, the economic benefit to the rural community is estimated to be \$2.50 for every dollar in guaranteed loans closed, according to U.S. Department of Labor statistics. These investments make a continuing difference in rural communities, though only counted and reported as the jobs computed in the year a loan or grant is obligated. The current state of the economy and the downward trend in interest rates in commercial credit has made it fairly easy for USDA to use all of its loan, grant and loan guarantee authority.

Exhibit 24: Trends in Creating or Saving Jobs

Trends	Fiscal Year Actual				
	2000	2001	2002	2003	2004
Create or save additional jobs through USDA financing of businesses	73,502	105,222 Baseline	76,301	88,611	81,010

One challenge USDA faces is that general economic conditions strike harder and longer in rural areas. Bleak poverty areas also require a greater scope and depth of technical support.

The national delinquency rate for USDA business loans represents a myriad of conditions across the country in dispersed rural communities. National and regional economic trends are the primary influence, followed by the local business environment and finally the quality of the agency's loan underwriting. While the agency has no control over macroeconomic factors or the conditions of each rural community, it has begun strengthening loan underwriting through continuous training and implementing an accreditation program. The results have started to appear in the form of decreasing delinquency rates.

OBJECTIVE 2.2: IMPROVE THE QUALITY OF LIFE IN RURAL AMERICA THROUGH USDA FINANCING OF QUALITY HOUSING, MODERN UTILITIES, AND NEEDED COMMUNITY FACILITIES

Exhibit 25: Resources Dedicated to Support Improving the Quality of Life in Rural America Through Financing Housing, Utilities and Community Facilities

USDA Resources Dedicated to Objective 2.2	FY 2004	
	Actual	Percent of Goal 1
Program Obligations (\$ Mil)	\$9,211.8	56%
Staff Years	6,130	70%

Introduction

USDA successfully improved the quality of life in rural America during FY 2004, by financing quality homes for 48,894 homebuyers, new/improved water and waste disposal facilities for 690,000 subscribers, new/improved electric facilities for 3 million subscribers, broadband telecommunications in 6 counties and improved community facilities for 12 million rural residents.

Overview

Many USDA programs make important contributions toward improving the quality of life in rural America. Of particular significance are programs increasing the quality and availability of housing, modern utilities and community facilities. USDA's utilities programs also contribute to the creation of jobs and strengthening of the rural economy. For example, without adequate electric service, industries will not operate in rural America. Ensuring that rural America can participate fully in economic recovery requires safe, reliable and affordable infrastructure.

A major focus of USDA is improving the availability and affordability of good housing. The Department is doing this through loan and grant programs designed to help families achieve homeownership. Almost 49,000 homeownership opportunities were provided to very low to moderate-income rural families in FY 2004. USDA also provides programs to develop multi-family housing and provide assistance to make homes affordable. Special emphasis is placed on improving home affordability for minorities.

USDA also makes grants and loans to provide facilities that ensure rural communities have access to safe drinking water. These grants also help communities treat wastewater and solid wastes properly.

Additionally, through loans and loan guarantees, USDA provides many rural communities with reliable, affordable electricity. In FY 2004, USDA utilities programs provided 221 loans to distribution, generation and transmission providers worth more than \$3.8 billion. This is essential to economic strength and an overall good quality of life in rural communities.

USDA also invests in critically needed infrastructure, such as broadband technology, that provides rural businesses access to emerging competitive opportunities. Today's advanced telecommunications networks allow rural communities to provide businesses with opportunities to compete locally, nationally and globally. These networks also will ensure that rural residents are equipped to compete in an increasingly information-oriented economy.

Finally, the Department provides other grants and loans for use in developing a broad range of community facilities, such as schools, libraries, fire and rescue equipment, and public buildings that enable communities to improve the quality and scope of community services. These services help rural residents achieve a quality of life more comparable to that found in urban and suburban areas.

Selected Results in Research, Extension and Statistics

Measurement, Determinants and Consequences of Poverty—A USDA study examined the effects of major changes in demographic and economic conditions, and Government policy on rural poverty during the 1990s. During this period, welfare reform simultaneously scaled back the traditional social safety net and increased the incentives towards achieving self-sufficiency for the poor. Also during the 1990s, the U.S. and rural economies experienced one of the longest periods of economic expansion and the rural population grew. These factors had important implications for changing rural poverty rates. Throughout the history of recording poverty rates, the incidence of rural poverty has been consistently higher than urban poverty. This analysis supports the theory that poverty-reduction programs and policies need to include components to target non-metro areas. It also shows that different policies may be appropriate for different areas.

Serving the Public

USDA's assistance reaches large numbers of rural Americans with services crucial to achieving a satisfactory quality of life. The Department provides direct and guaranteed loans to help rural citizens achieve homeownership. These loans served 48,894 households in 2004. Minority households accounted for 18 percent of homeowners purchasing homes through USDA.

USDA's rural water and waste programs provided new access to safe drinking water or sanitary wastewater disposal (or improved service) for 690,000 subscribers.

The Department's electric program makes loans and loan guarantees to finance the construction of electric distribution, transmission and generation facilities. This includes system improvements and replacement required to furnish and improve electric service in rural areas. It also includes demand-side management, energy conservation programs and on-grid and off-grid renewable energy systems. Since its beginning, the Electric Program has invested more than \$70 billion in the infrastructure of rural America.

USDA makes loans to corporations, territories and subdivisions of Governments. The Department also provides loans to such agencies as municipalities, people's utility districts and cooperative, not-for-profit, limited-dividend, or mutual associations. These organizations provide retail electric-service needs to rural areas and supply the power needs of distribution borrowers. USDA also provides financial assistance to rural communities with extremely high energy costs to acquire, construct, extend, upgrade and otherwise improve energy generation, transmission or distribution facilities. Overall, the Department services nearly 700 cooperatives, utility districts and other institutions, which provide rural electricity in 46 States.

USDA's Broadband Telecommunications Program provides loans and loan guarantees for broadband services in rural communities. These loans facilitate deployment of new and innovative technologies to provide two-way data transmission of at least 200 kilobytes per second in communities with populations up to 20,000. These important investments in rural areas make high-speed data transmission available in low-density, remote areas often ignored by the private sector. Since its inception in 2001, the program has grown quickly, reaching more than twice as many rural counties as in the initial year, or 6 percent of all rural counties in 2003 alone. These investments in critical telecommunications infrastructure are essential to enabling rural businesses and communities keep pace with rapid developments in the rest of America and the world.

USDA's grants and loans to help rural communities obtain essential facilities reached 10.3 million residents in 2004. Taken together, these investments bring important benefits to a large number of rural communities and citizens. They increase the availability of essential services and raise the quality of life in rural America.

Challenges for the Future

Special challenges to this objective continue to be the increased cost of housing and other building costs, with program budgets that are not increasing. For example, as building costs continue to rise, fewer homes, community facilities and water and waste systems ultimately can be financed with available funding levels.

In the water and wastewater area, a future challenge USDA faces is assisting, with limited program resources, rural communities most in need of its financial and technical services. These communities usually have the least resources for such services. Droughts, limited water resources, extreme temperatures and other environmental

maladies present unique problems in developing utility systems, and worsen this condition. Since solutions to difficult conditions often are expensive, additional grant funds must be used to develop feasible projects.

USDA's utilities programs also support the creation of jobs and the strengthening of the rural economy. Rural communities are unattractive to industry if they cannot provide adequate (and competitively priced) electric, telephone, water and waste services to these industries. A community's ability to attract and keep these businesses and the jobs they provide are linked directly to these services. Ensuring that rural America can participate fully in the economic recovery of rural America requires safe, reliable and affordable infrastructure.

KEY OUTCOME: IMPROVE RURAL QUALITY OF LIFE THROUGH HOMEOWNERSHIP OPPORTUNITIES PROVIDED

There continues to be an unmet need for decent and affordable housing in rural America. USDA implements a wide variety of housing programs. Through its Single Family Housing Direct and Guaranteed Loan Programs, USDA helps rural families who would not be able to achieve the dream of homeownership without its assistance. The Department has invested more than \$4.6 billion to assist 48,894 rural families obtain homes, and an additional \$63 million to rehabilitate the homes of more than 11,500 very low-income families. The average income for families receiving direct loans is approximately \$22,600, while the average for guaranteed loans is approximately \$39,900. Other programs focus on assisting dwellers in rental housing, farm-worker housing, home rehabilitation and self-help, and new-home construction.

Exhibit 26: Improving Rural Quality of Life Through Homeownership Opportunities

Annual Performance Goals and Indicators		Fiscal Year 2004		
		Target	Actual	Result
2.2.1	Improve the quality of life in rural America through Homeownership			Exceeded
	▪ Increase financial assistance to rural households to buy a home	41,705	48,894	
	▪ Increase the number of minority homeowners	8,400	8,500	

Analysis of Results

USDA exceeded its homeownership target for 2004. With historically low interest rates, the housing industry represented the Nation's leading economic force during the past year. Demand for housing, particularly for entry-level starter homes, has increased. Housing is one of the leading economic indicators used by the U.S. Department of Commerce. On September 27, 2004, Commerce Secretary Donald Evans stated that the "demand for new homes rose by 9.4 percent as new home sales made its biggest jump in nearly 4 years. Housing starts, building permits, existing home sales and the homebuilders' housing market index all remain at high levels." USDA's housing programs are critical for very low- to moderate-income families in attaining affordable homes and sharing in the Nation's prosperity.

The demand for housing, particularly for entry-level starter homes, has increased. This increase in demand took place at all income levels including low and very low-income residents. These are typically families who cannot obtain credit from a conventional lender because of credit issues and lack of a down payment. In FY 2004, direct housing programs provided 14,643 low and very low-income rural Americans with new homes for the first time. That is a 16-percent increase from FY 2003. More than 35,000 families, who could not obtain mortgages otherwise, attained homes through USDA's loan guarantee programs. The Department aggressively responded to the President's October 2002 goal of increasing minority homeownership by 5.5 million families by the end of the decade. USDA's "5-Star Commitment" to increase minority homeownership, which was established in 2003, includes:

- Lowering fees to reduce barriers to minority homeownership;
- Doubling the number of self-help participants by 2010;
- Increasing participation by minority lenders through outreach;
- Promoting credit counseling and homeownership education; and

- Monitoring lending activities to ensure a 10-percent increase in minority homeownership.

Additionally, each State office was provided benchmarks and goals through 2010. The offices also have developed their own plans to meet the Secretary's 5-Star Commitment. While 13 percent of rural America is comprised of minorities, 18 percent of USDA loans reached minorities in FY 2004. USDA helped 8,500 minority households achieve their dreams of homeownership in 2004. One of the major contributors to this success is USDA's Mutual Self-Help Housing Program, which serves a population comprised of more than 50 percent minority families. Through this program, groups of 6 to 12 families mutually build each other's homes. This program has significantly reduced the barriers experienced by many minorities in achieving homeownership by allowing customers to use "sweat equity," or their own labor, to reduce the overall cost of building the home. The default rate on loans made through this program generally is 4 percent lower than other loans in the single-family housing portfolio.

When a Colorado couple, who inquired about Habitat for Humanity's home building program, didn't meet the criteria, Habitat referred them to Housing Resources of Western Colorado. This entity participates in USDA's Mutual Self-Help Housing Program. This summer, the young couple, now with a 2-year old child, began work with their future neighbors to build their own homes. With direct loans, technical construction assistance from Housing Resources and their mutual efforts to help each other, they literally have built their own neighborhood. Habitat for Humanity is a not-for-profit organization dedicated to eliminating homelessness and poverty.

While the economy is recovering and housing booming in many parts of the country, these programs exist to ensure that the essentials—clean water, decent and affordable housing, and utilities—are available to those who have not experienced this upswing.

Exhibit 27: Trends in Rural Homeownership

Trends	Fiscal Year Actual				
	2000	2001	2002	2003	2004
Increase financial assistance to rural households to buy a home Baseline: 1999 = 55,941	45,420	44,701	43,036	44,130	48,894
Increased the number of minority homeowners	8,996	8,402 Baseline	8,231	8,539	8,500

KEY OUTCOME: IMPROVE RURAL QUALITY OF LIFE THROUGH NEW OR IMPROVED WATER AND WASTE DISPOSAL FACILITIES

Water and waste disposal loans and grants are provided to rural communities for the development, replacement or upgrading of such facilities. This effort includes poverty stricken rural communities and those facing distress because of out-migration, natural disasters or economic distress due to Federal actions. Direct loans are repayable over a maximum term of 40 years. Since the program's inception in 1937, water and waste disposal borrowers have received \$29 billion in direct loans, loan guarantees and grants.

Failing infrastructure is a common problem both in large cities and small rural areas' water and waste disposal systems. Additionally, investments in repairs and replacements usually do not generate more revenue. Smaller systems with a smaller user base cannot absorb these added expenses without significant rate increases.

Some of these issues can be mitigated through better asset management, full-cost pricing and technology advances. Proper care of assets can extend their useful life and improve their productivity. Keeping the public aware of the benefits of safe drinking water can improve its willingness to pay the cost of unsubsidized service. Additionally, technology advances can provide lower cost solutions.

Exhibit 28: Improving Water and Waste Disposal

Annual Performance Goals and Indicators		Fiscal Year 2004		
		Target	Actual	Result
2.2.2	Increase the number of subscribers receiving new and/or improved water and/or waste disposal service (Mil)	0.65	0.69	Exceeded

Analysis of Results

The performance goal was exceeded. Results from the FY 2003 Office of Management and Budget (OMB) Program Assessment Rating Tool (PART) assessment showed the program to be extremely well designed and managed. Additionally, it found:

- The program successfully targeted assistance for water and wastewater infrastructure to poor rural areas;
- USDA effectively collects program data and uses that information to manage effectively. Over the life of the program, fewer people in rural areas are experiencing access problems to safe, affordable drinking water and wastewater disposal; and
- While this assessment is based largely on existing measures, these measures do not demonstrate results adequately. Improvements to the performance measures needed to be made. USDA cannot show that the long-term results are directly related to its program. The long-term goal needs to be more strategic and focused to allow for better analysis.

Exhibit 29: Trends in Water and Waste Disposal Service

Trends	Fiscal Year Actual				
	2000	2001	2002	2003	2004
Increase the number of subscribers receiving new and/or improved water and/or waste disposal service (Mil)	0.67 Baseline	1.01	0.79	0.59	0.69

KEY OUTCOME: IMPROVE RURAL QUALITY OF LIFE THROUGH NEW AND/OR IMPROVED ELECTRIC FACILITIES

Electricity has been taken for granted in American cities since at least 1936. But if one lived in a rural area nearly 70 years ago, chances are that person went without these necessities of modern life and the high standard of living they make possible. With close to 70 years of experience, the Electric Program has found that electric utility construction, operation and maintenance are best when high-quality, long-lasting materials are used.

Electricity came to rural America through some of the most successful Government initiatives in American history. This happened through USDA working with rural cooperatives, not-for-profit associations, public bodies and for-profit utilities. Today, the Electric Program continues this tradition by helping rural utilities expand and keep their technology up to date. This program also helps USDA establish new and vital electrical services.

The public-private partnership forged between USDA and the electric industry results in billions of dollars in rural infrastructure development. It also creates thousands of jobs for the American economy. Providing reliable, affordable electricity is essential to the economic well-being and quality of life for all of the Nation's rural residents. The Electric Program provides leadership and capital to upgrade, expand, maintain and replace America's vast rural electric infrastructure. Under the authority of the Rural Electrification Act of 1936, USDA makes direct loans and loan guarantees to electric utilities to serve rural customers. This makes the Federal Government the majority note holder for more than 700 electric systems.

Exhibit 30: Connecting and Improving Electric Service

Annual Performance Goals and Indicators		Fiscal Year 2004		
		Target	Actual	Result
2.2.3	Increase the number of subscribers receiving new and/or improved electric facilities (Mil)	1.350	4.325	Exceeded

Analysis of Results

The performance goal exceeded its target by 2.975 million subscribers, thanks in part to favorable interest rates. In FY 2004, the Rural Utilities Service Electric Program approved 221 loans to rural distribution, generation and transmission providers with more than \$3.8 billion. These loans connected 378,776 new consumers and upgraded and/or improved electric service to more than 3.9 million consumers.

For every dollar that USDA invests, \$2.70 is leveraged in private investment. This creates local jobs and higher local tax bases. It also develops a much stronger economy in rural communities.

Exhibit 31: Trends in Connecting and Improving Electric Service

Trends	Fiscal Year Actual				
	2000	2001	2002	2003	2004
Increase the number of subscribers receiving new and/or improved electric facilities (Mil)	1.779	4.501 Baseline	3.302	3.776	4.325

In addition loaned funds providing safe, reliable and affordable electric service, these loaned funds also are responsible for providing additional jobs in rural areas. For instance, the cooperatives and corporations that obtain financing from the Electric Program, like all businesses, have an impact on the local economy through their employment and payroll. However, the total economic activity of these rural businesses stretches beyond these direct effects. Linkages exist between one firm or industry and the rest of the economy. An industry may buy a portion of its material inputs and business services from other loan businesses. Likewise, employees spend a portion of their earnings on goods and services within the local economy. These additional activities, or linkages, generate additional economic activity in the local area.

Rural America is diverse and the challenges facing rural communities are wide-ranging and varied. Its diversity presents opportunities for the creative application of programs and policies and calls for unique partnerships. The Electric Program is focused on strengthening the partnership between the Rural Utilities Service, USDA's borrowers and grantees, and all rural America participating in and benefiting from the agency's programs. The Electric Program continuously studies the future needs of rural communities, assesses its current lending practices and identifies opportunities to better serve rural America.

The Electric Program is committed to improving its efficiency and effectiveness by promoting progressive, entrepreneurial and innovative thinking. Electric Program employees are encouraged to develop and share new ideas so as to promote and deliver its mission in a customer-oriented manner. The program works with local communities and borrowers to ensure that its loan funds are spent for the purposes intended and in needed rural areas. These loan funds enable rural Americans to enjoy the same opportunities as their urban counterparts.

Those rural communities still in need of electric program services tend to be those with unique or costly conditions that are not addressed easily or cheaply. Distance between customers, aging substandard existing systems, or unique environmental conditions make those Americans most in need of USDA's services increasingly expensive to support. At a minimum, these customers require more technical assistance provided through agency salaries and expenses. Likewise, reduction in the funding for salaries and expenses will limit the ability of the Electric Program to provide the staff and other resources needed to deliver the program and achieve the estimated level of performance.

KEY OUTCOME: IMPROVE RURAL QUALITY OF LIFE THROUGH NEW OR IMPROVED TELECOMMUNICATIONS FACILITIES

USDA finances the deployment of a nationwide, rural broadband network. Since private capital for the deployment of broadband services in rural areas is insufficient, USDA incentives are that much more important. Providing rural residents and businesses with barrier free access to today's technological benefits will bolster the economy and improve the quality of life for rural residents.

Building and delivering an advanced telecommunications network is affecting the Nation's economy, strength and growth significantly. Broadband networks in small, rural towns facilitate economic growth and provide the backbone for the delivery of increased educational opportunities through state-of-the-art telecommunications networks. While rural America can be defined by various statistics, the most important one is that 49 million people call it home. Just as the citizens in U.S. cities and suburbs benefit from access to broadband services, so should rural residents. In rural America, access to broadband plays a vital role in solving the problems created by time, distance, location and lack of resources. The promise of broadband is not just "faster access." It means:

- New educational opportunities through distance learning, enabling rural students to take virtual field trips around the world;
- Lifesaving medical treatment via telemedicine networks, allowing specialists to guide surgeries hundreds of miles away; and
- Economic growth and new markets, where businesses prosper and grow locally, while competing nationally and globally via high-speed networks.

The Farm Security and Rural Investment Act of 2002 (FSRIA) established the new loan and loan guarantee program "Access to Broadband Telecommunications Services in Rural Areas." This program is designed to provide funding for the cost of constructing, improving and acquiring facilities and equipment for broadband service in rural communities of 20,000 people or less. Direct loans are made for the life of the facilities financed. Loans may be made at 4 percent to rural communities, where broadband service currently does not exist. Loan guarantees bear an interest rate set by the private lender consistent with the current applicable market rate for a loan of comparable maturity. The guarantees are made for no more than 80 percent of the principal amount. The number of counties receiving new service will measure the extent to which the deployment of broadband service is achieved.

Exhibit 32: Support High-Speed Telecommunications Service

Annual Performance Goals and Indicators	Fiscal Year 2004		
	Target	Actual	Result
2.2.4 Increase the number of subscribers receiving new or improved telecommunication services (broadband) (Mil)	.695	.374	Unmet

Analysis of Results

The performance goal was unmet. Only 15 percent of the estimated funding was used, primarily due to a shortfall in application submission by June 30 in the infrastructure program. While funding was fully utilized in the fourth quarter, the target for new subscribers was not met. This was due to new authority in FSRIA which allows use of loan funds to refinance previous RUS loans. Thus, funding for refinancing did not contribute to subscribers receiving new or improved service. Also, several large loans were made that required substantial investment with relatively low subscriber additions. The President has announced the goal for all Americans to have access to broadband service by 2007. As such, during the year, USDA aggressively marketed the broadband program by reaching out to the telecommunications industry and the broadband providers to achieve the Department's part of the goal of funding facilities that deliver broadband service to rural America.

The broadband loan program is distinctively different from the traditional telecommunications program portfolio. First, even in today's technology-driven marketplace, broadband service, while critically important, still is not deemed a "necessity-of-life" in the same manner as electricity, telephone service and water and waste

disposal. It is a commodity that must be marketed properly so that potential customers are made aware of the many benefits of broadband service. Only then are they likely to spend their hard-earned discretionary dollars on broadband access. Second, a majority of the applicants are “start-up” companies with little, if any, history of doing business in this industry. Third, today’s marketplace is a highly competitive one as opposed to the traditional monopolistic environment. Finally, many applications cover multi-State service territories, rather than a single cooperative serving a single rural community. Many are applications requesting to serve 50, 75 or in excess of 100 rural communities in multiple States.

These differences, while opening the door to a greater number of potential applicants, pose new challenges for a lending program. While financial feasibility remains as the key to making good loans, USDA looks to continue marketing and facilitating the deployment of broadband in rural America aggressively and support the goal announced by the President.

Increasing the number of counties with broadband service benefits rural counties. The entire U.S. broadband service opens new markets for business to relocate, raises educational standards through distance learning projects and improves health care through the use of telemedicine delivery systems.

Exhibit 33: Trends in the Number of Subscribers Served by High-Speed Telecommunications Service

Trends	Fiscal Year Actual				
	2000	2001	2002	2003	2004
Increase the number of subscribers receiving new or improved telecommunication services (Broadband) (Mil)	N/A	N/A	N/A	.382 Baseline	.374

Description of Actions and Schedules

The new authority to use loan funds to refinance previous RUS loans and several large loans that required substantial investment with low subscribers were external to and beyond the control of the agency. The first factor (refinance previous RUS loans) greatly altered the assumptions used in setting the target and may require adjustments to future targets. The second factor (large loans with low subscribers) is a temporary anomaly and should not impact future targets. However, USDA will monitor this to detect any trends that might indicate the need to re-evaluate how many loan dollars are needed per subscriber receiving new or improved service.

KEY OUTCOME: IMPROVE RURAL QUALITY OF LIFE THROUGH NEW OR IMPROVED COMMUNITY FACILITIES

USDA provides a series of grants and loans to finance the development of facilities that are essential to a modern standard of living in rural communities. A wide range of public services can be assisted by these programs, including hospitals, fire trucks, police cars, child care centers, food banks, schools, medical clinics, nursing homes, community centers, town halls, jails and street improvements. These essential community facilities reached more than 12 million rural residents in 2004. Taken together, these investments bring important benefits to a large number of rural communities and citizens. They increase the availability of essential services and raise the quality of life in rural America. Moreover, USDA’s programs leverage Federal funds with private capital to invest in rural infrastructure, technology and human-resource development. A good example would be the new child care/learning center in Ellsworth, Maine. “Let’s put the children first” was the mantra used during the design phase. This new child care learning center includes a 12,000-square-foot building with six classrooms, a meeting room, parent space, a commercial kitchen, offices, a library, a secure computer area, a parking area, and an outdoor playground. Specific attention was taken to create rooms filled with natural light and promote a safe and creative environment for 60 preschoolers and 24 infants and toddlers. The project was financed by a USDA Community Facilities Direct Loan of \$605,000, a Department Community Facilities Guaranteed Loan with Union Trust Company of \$380,000, a Head Start Grant and community-wide fundraising.

A special USDA initiative in FY 2004 was the Rural Emergency Responders Initiative to strengthen the ability of rural communities to respond to local emergencies. During FY 2004, USDA invested over \$274 million of Community Facilities loan and grant funds into 531 first responder projects that serve rural Americans. These projects included 129 fire trucks, 85 fire departments, 62 police cars, 44 hospitals and related equipment, 38 ambulances, and numerous other facilities that will allow rural communities to respond to emergencies.

USDA provided funds to construct, renovate or improve 1,167 essential community facilities in FY 2004. Rural Americans will have improved services available from 158 health care facilities, 418 public safety facilities, 138 educational facilities, 25 energy-related facilities, 237 public buildings and improvements, 14 recreation facilities and 177 other essential community facilities.

Exhibit 34: Number of New and Improved Community Facilities

Annual Performance Goals and Indicators		Fiscal Year 2004		
		Target	Actual	Result
2.2.5	Provide access for residents to new and/or improved essential community facilities (Mil)	12	12	Met

Analysis of Results

The performance goal was met. Despite favorable interest rates, many rural communities are facing increased financial stress due to agricultural conditions (including drought, flooding and forest fires), natural disasters, the slowed economy and other factors. Additionally, many sectors, such as health care, are experiencing increased financial pressures. Working with its partners, USDA has been able to help meet many of these vital needs.

Exhibit 35: Trends in New and Improved Essential Community Facilities

Trends	Fiscal Year Actual				
	2000	2001	2002	2003	2004
Provide access for residents to new and/or improved essential community facilities (Mil)	N/A	6.8 Baseline	7.2	7.2	12

Management Challenge

Implementing improvements and safeguards needed for the Rural Multi-Family Housing Program is a management challenge for USDA. (Appendix A contains the Office of the Inspector General's report on USDA's major management challenges.) In response to this challenge, in October 2004, USDA is completing an analysis from a statistical sample of its rural rental housing projects. The study combines physical, financial and market analyses of the sample properties. USDA has received preliminary results on the capital needs of the multi-family portfolio and is considering alternatives for addressing those needs.

STRATEGIC GOAL 3: ENHANCE PROTECTION AND SAFETY OF THE NATION'S AGRICULTURE AND FOOD SUPPLY

The United States Department of Agriculture (USDA) provides a secure agricultural production system and healthy food supply to consumers by protecting it against pests and diseases, minimizing production losses, maintaining market viability, and containing environmental damage. USDA also ensures that the commercial supply of meat, poultry and egg products moving in interstate commerce or exported to other countries is safe, wholesome, labeled and packaged correctly. Additionally, the Department ensures that products imported from other countries are produced by a system equivalent to USDA's.

In May 2004, USDA provided \$14.7 million in funding (including CCC funding) to address *Avian Influenza*. Of that amount, \$10.8 million was used to develop a national low pathogenic *Avian Influenza* control and prevention program. *Avian influenza* is an infectious disease found in poultry. The Department also expanded

its surveillance program for *Bovine Spongiform Encephalopathy (BSE)*. BSE is a degenerative brain disease found in cattle. The plans call for USDA to increase the number of animals it tests for the disease. The Department will build on previous cooperative efforts with its partners to obtain samples from the targeted high-risk populations. USDA also spent \$18 million to help halt the spread of *Phytophthora Ramorum*, or sudden oak death, to non-infested areas of the U.S. The money was used for a national survey, nursery inspection, sampling, diagnostic testing, quarantine activities, regulatory enforcement, and public outreach.

A key to enhancing public health is ensuring that employees executing USDA's food safety responsibilities are scientifically and technically skilled. USDA is addressing the training and education of its workforce aggressively. During FY 2004, the Department held a series of national workshops for small meat and poultry processing plants. The workshops were designed to teach employees about new directives for strengthening *E. coli* 0157:H7 prevention procedures. The workshops provided owners and operators with detailed information about the directives and updated procedures inspectors will follow in certifying plant compliance. *E. coli* 0157:H7 is a bacterium found in undercooked meat. To ensure consistent and accurate inspection, the Department has made a strong commitment to recruiting scientists and retooling its entire training and education program for all employees. These employees will be able to identify and focus on activities that enhance public health.

USDA continues to implement five core initiatives to improve food safety for American families. The initiatives, which were established in 2002, include:

- To improve the management and effectiveness of the Department's regulatory programs;
- To ensure that policy decisions are scientifically based;
- To improve the coordination of food safety activities with other public health agencies;
- To enhance public education, and
- To protect USDA-regulated products from intentional contamination.

Additionally, the emergence of previously unrecognized pathogens and new trends in food distribution and consumption highlight the need for new strategies to reduce health risks. These risks often are associated with pathogenic microorganisms in meat, poultry and egg products. In an effort to reduce incidences of foodborne illness, USDA works to educate consumers on the importance of following food safety guidelines. As a liaison to the Partnership for Food Safety Education, USDA is involved in the Fight BAC!TM campaign. The goal of this campaign is to educate consumers on the following four easy steps that they can take to decrease the risk of foodborne illness:

- **Cook**—Cook to a safe internal temperature. Ground beef should be heated to 160 degrees Fahrenheit;
- **Separate**—Separate raw and cooked/ready-to-eat food to prevent cross-contamination;
- **Clean**—Clean the thermometer after use. Be sure there are plenty of clean utensils and platters on hand. Wash hands often; and
- **Chill**—At home, store leftovers in the refrigerator or freezer within two hours of taking food off the grill. On hot days above 90-degrees Fahrenheit, refrigerate or freeze within 1 hour. Make sure the temperature in the refrigerator is 40 degrees Fahrenheit or below, and 0 degrees Fahrenheit or below in the freezer. Check the temperature occasionally with a refrigerator/freezer thermometer.

Through analysis and discussions with the scientific community, public health experts and all interested parties, issues have been identified that need to be addressed to reach the "next level" of public-health protection. A brief description of these challenges is presented in this section. The resulting strategies should help USDA achieve its goals for reducing foodborne illness.

For the Nation to have affordable and safe food, the food system must be protected at each step from production to consumption. The production and distribution system for food in the U.S. is diverse, extensive and easily accessible. This open system is vulnerable to introduction of pathogens and toxins through natural processes, global commerce and by intentional means. Crop and livestock production systems must be protected from the

ravages of diseases whether domestic or foreign. The food supply must be protected during production, processing and preparation from contamination by pathogens and toxins that cause disease in humans.

The possibility of intentional contamination of the food supply or pathogen attacks on crops and livestock defines the need to conduct research to keep the U.S. food supply safe by incorporating a biologically based (biodefense) strategy to reduce vulnerabilities. Novel scientific strategies must be developed to meet new threats.

OBJECTIVE 3.1: ENHANCE THE PROTECTION OF MEAT, POULTRY AND EGG PRODUCTS FROM FOODBORNE HAZARDS IN THE UNITED STATES

Exhibit 36: Resources Dedicated to Reduce Pest and Disease Outbreaks

USDA Resources Dedicated to Objective 3.1	FY 2004	
	Actual	Percent of Goal 1
Program Obligations (\$ Mil)	\$1,168.3	37%
Staff Years	10,739	54%

Introduction

Protecting the Nation's food supply from potential hazards, whether chemical, microbial or physical, is a formidable task. Accomplishing it will require sound science to make the appropriate decisions and policy development. In the light of the public's heightened apprehension that the Nation's food supply could be a target for terrorists, and with the potential for new and emerging microbial hazards to enter the food supply, USDA's food safety systems, particularly those for meat, poultry and egg products, must be assessed and updated continually. This will help maintain consumer's confidence and protect them from exposure to foodborne diseases. These systems include activities to track the incidence of pathogens and illness-causing organisms in these products. They also are designed to raise public awareness about food safety, food security and safe food handling. Foodborne diseases include infections caused by bacteria.

Overview

Significant food safety advancements have been made in the past year. One of these has been improvement in implementation and verification of plant Sanitation Standard Operating Procedures (SSOP) and Hazard Analysis and Critical Control Point (HACCP) plans. HACCP identifies both the hazards associated with a food, in this case the consumption of meat and poultry, and the key steps that must be controlled to ensure that those products are safe. SSOP requires all Federally inspected meat and poultry plants to have written sanitation procedures to show how they meet basic sanitation practices before and during operation. This has led to a dramatic decline in the number of meat and poultry product recalls during 2003. The number of Class I, or high-risk, recalls in 2003 was cut nearly in half from the total observed in 2002. In the first half of 2004, the number of Class I recalls had decreased even further to 16. This is a strong indicator that USDA's scientifically based policies and programs are working to prevent adulterated products from entering the marketplace.

Other indicators of success include a trend of the reduction in pathogens found in meat and poultry regulatory samples. This year, USDA released data that showed a 25-percent drop in the percentage of positive *Listeria monocytogenes* regulatory samples from the previous year. *Listeria monocytogenes* is a type of bacteria found in soil, ground water and plants. Animals and humans can carry the bacteria without ever becoming sick. Most human exposure results from eating contaminated foods. This exposure can cause *listeriosis*, a serious brain disease. While most people are not at increased risk for listeriosis, some can be more susceptible to the disease, including pregnant women and their unborn babies, and newborns. Other at-risk groups for *listeriosis* include older adults and people with weakened immune systems caused by cancer treatments, AIDS, diabetes and kidney disease, among other maladies. The data also showed a 70-percent decline compared with years prior to the implementation of HACCP. USDA is cautiously optimistic that this downward trend will continue because

of the regulation issued in June 2003 for establishments producing ready-to-eat products where *Listeria monocytogenes* is a concern.

Serving the Public

Science-based risk assessments drive USDA food-safety policies and programs to enhance public health. Risk assessment provides the framework for developing the scientific basis for USDA meat, poultry and egg product policies and programs. HACCP is the system that plants use to address the hazards identified in risk assessments. Through risk assessment, USDA has been able to identify methods by which plants can control pathogens. USDA recognizes that enhancing the public's health in terms of safe meat, poultry and egg products is not a lone venture. It has formed many partnerships to provide food-safety information to the industry, the public and Federal, State and local agencies. The Department also works closely with academia to help provide guidance and assistance.

Another important part of USDA's responsibility is protecting meat, poultry and egg products from intentional contamination and bioterrorism. Information gained from risk assessments will help USDA continue its efforts to protect these products.

While the results of risk assessments shape inspection policy, they also help USDA design food-safety education programs to increase consumer knowledge, and change behaviors to prevent foodborne illness. The program targets the general public and at-risk groups for foodborne illness – the very young, the elderly, pregnant women and people with chronic diseases or compromised immune systems.

USDA scientists developed a cost-effective, rapid and accurate procedure to identify genus and species of *Enterococci* in food products. *Enterococci* can harbor antibiotic resistance genes and transfer them to harmful foodborne pathogens. The multiplex Polymerase Chain Reaction procedure detects the presence of the genes responsible for encoding antibiotic resistance. Results indicated that, although *Enterococci* are prevalent among food items, the chances of transmitting antibiotic resistance from animal food products to humans are very low. This procedure is useful to producers, regulatory agencies and researchers in tracing and preventing both pathogens and antimicrobial resistance in food products.

Selected Results in Research, Extension and Statistics

Bacterial Proteins Combat *Campylobacter*—*Campylobacter* is one of the most common bacterial causes of foodborne illness. Poultry is the primary vehicle for transfer to humans. A team of USDA and Russian scientists has discovered proteins from harmless microorganisms that can reduce *Campylobacter* numbers in bird intestines by 99.9 percent in small research trials. Large research trials will be necessary to determine if the technology is feasible commercially. This is the first treatment used in the last 25 years to achieve a significant reduction of *Campylobacter* in research trials on chickens. *Bacteriocins* could provide an effective alternative to antibiotics the poultry industry uses to control pathogenic bacteria.

Scientists Investigate Probiotic Use in Poultry, Develop New Tests—USDA scientists have found several promising intestinal bacteria that could protect live chickens from *Salmonella*, *Campylobacter* and other pathogens that cause foodborne illness in people who eat poultry. To prevent contamination, it is important to prevent the pathogens from infiltrating the intestinal tracts of the live birds. A team of scientists is trying to find new, healthful bacteria that, when fed to live birds, help them resist harmful pathogens and grow more efficiently. The team already has screened more than 4 million intestinal cells to develop several promising biotic combinations.

Tracking Food through Production and Distribution—Food traceability, or the ability to track the path of food from farm to kitchen, is making news in discussions ranging from homeland security, food safety to country-of-origin labeling, and genetically engineered foods. USDA released a widely cited study that examined the use of traceability in the U.S. food system. The study explored the private and public-sector rationale for adapting traceability schemes. It also provided details of how food firms and the Government sector are using traceability systems to meet consumer needs. The findings indicate that mandatory traceability—possibly a one-size-fits-all regulation—can be costly. Firms already trace many food attributes and other approaches may be targeted better toward enhancing trace back for food safety.

Food Safety and International Trade—Food safety and international trade increasingly are becoming linked. As new food safety challenges have emerged, trade has expanded and changed to meet global demand. USDA released a study that examined the conceptual relationships between food safety and international trade. The study also analyzed examples from the meat and poultry, produce, food crop, and seafood sectors.

Food Handler Certification—University of Delaware educators offered the Salvage® Manager Certification Course. Developed by the National Restaurant Association Educational Foundation, the course is offered statewide. Participants come from a range of facilities that offer food service, including restaurants, State facilities, nursing homes and child care providers. The participants work as chefs, restaurant managers and front-line food service employees. According to the National Restaurant Association, if food safety education helps eating establishments avoid one foodborne illness outbreak, it saves it approximately \$75,000. This figure excludes the economic costs of health complications to the individuals affected.

Challenges for the Future

The first challenge is to anticipate/predict risk of chemical, microbial or physical hazards to the food supply through enhanced data integration. USDA must have the best available data to identify the extent and nature of these risks clearly. This will allow the Department to respond effectively. These data consist of regulatory samples and those collected by food processing establishments. There is a need to improve access to and analysis of food-safety data from all reliable sources.

The second challenge is the improved application of risk into regulatory and enforcement activities. Food safety problems need to be documented as they occur. This will allow USDA to analyze and, if necessary, mitigate any potential risks. A better understanding of the prevalence and causes of food safety failures could allow better assessment of how to address them appropriately. Data regarding the causes of food safety violations, either within a specific establishment or class, can be utilized to focus prevention and regulatory enforcement strategies better.

To develop a relative, real-time measure of how well an establishment controls the biological, chemical and physical hazards inherent in its operations, USDA is exploring the development of a Hazards Control Coefficient. For example, if the universe of meat and poultry plants could be divided into categories based on the risk inherent in their products (ground beef vs. beef jerky) and their respective compliance histories, the Department could determine the probability of each plant producing safe products. Such a scheme would help USDA make resource allocation decisions across this country's more than 6,000 meat and poultry establishments based on risk. This would maximize food safety and public health protection.

Finally, the third challenge is better association of program outcomes to public health surveillance data. There have been notable advances in preventing foodborne illness. While the U.S. Centers for Disease Control and Prevention (CDC) has attributed this partially to the implementation of HACCP, the need to determine how specific policies affect public health remains. To accomplish this, data that link illness outbreaks with specific foods need to be obtained and documented. That information then may be linked with prevalence data of specific pathogens in specific foods. To complete the linkage with public health outcomes, a strong connection with human health surveillance data are needed.

Accomplishing this task will help point regulatory efforts toward focusing inspection and enforcement on those practices where risk is deemed to be highest. This will result in a more efficient use of Government resources. Toward this goal, USDA is working with CDC's National Center for Infectious Diseases to design and support studies that connect the occurrence of specific pathogens in specific foods with that of human foodborne illness.

USDA is strengthening relationships with State health departments to include attribution data in scientific epidemiological investigations. The Department also is examining the establishment of a joint task force with CDC to determine ways to improve data collection by FoodNet. The Foodborne Diseases Active Surveillance Network (FoodNet) is the principal foodborne disease component of CDC's Emerging Infections Program (EIP). EIP is a population-based network of CDC and State health departments working with collaborators to assess the public health impact of emerging infections and evaluate methods of their prevention and control. These collaborators include local health departments, public health laboratories, academic institutions and other

Federal agencies. FoodNet is a collaborative project of the CDC, 10 EIP sites (California, Colorado, Connecticut, Georgia, Maryland, Minnesota, New Mexico, New York, Oregon and Tennessee), USDA and the U.S. Food and Drug Administration (FDA). The project consists of active surveillance for foodborne diseases and related scientific studies. FoodNet is designed to help public health officials better understand the causes of foodborne diseases in the U.S. It also provides a network for responding to new and emerging foodborne diseases of national importance, monitoring their public burden and identifying their sources. USDA will continue to engage the scientific community, public health experts and all interested parties to identify science-based solutions with public health outcomes.

KEY OUTCOME: BASING POLICIES ON SCIENCE

The accomplishments of various USDA food safety initiatives, including basing policies on science, can be observed in CDC's 2004 report on the incidence of infections from foodborne illness. The report noted significant declines from 1996 to 2003 in illnesses caused by the pathogens *E. coli* 0157:H7 (42 percent), *Salmonella* (17 percent), *Campylobacter* (28 percent) and *Yersinia* (49 percent). Illnesses caused by *Salmonella Typhimurium* decreased 38 percent. This pathogen typically is associated with meat and poultry. Between 2002 and 2003, illnesses caused by *E. coli* 0157:H7 dropped 36 percent. This reduction in *E. coli* 0157:H7 illnesses — typically associated with ground beef — brings the U.S. closer to achieving the “Healthy People 2010” goal of 1 case per 100,000 people. “Healthy People 2010” is a long-range plan from the U.S. Department of Health and Human Services (HHS). It illustrates a wide range of public health opportunities that exist in the first decade of the 21st century. The plan was created by a broad coalition of experts from many sectors and introduces a series of objectives designed to bring better health to all people in the U.S. With 467 objectives in 28 focus areas, “Healthy People 2010” was created to guide health planners, medical practitioners, educators, elected officials and all who work to improve health. CDC attributes the decreases to control measures implemented by Government agencies and the food industry, and enhanced food safety education efforts. Specifically, with regard to *E. coli* 0157:H7, CDC attributes the reduction in illness caused by this pathogen to USDA policies implemented in 2002 and 2003.

Listeria monocytogenes

Data gathered during an outbreak of *Listeria*-related illnesses during the summer/fall of 2002, other food safety investigations and in-depth verification reviews led USDA to conclude that some establishments were not addressing the potential for bacterial contamination adequately in their HACCP plans, SSOP or other control measures. In response, USDA implemented a directive in December 2002. The directive outlined steps that USDA inspectors must follow to ensure that establishments producing ready-to-eat (RTE) meat and poultry products were preventing the *Listeria monocytogenes* contamination. The directive was designed to reduce the risk of *listeriosis* from consumption of high and medium risk RTE products. It subjected establishments to intensified verification testing if they produced high and medium risk RTE meat or poultry products (deli meats and hot dogs) without validated controls for preventing *Listeria monocytogenes*, or if they failed to share information related to such programs with USDA.

In February 2003, USDA released a draft scientific risk assessment on *Listeria* in RTE meat and poultry products. A public meeting was held February 26, 2003, to discuss the risk assessment. The risk assessment was written in conjunction with a previously released FDA/USDA risk ranking, public comment gathered on the topic and a peer review. It provided important data enabling USDA to design a final *Listeria monocytogenes* rule.

On June 6, 2003, the Department issued an interim final rule requiring Federal establishments producing certain RTE meat and poultry products to take steps to reduce the incidence of *Listeria monocytogenes*. The rule required establishments to choose one of three approaches based on the stringency of the control program for *Listeria monocytogenes* that they implement. The approach taken is one factor in determining the frequency of USDA-conducted verification activities in each establishment. The highest frequency was concentrated in establishments that rely solely on sanitation practices compared with those that implement more aggressive and effective strategies. These include incorporating an inhibiting agent in product formulation or inserting an additional processing step to kill pathogens that may contaminate the product after cooling.

The rule took effect October 6, 2003. The *Listeria monocytogenes* directive was updated to reflect the policies outlined in the rule. USDA is accepting comments about the rule for 18 months after publication for the purpose of reviewing and evaluating the effectiveness of these approaches.

The *Listeria* rule was built on the results of a quantitative risk assessment. The assessment provided guidance about the practices the industry should follow to exert the greatest control over this pathogen in RTE meat and poultry products. It showed that testing the processing environment was important in helping find the organism in the niches where it may reside. This allows processors to target and eliminate it from the plant environment before it could contaminate product. Most importantly, the risk assessment showed that an establishment could choose the most effective strategy to control *Listeria* depending on its product(s) and the environment in which it operates.

The *Listeria* rule's impact already has been significant. Establishments have made changes to prevent products from harboring this organism. USDA recently conducted a survey of its inspection personnel in 1,400 establishments producing RTE meat and poultry products. It found that more than 87 percent have changed their operations in one way or another to control *Listeria monocytogenes* more effectively. More than 57 percent started testing for *Listeria* in the plant environment, more than 27 percent have begun using an antimicrobial agent to inhibit the growth of this organism and 17 percent are using post-lethality treatments. This rule challenged industry to do more to prevent contamination.

***Escherichia coli* O157:H7**

USDA measures to prevent ground beef contaminated with *E. coli* O157:H7 from entering commerce also have yielded significant decreases in this pathogen. In 1994, USDA declared *E. coli* O157:H7 an adulterant in raw ground beef. During the last decade, the Department has undertaken a number of initiatives to reduce the prevalence of this pathogen in raw ground beef. Beginning in October 2002, USDA required that each plant producing raw beef products reassess its HACCP plan to prevent adulterated products from entering commerce. Scientifically trained USDA personnel then conducted the first-ever comprehensive audits of 1,500 beef establishments' HACCP plans. Sixty-two percent of those plants made major improvements based on these reassessments. Sixty percent added *E. coli* O157:H7 as a pathogen likely to occur. These moves led to a significant drop in the percentage of *E. coli* O157:H7 positive regulatory samples in ground beef.

In September 2003, USDA released data collected from January 1 through August 31, 2003. The data showed a drop in the number of *E. coli* O157:H7 positive samples of ground beef collected than in past years. Of these samples, 0.32 percent tested positive for *E. coli* O157:H7, a decrease from 0.78 percent in 2002, 0.84 percent in 2001 and 0.86 percent in 2000. Since 2001, USDA has analyzed approximately 7,000 samples annually.

Additionally, USDA has taken steps to begin a science-based baseline study for trimmings used to make raw ground beef. The study was reviewed by scientists serving on the National Advisory Committee on Microbiological Criteria for Foods (NACMCF). The committee, then, issued its recommendations in a report titled, "NACMCF Response to USDA/FSIS Request for Guidance on Baseline Study Design and Evaluations for Raw Ground Beef Components."

A directive was issued in May to provide new instructions to inspection program personnel for collecting samples for *E. coli* O157:H7 testing. The directive provides new instructions for follow-up actions that USDA personnel will take after an initial USDA sample of raw ground beef product, raw ground beef components or raw beef patty components tests positive for *E. coli* O157:H7. It also provides new instructions to inspection program personnel for verifying the control of raw beef products that are "positive" and "presumptive positive" for *E. coli* O157:H7, and moved to another official establishment, landfill operation or renderer for proper disposal. A renderer is an operator that may subject edible or inedible tissue to a process in which the resulting products are distinguished as edible rendered material (e.g., beef stock or flavoring) or inedible material. The resulting products are used as protein sources for animal feed or other industrial purposes.

The new directive calls for establishments with sampling and verification testing, and a high degree of confidence of finding the pathogen in both trim and finished ground product to be sampled less frequently. Additionally, USDA will weigh its sample scheduling process so that an establishment producing a large

volume of raw ground-beef products will be sampled more frequently than one with a lower volume. In the future, USDA intends to develop a random sampling and testing program for raw ground-beef and beef-patty components, and non-intact beef products other than ground beef. This includes mechanically tenderized and injected steaks and roasts.

USDA is considering how best to ensure that its inspectors know and can access the results of testing done by establishments. The Department plans to conduct an internal audit to determine the effectiveness of the new policies, which have been designed to reduce the incidence of *E. coli* 0157:H7.

Salmonella

A little more than a year ago, USDA also issued new procedures for utilizing *Salmonella* performance standards as a verification tool for food safety. Now, instead of waiting for two consecutive failures of tests to trigger an in-depth review of plant SSOP and HACCP plans, reviews are initiated after any series is declared substandard. Improvements to the in-depth review process also have been implemented, such as the inclusion of Enforcement, Investigative Analysis Officers and other HACCP-trained personnel. This process and other science-based initiatives, including strategies implemented to reduce *E. coli* 0157:H7, have played a significant role in reducing the prevalence of *Salmonella* in raw meat and poultry regulatory samples. *Salmonella* in these products has dropped substantially during the past six years. Out of the number of regulatory samples collected and analyzed by USDA between January 1 and October 31, 2003, 3.6 percent of all products tested positive for *Salmonella*. That compares to 4.29 percent in 2002 and 10.65 percent in 1998.

Although the Agency's rate of positives in regulatory samples of all three pathogens discussed above may not represent the prevalence of these pathogens nationwide, it is indicative of a statistically significant downward trend for all foods.

Exhibit 37: Pathogen Reduction (Food Inspection)

Annual Performance Goals and Indicators		Fiscal Year 2004		
		Target	Actual	Result
3.1.1	Prevalence of <i>Salmonella</i> on Broiler Chickens	11.7%	13.6%	Unmet
3.1.2	Prevalence of <i>Listeria monocytogenes</i> on Ready-to-Eat Meat and Poultry Products	0.8%	0.89%*	Met
3.1.3	Prevalence of <i>E. coli</i> 0157:H7 in Ground Beef	0.37%	0.19%	Met

*Includes newer-risk-based sampling project which is an effort that directs the inspector's sampling activity toward higher risk products. Approximately 80 percent of the samples for ready-to-eat meat and poultry products are scheduled under this project.

Analysis of Results

The target for 3.1.1 was not met. With respect to the prevalence of *Salmonella* on broiler chickens, the percentage of positive samples increased by almost 2 percentage points for FY 2004. At the same time, most establishments continue to pass the performance standard established in 1996 that provides for a maximum of 12 positives in a compliance set of 51 samples. USDA recently posted data on its Web site showing that 87 percent of 127 sets completed during 2003 passed the standard. This compliance rate is only slightly lower than the rates in the five previous years. The Department expressed its concern that the percentage of positive *Salmonella* tests (all sizes of establishments combined) increased slightly in all three poultry categories. USDA is examining *Salmonella* set data from 1998 to the present to identify clearly those plants displaying negative performance trends. Enforcement investigations analysis officers (EIAO) then will conduct in-depth HACCP and sanitation verification reviews at those facilities to help ensure that this one-year increase does not continue.

The target for 3.1.2 was met. USDA revised its directive that covers the sampling of ready-to-eat (RTE) products for *Listeria monocytogenes*. Under this directive, most sampling is directed to higher risk products. Approximately 80 percent of the samples are scheduled under a project that directs the inspector to collect post-deli salads, pate and meat spreads. These product categories have had higher overall rates of *Listeria*

monocytogenes in recent years. USDA also schedules sampling for all RTE products. The target was met even when including the results from the higher risk sampling.

The target for 3.1.3 was met. USDA scheduled reviews for each establishment this year using the new set of compliance requirements in the new Directive 2000. When an establishment failed an initial review, the front-line supervisor and senior veterinary medical officer/inspector-in-charge (SVMO/IIC) conducted and documented an assessment of the HACCP and SSOP procedures. Where applicable, they analyzed data actions of the establishment. They also developed, documented and implemented a comprehensive plan to verify the corrective actions implemented by the establishment.

Performance targets were selected because USDA recognizes that *Salmonella* levels on young chickens can increase even as most establishments continue to meet the performance standard. *Listeria monocytogenes* in RTE will continue to see further decreases in an already low level. In this case USDA estimated further decrease because the Department expected to see some benefit from the new rule. It should be noted that USDA should maintain the current low level.

Exhibit 38: Trends in Pathogen Reduction (Food Inspection)

Trends	Fiscal Year Actual				
	2000	2001	2002	2003	2004
Prevalence of <i>Salmonella</i> on Broiler Chickens	8.7%	11.9%	11.5% Baseline	11.7%	13.6%
Prevalence of <i>Listeria monocytogenes</i> in Ready-to-Eat Meat and Poultry Products	1.45%	1.26%	1.03% Baseline	0.9%	0.89%
Prevalence of <i>E. coli</i> 0157:H7 in Ground Beef	0.57%	0.59%	0.77% Baseline	0.37%	0.19%

To illustrate the significance of these trends, the accomplishments of USDA's food safety initiatives can be observed in the annual (2004) report on the incidence of infections from foodborne illness by the U.S. Centers for Disease Control and Prevention (CDC). The report noted significant declines from 1996 to 2003 in illnesses caused by *E. coli* (42 percent). CDC attributes the reduction in illness caused by this pathogen to policies implemented in 2002 and 2003 by USDA. In late 2003, the Department released data that showed, as of September 30, a 25-percent drop in the percentage of positive *Listeria monocytogenes* regulatory samples from the year before, and a 70-percent decline compared with years prior to the implementation of HACCP. Additionally, for *E. coli*, USDA is publishing a peer-reviewed analysis showing that the decrease in the percentage of positive regulatory samples from 2002 to 2003 was statistically significant. This finding is consistent with the CDC reports of decreasing illness.

USDA now is collecting industry data on RTE products as part of a recent rulemaking. The Department will use these data to revise its testing program for *Listeria monocytogenes* in RTE products. USDA intends to conduct more testing in higher-risk establishments.

The next steps to maintain low pathogen levels are discussed further in the Management Challenge paragraph immediately below the next section.

Description of Actions and Schedules

While the percentage of establishments passing the performance standard has remained very high, USDA has recognized that the percentage of broiler samples positive for *Salmonella* has been increasing since 2000.

A major challenge concerns how to reduce *Salmonella* in young chickens, given that most establishments are meeting the existing performance standard.

When USDA posted the 2003 data on its Web site, the data showed that the percentage of positive *Salmonella* tests (all sizes of establishments combined) increased slightly in all three poultry categories.

The agency is examining *Salmonella* set data from 1998 to the present to identify clearly those plants displaying negative performance trends. EIAOs then will conduct in-depth HACCP and sanitation verification reviews at those facilities to help ensure that this one-year increase does not continue.

The agency also will continue to schedule a compliance set for each establishment annually. Under Directive 5000 (effective May 21, 2003), whenever an establishment fails an initial compliance set, the front-line supervisor and SVM/OIC will conduct and document an assessment of the establishment's HACCP and SSOP procedures, and, where applicable, analyze data from the establishment's generic *E. coli* testing. That testing will focus on the corrective and further-planned actions by the establishment.

The front-line supervisor and SVM/OIC also will develop, document and implement a comprehensive plan to verify any corrective actions implemented by the establishment.

Management Challenge:

The need for increased oversight and monitoring of food safety systems is a management challenge for USDA. (Appendix A contains the Office of the Inspector General's report on USDA's major management challenges.) In response to this challenge, USDA is using the BAX system to screen for dangerous bacteria and pathogens in raw meat and poultry products. BAX is used commonly to screen food and environmental samples for pathogens or other organisms. Since FY 2003, USDA has used BAX to test meat and poultry samples for *Listeria monocytogenes*, *Salmonella* and *E. coli* 0157:H7—three of the most commonly found pathogens in these food groups. USDA also has issued three directives. One is to provide a current list of approved substances for use in the production of meat and poultry products. The others are providing direction in the collection and processing of trace back samples, and instructions for handling and re-inspecting contaminated carcasses.

In FY 2005, USDA will continue to maintain low pathogen levels by:

- Providing guidance in using the Pathogen Reduction Enforcement Program. This program schedules sample collections for laboratory testing of regulated pathogens (such as *Salmonella*, *Listeria monocytogenes* and *E. coli* 0157:H7). It also provides certain reports, such as non-responders and plant eligibility reports, and aids district officials in the oversight of the testing program;
- Providing ProClarity training to district and front-line supervisors. ProClarity is a data mining program that gives district office personnel and circuit supervisors direct access to "real time" data on scheduled inspection procedures, whether performed or not, and the results of those procedures. It provides inspection information in a summary format that can be analyzed quickly and easily. ProClarity also allows for progressively more targeted and detailed levels of analysis of problem areas;
- Providing ongoing food safety regulatory essentials training to inspection program personnel. This training is designed to reinforce staff understanding of food safety inspection duties;
- Conducting baseline studies to determine the nationwide levels of various microorganisms in raw meat and poultry;
- Developing a comprehensive management control program; and
- Implementing data analysts' positions within districts.

To improve controls over the recall process, USDA will:

- Complete and publish a Hazards Analysis and Controls Guide; and
- Complete enforcement and analysis officer training to provide guidance on conducting effectiveness checks of establishments conducting recalls.

KEY OUTCOME: RAISING PUBLIC HEALTH AWARENESS

USDA consumer education programs are based on "integrated marketing." This concept has three components:

- Mass media, or reaching out to the broad public;
- Cluster targeting, which use demographic, geographic and socio-demographic information to tailor communications to segmented audiences; and

- One-on-one interactions, especially through the USDA's Food Safety Mobile, expanding outreach programs to include new services and partnerships for minorities and underserved populations both in the U.S. and abroad. The Food Safety Mobile is a 35-foot, recreational-style vehicle covered with a bold, eye-catching design and prominent food safety messages. It travels continuously throughout the continental U.S. to educate consumers about the risks associated with mishandling food and the steps they can take to reduce their risk of foodborne illness.

Each component of the integrated marketing program is developed based on risk research. It also is delivered utilizing social marketing concepts and assessed through evaluative research. Ongoing nationwide surveys and consumer focus-group studies are used to evaluate and ensure the initiative's continuing effectiveness. They also are designed to track documented changes in consumer behavior.

One such initiative was a targeted thermometer education campaign in Michigan in August 2004. USDA worked with the National Food Safety and Toxicology Center from Michigan State University and local partners to host events in Ann Arbor, Lansing and Grand Rapids. The goal is to increase the use of food thermometers and prevent foodborne illness. The initiative used social marketing principles to promote positive behavior change. The target audience was a selection of parents with children under 10 years old. This age group has been chosen as the one most likely to change its behavior. Before and after testing, an overall evaluation conducted in collaboration with USDA assessed this effort's effectiveness. This pilot will be a role model for other States and may serve as the basis for a possible national launch of this initiative in 2005.

USDA is committed to communicating with all food handlers. This is especially true for those who serve others in large-scale food operations or are personally at risk for foodborne illness. The Department has made great strides in reaching out to non-English-speaking citizens. Food safety publications for both industry and consumers have been translated into several languages including Spanish, Korean and Mandarin Chinese. USDA uses national television, cable networks, educational television, radio, magazines, newspapers and Web sites to enhance public education efforts.

Ensuring that meat, poultry and egg processing plants understand USDA directives and regulations is a key aspect of its food safety outreach program. Recently, the Department has initiated a series of teaching workshops designed to provide owners and operators of plants with detailed information about new directives. They also feature updated procedures inspectors will follow in verifying plant compliance in several areas. Workshops have been held across the country on such topics as *Listeria monocytogenes*, *Bovine Spongiform Encephalopathy* and *E. coli* 0157:H7. More than 1,000 attendees have benefited from these interactive sessions. The information from these workshops is available upon request in both English and Spanish online at www.fsis.usda.gov.

Exhibit 39: Public Health Outreach & Education

Annual Performance Goals and Indicators	Fiscal Year 2004		
	Target	Actual	Result
3.1.4 Viewings of food safety messages (Mil)	94	123	Exceeded

Analysis of Results

USDA defines "viewing" as its best estimate of the number of people receiving the Department's food safety messages. These messages are delivered via print, radio, television, conventions, presentations, newsletters, the Internet, Meat and Poultry Hotline calls, Department publications, the USDA Food Safety Mobile and State partnerships.

USDA reached more than 123 million consumers through food safety education campaigns such as the Michigan Food Thermometer Education Campaign, press releases, video, feature articles published in newspapers and magazines nationwide, and the printing of a food safety message on the "IRS Back of the Envelope" mailing.

USDA launched a newly designed Web site in April. It offers features and tools presented in a user-friendly way to help visitors easily find the food safety information and services they need. The Web site is arranged by subject so users can navigate by topic rather than having to search through the various agencies.

This customization helps all stakeholders quickly find the food safety information most relevant to them. The site now averages more than 10 million hits, 1.5 million page views and a 500,000 visitors per month.

Electronic outreach through the site's "AskKaren" feature answers questions about the safe storage, preparation and handling of meat and poultry products. Though this is not a live chat, the robust 55,000-question database behind "AskKaren" allows visitors to correspond naturally by typing in a question and receiving an immediate answer. "AskKaren" also can provide visitors with a list of related question in their area of interest. Nearly 5,000 users have visited the "AskKaren" tool since its April launch, receiving timely answers to almost 15,000 food safety questions.

Exhibit 40: Number of Viewings for Food Safety Messages

Trends	Fiscal Year Actual				
	2000	2001	2002	2003	2004
3.1.5 Viewings of food safety messages (Mil)	N/A	N/A	90 Baseline	92	123

In August, USDA began a new e-mail alert subscription service that tailors pages updated on the Web site to an individual subscriber's needs. In the first month of service, there were more than 1,000 subscribers to the new service with usage continuing to grow.

The Web site is devoted to assisting visitors get the information and services they need easily by participating in the Customer Satisfaction Survey. This survey benchmarks results with other Government and commercial sites. The combined scores before and after relaunch showed a 4.7-percent increase in the overall customer satisfaction score, with nearly across-the-board improvement in individual scores. In fact, three of the satisfaction scores recommend the site (79 percent), site performance (81 percent) and likelihood to return (86 percent) exceeded both the U.S. Government and private sector benchmarks for the latest quarter.

Through various focus groups for the Michigan Campaign and the Food Safety Mobile, USDA is evaluating campaign results and refining food safety messages and education materials to meet the needs of this particular targeted audience. It also benefits the underserved populations, including Native American, Asian-American, African-American and Hispanic audiences, and at-risk populations. Focus group results will help shape USDA's national approach to future consumer food safety education outreach activities.

Future challenges include targeting the right messages to numerous audiences nationwide by utilizing mass media initiatives, the Internet and the Food Safety Mobile to continue to expand outreach.

Immediate plans for next steps include continued utilization of social marketing principles and integrated marketing through mass media campaigns and the Food Safety Mobile. Michigan campaign results will help shape USDA's national approach to future consumer food safety and serve as a foundation for a national launch of this campaign in 2005. Continued use of electronic, Web-based communication also will enhance public health outreach and education.

OBJECTIVE 3.2: REDUCE THE NUMBER AND SEVERITY OF AGRICULTURAL PEST AND DISEASE OUTBREAKS

Exhibit 41: Resources Dedicated to Reducing Pest and Disease Outbreaks

USDA Resources Dedicated to Objective 3.2	FY 2004	
	Actual	Percent of Goal 1
Program Obligations (\$ Mil)	\$1,990.0	63%
Staff Years	9,258	46%

Introduction

By reducing the number and severity of agricultural pest and disease outbreaks, USDA and its cooperators protect the agricultural production system and ensure a healthy food supply. Strategies include:

- Conducting offshore threat assessment and risk reduction activities to identify and eliminate pests, diseases and weeds;
- Regulating and monitoring the importation of animals, plants and commodities. This work is designed to reduce the risk of the introduction of invasive species that may cause damage to agriculture and the environment. Other regulatory activities ensure safe research, release and movement of biotechnology and the development of effective veterinary biologics.
- Managing issues related to animal and plant health, and conflicts with wildlife. It prevents the neglect and inhumane treatment of animals used in commerce, protects their health and reduces the chances of their contracting and spreading disease. Additionally, the Department's work helps to control damage done to agricultural and natural resources by wildlife; and
- Conducting programs to detect pests, diseases and weeds quickly should they enter the country. This allows scientists to fight pests and diseases while outbreaks remain localized and less costly to control. USDA accomplishes this through educating and training public and private sector organizations to report pests and diseases when they first are observed and coordinating larger, complex eradication and control efforts. Surveys of the infestation boundaries are done and quarantines are established if necessary. This stops the movement of host materials that may spread pests and diseases.

Taken together, these components comprise the Nation's agricultural "safeguarding system."

Overview

Thanks to USDA's effort, no foreign animal diseases introduced into the U.S. spread beyond their original area of introduction. These efforts prevented severe economic or environmental damage or damage to the health of animals or humans. This met the target established in the *FY 2004 Annual Performance Plan*.

Diseases and pests have profound effects on the performance and well being of plants and animals. They cause poor growth, decreased yield, higher production costs and unacceptable quality. Billions of dollars are lost through trade embargoes, quarantines and the destruction of national livestock herds or vast crops when emerging or reemerging diseases or pests strike. For emerging diseases to be detected and controlled effectively, the biology and ecology of the causal pathogens must be understood and their weaknesses exploited to limit their spread. Rapid diagnostic tests, novel genetic vaccines, immune modulatory strategies, disease resistance genes and increased biosecurity measures will be needed to prevent or control outbreaks and the spread of plant and animal diseases in the future.

Growing out of the increased concern about the intentional introduction of disease agents and pests has come the development of networks of diagnostic laboratories. These laboratories have enhanced the Nation's collective capacity for surveillance and identification of specific pathogens greatly. The network uses common software platforms to process diagnostic requests and share information among diagnostic laboratories. Education included training for national partners and conducting simulated tests of the network's ability to

detect suspect plant diseases. This network also can detect malicious or accidental introductions of disease. Through Extension Service, producers gain an understanding of threats from diseases and pests, and learn effective and efficient means to control economically significant pests, pathogens and diseases.

Selected Results in Research, Extension and Statistics

Preventing Newcastle Disease—USDA scientists developed a new approach to experimental vaccines that combats *Exotic Newcastle Disease (END)* in poultry flocks. *END* is a contagious and fatal viral disease that affects most species of birds and kills almost all unvaccinated birds within days.

Trait in Honey Bees Keeps Mites from Multiplying—Honeybees deliver the pollen necessary for \$15 billion worth of U.S. agricultural production. For more than 20 years, beekeepers have been battling varroa mites. These tiny, bloodsucking parasites weaken adult bees and sometimes cause deformities. USDA scientists have discovered that some bees have a built-in defense against varroa mites. The trait can be bred into any bee population. This “suppressed mite reproduction” (SMR) protects bees by preventing harmful varroa mites from reproducing. It is hoped that, when bred adequately into bee populations, SMR will free beekeepers from their dependence on chemical miticides.

Rapid Test for Global Fungal Threat—Rusts are fungal disease agents that threaten just about every plant or crop in the world. USDA scientists have developed a test to identify the species or agents that do the most damage to wheat: stem rust, stripe rust and two species of leaf rust. The test identifies the species by detecting specific DNA sequences in fungal genes. The test will allow diagnostic labs to analyze rust samples and track their movement around the world. This process will allow scientists to recognize immediately the types of rust fungi that might be new to this country.

New Test to Improve Plum Pox Monitoring in Stone Fruit—Monitoring the spread of the *plum pox potyvirus* in stone fruit crops could get a lot easier with a new, genetic fingerprinting test developed by USDA scientists. The aphid-borne disease causes acidity, unsightly rings and other defects that diminish the quality of peaches and other stone fruit. While plum pox poses no consumer danger, it threatens the economic well being of the Nation’s \$1.8 billion stone fruit industry. The newly developed test uses a chemical procedure that mass produces copies of specific genes or gene fragments for identification. Using the new test, scientists generally can determine whether the protein is in a sample in about six hours. By comparison, current detection tests take about a day.

Estimating the Potential Economic Impact of Accidental or Intentional Problems in the Food and Agricultural Sector—Building on its previously developed homeland security programs and its economic, data and geographic information systems, USDA now can analyze the economic effects of enhanced security and the potential impacts of accidental or intentional problems in the Nation’s agricultural and food sectors. The analyses use current data and information about the U.S. agricultural and food systems. This process includes resource use, production, processing, distribution and consumption. The analyses also use agricultural production and food industry business information. This information system data allow USDA to perform complex analyses that inform policy decisions made within the Department. Using this analytical capability, the Department contributed to a number of homeland security exercises by estimating potential economic damage of security threats and the impacts of alternative responses. The Department also delivered a stand-alone information system to the USDA Homeland Security Office. This system can be used by staff to provide spatially oriented economic and production information during emergencies.

Invasive Species—USDA studied soybean rust in its report, *Economic and Policy Implications of Wind-Borne Entry of Asian Soybean Rust into the United States*. The analysis examined how the economic impacts of the potential establishment of an invasive species, soybean rust, will depend on the timing, location, spread and severity of rust infestation. The study also documented how soybean and other crop producers, livestock producers, and consumers of agricultural commodities respond to this new pathogen.

Animal Health: Cattle, Sheep and Goats—Researchers supported with USDA funds are using science and communications technology to battle such animal diseases as *Bovine Spongiform Encephalopathy (BSE)* and *Foot-and-Mouth Disease (FMD)*. *BSE*, also called mad-cow disease, is a chronic degenerative disorder that

affects the central nervous system of cattle. *FMD* is a severe, highly contagious viral disease of cattle and swine. It also affects sheep, goats, deer and other cloven-hoofed ruminants. Arkansas scientists use infrared spectroscopy to analyze beef samples more quickly and reliably than previously possible. An Ohio State University scientist is developing a “Prion-detection test” that uses scrapie, a disease affecting sheep and goats, as a model for detecting degenerative diseases that attack the central nervous system. One quick response was highlighted at Iowa State University. There, university television broadcasts and news releases reached farmers and consumers in at least 28 States within hours of the December 2003 announcement of the Nation’s first *BSE* case.

Serving the Public

USDA’s work helped reduce losses in livestock herds and flocks, better crop yields and lower costs for pest and disease control and eradication measures. The producers also realized higher farm sector incomes.

Taxpayers and citizens benefited from USDA’s efforts in this area because Federal cost was less than it would have been had pest and disease outbreak spread. U.S. consumers were provided with a wide variety of low-priced food and fiber. Public and private land and property were protected from environmental damage and loss of species. Animal suffering was prevented and humans were protected from disease.

Additionally, USDA launched a national awareness campaign to educate non-commercial bird owners about avian health and poultry diseases. The Biosecurity for Birds Campaign is designed to inform people who raise their own poultry or who own exotic birds about diseases that could strike the animals. The campaign includes an expanded emergency poultry surveillance and outreach program focusing on non-commercial or backyard poultry in States considered at risk for poultry diseases. In partnership with States, Biosecurity for Birds will enhance rapid reporting of any signs of clinical disease, particularly in States where there is a large presence of backyard poultry. This is intended to protect supplies of commercially raised birds.

USDA also increased sampling rates for *BSE*. Laboratories were added to the national surveillance network. The enhanced surveillance effort will help determine whether the disease is present in the U.S. cattle herd and whether existing risk management measures are sufficient.

In April, USDA announced the framework for implementation of a National Animal Identification System (NAIS). NAIS is designed to identify any agricultural premises (building or grounds) that may be exposed to a foreign animal disease. The ability to track animals as they move between farms, auction houses, feedlots and slaughtering or rendering plants will allow USDA to identify any that might have been exposed to disease.

In an important animal welfare case monitored closely by USDA, representatives from the Hawthorn Corporation of Grayslake, Illinois, pleaded guilty to 19 counts of the Animal Welfare Act violations, including inadequate veterinary care.

Challenges for the Future

USDA faces many challenges in reducing the number and severity of pest and disease outbreaks. Some of these are external factors that, should they occur, could prevent achievement of the program goals.

As in all farming, unexpected events in the natural environment can impact pest and disease programs. A pest also may move from wild to domestic populations. Migratory birds may carry diseases across boundaries. Climatic factors may create unusually good conditions for the growth and spread of a pest or disease. Unusually wet weather can prevent program survey actions. If a pest or disease with unknown biological information or survey methodology enters the country, it might not be detected or it might go undetected before spreading and causing significant damage.

The outbreak and spread of a significant emerging, foreign animal, or plant, pest or disease in the U.S. can drain available resources quickly. The occurrence of multiple instances of these problems or one instance in multiple locations would limit USDA’s prevention methods severely. When large or multiple outbreaks occur, personnel resources must be shifted temporarily from non-emergency programs. This could leave the donor program unable to achieve its outcomes if the emergency runs longer than expected. In the emergency programs,

activities such as developing guidelines and training cooperators may suffer, thereby affecting the ability to shorten response times in the future. An outbreak of epidemic proportions can overwhelm the program's ability to conduct timely testing. Support activities, such as regulatory enforcement and veterinary diagnostics and biologics, may find their workload outpacing their ability to provide effective services. When work priorities are reviewed, some of the burden may be shifted to cooperators.

USDA is challenged to keep up with new developments in technology. The development of transgenic animal species will present new problems in regulation, both in terms of maintaining the health and safety of agriculture and developing policy regarding their welfare.

USDA must communicate and coordinate with its employees and partners so that they clearly understand their roles and responsibilities, and ensure they have the necessary resources to respond quickly and effectively. The Department relies on State and local Government agencies, professional societies and industries to implement, administer and pursue the program standards required to complete them successfully. The cooperation and participation of all these groups is essential to achieving goals.

In some parts of the world, political instability may prevent program personnel from entering areas for inspection or eliminating pests. In other cases, a foreign Government may allow ships to leave its ports without properly inspecting them for pests.

Management Challenge

Incorporating homeland security considerations into program design and implementation is a management challenge for the Department. (Appendix A contains the Office of the Inspector General's report on USDA's major management challenges.) In response to this challenge, since November 2001, USDA has deployed 20 import surveillance liaison inspectors around the Nation's ports-of-entry. This action is designed to strengthen import inspection and improve coordination with other agencies, such as the U.S. Department of Homeland Security (DHS) and Health and Human Services (HHS). These three agencies share the responsibility of ensuring the safety of imported food products. During the past two years, USDA has used the "CARVER + Shock" methodology, which is used to determine vulnerabilities in the farm-to-table continuum. The method called "CARVER + Shock" is an offensive technique in that it identifies physical locations an enemy might find advantageous to introduce contaminants by evaluating the target through the enemy's eyes.

Eighteen new veterinarians have been added to the agricultural quarantine inspection staff at borders and ports of entry. These additions are designed to ensure strong preparedness programs are in place to protect U.S. agriculture. Approximately 2,600 members of the border inspection force have been transferred to DHS. In close consultation with this agency, USDA will continue to train inspectors and set policy for plants, animals and commodities entering the U.S.

In March, DHS, the U.S. Bureau of Customs and Border Protection (CBP) and the U.S. Border Patrol (BP) launched the 2004 Arizona Border Control Initiative. The effort was designed to achieve operational control of the Arizona border and support the DHS priority mission of anti-terrorism, detection, arrest and deterrence of all cross-border illicit trafficking. The initiative calls for more cooperation between DHS, the U.S. Department of Interior and USDA in allowing access to border public lands.

USDA also has created a National Surveillance Unit within its Veterinary Services Program. The unit will provide a focal point for the collection, processing and delivery of surveillance information that is needed to perform risk analyses and respond accordingly.

USDA developed guidance documents to help remind farmers and ranchers of steps they can take to secure their operations. Information was posted on USDA's Web site and distributed through the Department's extension system to reach people nationwide. USDA upgraded security efforts at its State and county offices. These measures included:

- Establishing a Web-based tracking system for disaster reporting;
- Maintaining databases of fertilizer, food, feed and seed listings; and

- Coordinating with State and county emergency boards to assist during an emergency.

A future project to continue protecting U.S. agriculture is the National Animal Identification System. This involves developing a system capable of tracing an animal back to the most logical disease source within 48 hours of detection. USDA also implemented the National Consumer Complaint Monitoring System. This national system monitors, investigates, responds to and tracks food-related consumer complaints. It also serves as a sentinel system for terrorist attacks on the food supply. USDA established Departmental policies and procedures for labs on issues such as:

- Maintaining accountability records;
- Handling, storage shipping, disposal, record-keeping and monitoring pathogens;
- Securing pathogens;
- Ensuring appropriate levels of physical security to protect against unauthorized access, theft or loss of agents or toxins; and
- Biosecurity incident response plans.

Management Challenge

The controls over germplasm storage material and the genetically engineered organism (GEO) field is a management challenge for the Department. (Appendix A contains the Office of the Inspector General's report on USDA's major management challenges.) In response to this challenge, USDA has developed draft policy guidelines for effectively maintaining information related to GEO germplasm in the National Plant Germplasm System (NPGS). GEO refers to any organism whose cellular structure has been altered scientifically. Germplasm is the cellular structure of germ cells. NPGS is a cooperative effort by Federal, State and private organizations to preserve the genetic diversity of plants. The draft policy, which currently is in clearance, includes procedures for additions, storage, access and disposal of GEO germplasm. It also provides guidelines on information exchange procedures and documentation in USDA's Germplasm Information Resource Network.

Management Challenge

Consistently applying the research misconduct policy is a management challenge for the Department. (Appendix A contains the Office of the Inspector General's report on USDA's major management challenges.) In response to this challenge, senior agency management of the Department's major research agencies committed to develop USDA guidelines for the definition and treatment of research misconduct consistent with Federal policy issued by the Office of Science and Technology Policy. The Research, Education and Economics Mission Area will oversee the process. All research agencies and the Office of Inspector General will be asked to participate.

KEY OUTCOME: PROVIDE A SECURE AGRICULTURAL PRODUCTION SYSTEM AND HEALTHY FOOD SUPPLY

Pests and diseases represent the biggest threat to agriculture because they are unexpected and can have quick, disastrous consequences. In the last few decades, increased travel and trade contributed to the spread of invasive species around the world. An effective safeguarding system is crucial to protecting the agricultural sector. Congress has appropriated funds to provide a secure agriculture production system and healthy food supply to consumers by protecting them against pest and disease outbreaks, minimizing production losses, maintaining market viability, and containing environmental damage.

USDA's primary safeguarding strategy is to monitor the health of U.S. plant and animal resources. This monitoring helps ensure that any new animal pest and disease outbreaks are detected and eliminated quickly.

Animal Pests and Diseases

A key benefit of the Animal Health Monitoring and Surveillance system is the rapid detection of emerging foreign animal diseases. These may be introduced accidentally or intentionally. Information about the health status, productivity and health-related attributes of U.S. animal population products, and biologics is critical to

understanding the spread of animal pests and disease, establishing necessary quarantines, and planning effective eradication and control measures. Public concerns about diseases that affect both animals and people reinforce the need for accurate, timely and thorough information.

The Department enhanced the National Surveillance System that previously was directed at specific diseases and commodities. In the new approach, USDA broadened its network by developing partnerships with State Governments, Tribes, veterinary colleges, animal and livestock industries, public health agencies, and other governmental and private groups. USDA also collaborated with other governmental agencies to address issues that involved linkages between farm-raised animals, wildlife and companion animals. This program designed to quickly mitigate and manage the potentially devastating impacts animal diseases may have on the Nation's food supply and economy, continued to implement recommendations made by the National Association of State Departments of Agriculture in the Animal Health Safeguarding Review.

Exhibit 42: Strengthen the Effectiveness of Pest and Disease Surveillance and Detection Systems

Annual Performance Goals and Indicators		Fiscal Year 2004		
		Target	Actual	Result
3.2.1	Number of significant introductions of foreign animal diseases and pests that spread beyond the original area of introduction and cause severe economic or environmental damage, or damage to the health of animals or humans.	0	0	Met

Analysis of Results

The target was met. USDA selected a target of zero because all program leaders, partners and cooperators, and congressional representatives do not want a single instance of an animal disease to spread and cause severe damage. During FY 2004, the U.S. had several introductions of foreign disease agents that were reported to the World Organization for Animal Health.

Despite these introductions, there were no outbreaks of significant foreign animal diseases or pests that spread beyond the original area of introduction and caused severe economic or environmental damage or damage to the health of animals or humans. In FY 2003, the actual result was one outbreak that spread beyond the original area to cause severe damage. This was the outbreak of *Exotic Newcastle Disease* which caused millions of dollars of damage to the poultry industry, as well as to state governments and USDA. The Secretary declared the outbreak over on September 16, 2003. For more information, visit www.usda.gov/news/releases/2003/09/0321.htm.

Exhibit 43: Trends in Strengthening the Effectiveness of Pest and Disease Surveillance and Detection Systems

Trends	Fiscal Year Actual				
	2000	2001	2002	2003	2004
Number of significant introductions of foreign animal diseases and pests that spread beyond the original area of introduction and cause severe economic or environmental damage, or damage to the health of animals or humans.	0	0	0 Baseline	1	0

A presumptive diagnosis of a case of *BSE* was announced on December 23, 2003, and confirmed 2 days later. An intensive epidemiological investigation was conducted and confirmed that the affected animal was of Canadian origin. The exposure to *BSE* was assumed to have occurred in Canada. Animals from the same herd of origin were traced and depopulated as part of the investigation. This reported case of *BSE* caused significant losses to the beef exporting industry. Some of these markets have been regained.

Several policy changes were announced in response to this case. Both the Food Safety and Inspection Service (FSIS) and the Food and Drug Administration (FDA) took actions to provide additional protection for public

health. The Animal and Plant Health Inspection Service (APHIS) initiated an enhanced surveillance program for the disease. The goal of the enhanced program is to test as many cattle as possible from the targeted high-risk population in a 12-18 month period. The targeted population includes adult animals in the following categories:

- Non-ambulatory cattle;
- Cattle exhibiting signs of a central nervous system disorder;
- Cattle exhibiting other signs that may be associated with *BSE*, such as emaciation or injury; or
- Dead cattle.

Data obtained from this surveillance effort will help identify whether *BSE* is present in the United States, and if so, help to determine possible parameters around the prevalence level. This data will also help determine whether risk management practices are adequate or whether they need to be changed.

This program was initiated on June 1, 2004. Surveillance efforts prior to June 1, 2004, had a total of 17,121 samples between October 1, 2003 and May 1, 2004. From June 1, 2004 through September 20, 2004, a total of 73,007 samples were tested as part of the enhanced surveillance effort.

As part of this effort, seven State laboratories were trained and are participating in the *BSE* surveillance efforts. Additionally, five more State laboratories have been approved, and these will be brought online in the future as necessary. These labs use approved rapid tests for *BSE* surveillance purposes. USDA's National Veterinary Services Laboratories in Ames, Iowa, remains the national reference lab for *BSE* confirmatory testing. All of these laboratories are part of an existing network of State and Federal institutions that assist USDA with animal disease testing, as needed.

USDA has completed an update to Veterinary Services Memorandum 580.4 entitled, "Procedure for Investigating a Suspected Foreign Animal/Emerging Disease Incident." It includes specific instructions for conducting and reporting Foreign Animal Disease/Foot and Mouth Disease investigations. Information has been distributed for Federal animal health first responders, including a compact disc entitled, "Food Security: The Threat to American Livestock." The disc offers comprehensive information on infectious disease threats to livestock, animal disease awareness briefings, standard veterinary medical information for diagnosing such diseases and emergency information gathering and reporting mechanisms.

The framework for implementation of the National Animal Identification System (NAIS) was designed to identify any agricultural premise exposed to a foreign animal disease so that it can be more quickly contained and eradicated. USDA has implemented a premises registration system that will record locations where animals reside or will reside. Registering animal premises is the key component of a NAIS that along with animal identification, allows animal movements to be reported to national data repositories. A fully implemented NAIS, will allow animal health authorities to conduct timely trace backs during any future outbreaks. In August 2004 USDA selected 29 State and tribal projects to conduct field trials and other research in order to fine-tune identification technologies and collect animal movement data.

Animal Welfare

The Animal Welfare Program is designed to protect animals used for research in biomedical laboratories, and bred by the wholesale pet trade. The program also covers those used for education and entertainment in zoos, circuses and various exhibits, and those being transported in commerce. It protects them from disease outbreaks, neglect and inhumane treatment. USDA inspects facilities and records, investigates complaints and reinspects facilities with documentation problems. The program places primary emphasis on voluntary compliance educating facility personnel and training its inspectors.

An example of the Animal Welfare Program's educational emphasis is a proposed Center for Education, Outreach and Technology in Kansas City, Missouri. The center will offer advanced training courses for its employees to expand their knowledge on animal welfare and treatment. Eventually, it will serve as the hub for all educational, outreach and methods development activities related to animal care. The program also has

conducted several canine-care workshops to educate the general public and licensees on issues dealing with the health and well-being of dogs.

The Animal Welfare Program focused on adapting new technology to improve the effectiveness and efficiency of its field inspectors. Two different instruments were used. The first was a handheld gas chromatograph capable of identifying chemical vapors within 10 seconds. Applications for this technology include identifying illegal “soring” chemicals applied to the legs of show horses to make them feel sore so the horses lift them high in the ring, bacteria from wounds or animal solid waste, and harmful chemical vapors in animal housing facilities. The second is a handheld infrared camera capable of detecting surface temperatures on living or inanimate objects. The device is being used to evaluate the adequacy of temperature, shade and ventilation management in zoos, kennels and research facilities. It also can determine the heat patterns in horse limbs that have been subjected to chemical and physical soring methods.

Exhibit 44: Ensure the Humane Care and Handling of Animals Used in Commerce

Annual Performance Goals and Indicators		Fiscal Year 2004		
		Target	Actual	Result
3.2.2	Number of animals affected by noncompliances documented on inspection reports	340,000	383,563	Unmet
3.2.3	Percent of facilities in complete compliance at the most recent inspection	70%	70%	Met

Analysis of Results

Through regulatory inspections and educational efforts, the Animal Welfare Program has succeeded in raising the level of facility compliance for a baseline of 58 percent in 2001 to 70 percent in 2004. This new and more difficult target was met.

Exhibit 45: Trends in Ensuring the Humane Care and Handling of Animals Used in Commerce

Trends	Fiscal Year Actual				
	2000	2001	2002	2003	2004
Number of animals affected by noncompliances documented on inspection reports	N/A	588,961 Baseline	371,856	344,866	383,563
Percent of facilities in complete compliance at the most recent inspection	N/A	58% Baseline	68%	70%	70%

The target of having only 340,000 animals affected by noncompliances documented on inspection reports was not met. During FY 2004, a total of 383,563 animals were affected by noncompliances. The increase in the number of animals affected observed during the past year may be due to several factors: (1) a change in inspection methods; (2) a change in the composition of the industry; and (3) an increase in the size of the industry. This reveals noncompliance more effectively. During this past year, field inspectors focused their efforts on facilities posing the highest risk. High-risk facilities are defined by several factors, including larger in size. With more animals to oversee, large facilities are more likely to neglect some of them. Another possible explanation may be that the mix or composition of the industry has changed slightly to include a larger proportion of new facilities that have just received their licenses. A third explanation may be that the total number of licenses and registrants has been growing. There has been a 40-percent increase in the number of facilities since 2001. The results for FY 2004 are based on 15,133 inspections in 9,424 facilities. As a result of these three factors, inspectors would have counted more animals affected by noncompliances and documented them on the inspection reports. If this is true, the slight increase most likely is a consequence of a change in the measurement method and the characteristics of the industry.

While the number of animals affected by noncompliances did not decrease during FY 2004, the Animal Welfare Program has reduced the total number of animals affected by noncompliances by more than 200,000 since the baseline was established in FY 2001. The benefits of this achievement for the Nation are:

- Assurances that the animals are being treated properly; and
- Diseases that might move from captive animals to wildlife and humans are being detected and treated.

Description of Actions and Schedules

Because the Animal Welfare Program did not meet one of its goals, it will analyze data from the last two years to see if the number and composition of noncompliant facilities can reveal more about the reasons for the slight change in the trend. When the data are ready, they will be used by the animal care management team to make appropriate changes in the FY 2005 operating plan.

KEY OUTCOME: IMPROVE ANIMAL AND PLANT DIAGNOSTIC LABORATORY CAPABILITIES

The National Animal Diagnostic Network and Plant Diagnostic Network Centers ensure the performance of timely diagnostics. They also enhance the process of producing and maintaining a timely, comprehensive catalogue of pest and disease outbreak occurrences in a nationally accessible database. Identifying new or uncommon pests and diseases accurately will allow USDA, in conjunction with the States, to expedite initial control responses, verify the physical boundaries of an outbreak and initiate regional or national containment strategies. The ultimate performance measure for these networks is their disease detection preparation. The networks will continue to study new diseases regularly to protect the Nation effectively from accidental or deliberate introduction of diseases.

Exhibit 46: Ensure the Capabilities of Plant and Diagnostic Laboratories are Improved

Annual Performance Goals and Indicators	Fiscal Year 2004		
	Target	Actual	Result
3.2.4 Improve the capabilities of animal and plant diagnostic laboratories:			Met
▪ Specific plant diseases labs are prepared to detect	3	3	
▪ Specific animal diseases labs are prepared to detect	6	6	

Analysis of Results

The performance goal was met. Limited trend data are available since the effort began in FY 2003 (plant) and FY 2004 (animal).

Plant disease detection criteria have been developed for *soybean rust*, *sudden oak death (SOD)* and *Ralstonia stem rot*. *Soybean rust* is a fungal disease that attacks the foliage of a soybean plant, causing its leaves to drop prematurely. *SOD* is a plant disease that attacks many types of plants and trees common to the Pacific Northwest. Currently, *soybean rust* and *Ralstonia stem rot* are considered two major threats.

National centers in Champaign and Urbana, Illinois; East Lansing, Michigan; Raleigh, North Carolina; and Bellefonte, Pennsylvania have received training and are prepared to battle these two diseases. State laboratories in California, Florida, Kansas, Michigan, Mississippi, New York, Oregon and West Virginia are targeting *soybean rust* and *Ralstonia stem rot*. Additionally, laboratories in all 50 States have been prepared to examine samples potentially infected with the SOD pathogen.

Animal disease-detection criteria have been developed for the following six high consequence diseases. *FMD* is a severe, highly contagious viral disease of cattle and swine. *END* is a contagious and fatal viral disease affecting all birds. *Classical Swine Fever*, or hog cholera, is a highly contagious viral disease of swine. *High Pathogen Avian Influenza* is a virus that can cause varying amounts of clinical illness in poultry. *BSE*, or mad cow disease, is a chronic degenerative disease that affects the central nervous system of cattle. *Chronic Wasting Disease* attacks the central nervous system of deer and elk.

USDA agencies partner with State agencies and universities to achieve a high level of agricultural biosecurity. This process is done through the early detection, response and containment of outbreaks of invasive pests and diseases. The diagnostic laboratories, adequately staffed and stocked with cutting-edge technology, are essential to accomplishing this mission.

Exhibit 47: Trends Improving the Capabilities of Diagnostic Laboratories

Trends	Fiscal Year Actual				
	2000	2001	2002	2003	2004
Specific Plant diseases labs are prepared to detect	N/A	N/A	N/A	2 Baseline	3
Specific animal diseases labs are prepared to detect	N/A	N/A	N/A	N/A	6 Baseline

N/A = Not Available

Future challenges to improving laboratory capabilities include making non-Federal funding available. This funding could be used to expand laboratory links in each State, increase the number of screened diseases and their detection criteria, and ensure that more strategically located laboratories are prepared to deal with geographically relevant disease threats.

KEY OUTCOME: REDUCE THE NUMBER AND SEVERITY OF AGRICULTURAL PEST AND DISEASE OUTBREAKS

Genome sequencing involves studying the genetic factors that allow a cell to exist. USDA has sequenced the genomes of a wide variety of pathogens to understand their diversity better. This sequencing allows scientists to recognize new cells. It also allows them to determine why a pathogen causes disease. Due to the ever-decreasing cost of obtaining sequence data, the number of organisms or variants of the microorganisms has increased each year.

To understand what genes allow an organism to resist infection, USDA has identified genetic combinations that would give economically important agriculture species a greater ability to survive infection. Sequencing of the complete genome of important agricultural species like chickens and cows is vital to this effort and facilitates the identification of diseases during the last several years.

USDA has provided a number of diagnostic tests that help producers find and control diseases more rapidly. In some cases, these tests eventually are transferred to universities, State laboratories, private industry or other countries for use.

USDA is only at the very early stages of finding genomic markers linked to phenotypes of disease resistance. Much more needs to be done. Once more of these become available to companies, these entities will be able to breed animals without the danger of it contracting diseases. USDA is studying this process for the economically important livestock commodities. The future challenges are to continue and enhance this effort. To do this, the Department must support host genome sequencing and establish models of disease to validate the markers or resistance.

Exhibit 48: Provide Scientific Information to Protect Animals from pests, Infectious Diseases, and Other Disease-Causing Entities that Impact Animal and Human Health.

Annual Performance Goals and Indicators	Fiscal Year 2004		
	Target	Actual	Result
3.2.5: Provide scientific information to protect animals from pests, infectious diseases, and other disease-causing entities that impact animal and human health.			Met
<ul style="list-style-type: none"> ■ Number of organisms or variants of the microorganisms sequenced each year. 	55	55	
<ul style="list-style-type: none"> ■ Number of resistance markers for a variety of diseases identified. 	8	8	
<ul style="list-style-type: none"> ■ Number of tests that are transferred to universities, State laboratories, private industry, or other countries for use. 	3	3	

Analysis of Results

USDA met the goal. While USDA has sequenced parts of many microorganisms and made new discoveries, many of these sequences only cover part of the genome. There are many more organisms and varieties to be studied. Despite this shortcoming, the sequence data are very useful. They have allowed scientists to discover the origin of microorganisms quickly and provided valuable insight into their diversity. Future challenges are to continue sequencing efforts and build relational databases so that the sequence data can be stored, mined and interpreted easily.

Exhibit 49: Trends in Providing Scientific Information to Protect Animals from Pests, Infectious Diseases, and Other Disease-Causing Entities that Impact Animal and Human Health.

Trends	Fiscal Year Actual				
	2000	2001	2002	2003	2004
Number of organisms or variants of the microorganisms sequenced each year.	20 Baseline	30	40	50	55
Number of resistance markers for a variety of diseases identified.	N/A	N/A	3 Baseline	5	8
Number of tests that are transferred to universities, State laboratories, private industry, or other countries for use.	N/A	1 Baseline	2	4	3

While USDA has succeeded in transferring technologies, concepts and some fully viable tests to the end user during the past several years, many diagnostic innovations still are being lost before they are commercialized. Those tests that have been marketed immediately are used and have enhanced the capability of the producer, State Government and diagnostic labs in determining the cause and location of diseases.

STRATEGIC GOAL 4: IMPROVE THE NATION'S NUTRITION AND HEALTH

The United States Department of Agriculture (USDA) made strides in promoting access to a nutritious diet and healthy eating behaviors for everyone in the U.S. in 2004. Through its leadership of 15 Federal nutrition-assistance programs, the Department made a healthier diet available for millions of children and low-income working families. Meanwhile, USDA's Center for Nutrition Policy and Promotion used the latest science information to update Federal nutrition guidance and interactive tools. This information was designed to help consumers establish and maintain healthy diets and lifestyles. Key accomplishments included:

- Promoting access to the Food Stamp Program (FSP)**—Food stamps help low-income families and individuals purchase nutritious low-cost meals. FSP is the Nation's largest nutrition assistance program serving a monthly average of more than 23 million people during FY 2004. The program enables eligible participants to improve their diets by increasing their food-purchasing power via benefits redeemable at retail grocery stores across the U.S. USDA promoted FSP through a national media campaign designed to reinforce the importance of food stamps as nutrition assistance and work support. The *Food Stamps Make America Stronger* campaign distributed radio spots in 75 major media markets, advertisements on city buses and more than 2 million flyers and posters written in English and Spanish across America. The campaign is designed to highlight the nutrition-assistance benefits available through FSP. USDA also made outreach efforts to educate potential participants about program changes in the FSRFA that expanded eligibility for legal immigrants. These program changes brought 150,000 participants into the program during the first year of their implementation.
- Achieving the Highest Food Stamp Program Payment Accuracy Rate in History**—Improving payment accuracy, while increasing outreach and access, has been a major USDA priority. The FSP payment accuracy rate rose to 93.4 percent in FY 2003 from 91.7 percent in FY 2002.

- **Completing electronic benefits transfer (EBT) expansion to reach all 50 States, the District of Columbia, Puerto Rico and the Virgin Islands**—EBT uses debit-card technology to allow FSP recipients to use their benefits to purchase food items at retail stores, eliminating the need for paper coupons. In 2004, USDA completed a 20-year process of working with State agencies and retailers to convert to EBT. This conversion replaced an outdated paper process with a modern system that enhances convenience and dignity for participants, improves service for retailers and offers new tools and data to promote program integrity.
- **Working with Congress to improve the Child Nutrition Programs to ensure access, promote integrity and fight obesity**—Child Nutrition Programs are designed to provide nutritious meals to students at participating schools, with eligible students receiving free or reduced-price meals. Legislative improvements achieved through passage of the Child Nutrition and WIC Reauthorization Act of 2004 established priorities to ensure access to Federal nutrition-assistance programs for the children who need them, while maintaining and improving their integrity and supporting USDA efforts to address the growing public health threat of obesity.
- **Development with the U.S. Department of Health and Human Services (HHS) of the 2005 *Dietary Guidelines for Americans***—These guidelines represent the cornerstone of Federal nutrition policy and nutrition-education activities. They are issued jointly by USDA and HHS and updated every five years. Additionally, the Food Guidance System (formerly known as the Food Guide Pyramid, originally released in 1992) that supports and communicates the guidelines was reviewed and revised. The changes were designed to reflect the most comprehensive, up-to-date science available to provide clear and useful nutrition information to consumers in the U.S. With 90 percent of the work completed on the Food Guidance System, USDA is poised to release the new food guide in early 2005.

The key to improving the Nation's health lies in improving the quality of its diet through a nutritionally enhanced food supply (developing new more nutritious food products that contribute to healthier diets) and better knowledge and education to promote healthier food choices. USDA made such improvements a top priority in FY 2004. Four of the top 10 causes of death in the U.S. (cardiovascular disease, cancer, stroke and diabetes) are associated with the quality of diets—diets too high in calories, total fat, trans and saturated fat and cholesterol, or too low in fruits and vegetables, whole grains and fiber. The Nation is experiencing an obesity epidemic resulting from multifaceted causes including a “more is better” mindset, a sedentary lifestyle and the availability and choices of fat- and sugar-laden, high-calorie foods. Consumers are looking for foods that taste good, offer nutrition and other health benefits, and are convenient to prepare and consume. In FY 2004, USDA pursued national policies and programs to ensure that everyone has access to a healthy diet regardless of income, and that the information is available to make good nutrition choices.

USDA's success in promoting public health through good nutrition and the effectiveness of its nutrition assistance education programs relies heavily on research. The research provides critical knowledge of what we need to eat to stay healthy and how that knowledge can be conveyed to the public in a manner that leads to true dietary changes. Research also supports development of new healthy and tasty food products providing another avenue for helping consumers eat well. In FY 2004, USDA conducted and supported research that clarified how different nutrients, such as isoflavins, promote health, demonstrated what influences people's eating patterns and developed healthy new products made from common commodities, such as rice and cheese by-products.

OBJECTIVE 4.1: IMPROVE ACCESS TO NUTRITIOUS FOOD

Exhibit 50: Resources Dedicated to Improving Access to Nutritious Food

USDA Resources Dedicated to Objective 4.1	FY 2004	
	Actual	Percent of Goal 1
Program Obligations (\$ Mil)	\$44,985.7	98%
Staff Years	736	26%

Introduction

USDA's nutrition-assistance programs represent the Federal Government's core effort to reduce hunger and improve nutrition across the U.S. By working with States to ensure effective program operations and benefit delivery for participants, USDA seeks to provide access to a nutritious and adequate diet for those with little income and few resources. For a variety of reasons, many individuals and families eligible to participate in these programs do not. In FY 2004, USDA focused on increasing the rate of participation among people eligible for food stamps and expanding access to the School Breakfast Program (SBP), which is not as widely available as the National School Lunch Program. While SBP provides cash assistance to States to operate not-for-profit breakfast programs in schools and residential child care institutions, many institutions that offer school lunches currently do not offer school breakfasts. On an average school day in FY 2004, more than 50 million children have access to school lunch, nearly 29 million children chose to eat a program lunch and nearly 9 million children received a breakfast through these programs.

The Department also sought to serve all those eligible for the Special Supplemental Nutrition Program for Women, Infants and Children Program (WIC) who wish to participate within authorized funding levels. WIC helps to safeguard the health of low-income women, infants and children up to age five who are at nutritional risk. The program provides nutritious foods to supplement diets, information on healthy eating and referrals to health care. About 7.8 million pregnant women, new mothers and their young children benefited in an average month in FY 2004 thanks to WIC.

Overview

USDA made significant advances in promoting access to nutritious food in 2004. The Department worked with States to implement new Food Stamp Program (FSP) provisions that restore food stamp benefits to otherwise eligible legal immigrants whose eligibility had been eliminated as part of welfare reform legislation. The provisions also give States the ability to adopt user-friendly options to simplify program requirements for participants and transitional benefits that can ease the transition from welfare to work. USDA developed and delivered a media campaign to inform low-income people of their potential eligibility. The Department also provided technical assistance, outreach and participation grants and guidance to faith- and community-based organizations to encourage FSP participation. Additionally, USDA completed the transition to EBT for all food-stamp benefits, which has improved convenience for participants in redeeming their benefits greatly.

USDA promoted SBP through raising awareness of the program's availability with State and civic leaders, and supporting and celebrating National School Breakfast Week. This program is designed to promote the link between a good breakfast and student learning and behavior. The Department worked with the OMB, Congress and State partners to ensure that WIC funding is available and distributed effectively to serve all those eligible who wish to participate. This maximizes the reach of this important program within authorized funding levels. Finally, USDA reached out to a wide range of faith-based and community organizations to deliver program benefits and services, and encourage access to the programs.

Serving the Public

The Nation is committed to ensuring that no child or family goes hungry. Federal nutrition-assistance programs are designed to provide nutritious food and nutrition promotion. They aided one in five people in the U.S. during FY 2004. These programs promote better health for all people in the U.S. support the transition to self-sufficiency for low-income working families and support children's readiness to learn in school. A well-nourished population is healthier, more productive and better able to fulfill its full potential.

Challenges for the Future

Studies and analyses show that there continue to be large numbers of eligible people who do not participate in Federal nutrition assistance programs. While recent changes in FSP have made more low-income people eligible, many may be unaware of the opportunity to receive these benefits. USDA looks to improve access to and promote awareness of these programs among those who may benefit from their services with continued outreach and information strategies.

USDA's ability to achieve this objective depends partly on adequate legislative authority for policies and program initiatives. These initiatives would promote effective access to nutrition assistance and funding to support program participation for all eligible people who seek service. The quality of program delivery by third parties—hundreds of thousands of State and local Government workers and their cooperators—are critical to Department efforts to reduce hunger and improve nutrition. Economic changes can affect both the number of people eligible and the ability of cooperators to provide services.

KEY OUTCOME: REDUCE HUNGER AND IMPROVE NUTRITION

As noted above, the resources and services USDA distributes through 15 programs represent the Federal effort to improve the nutrition of children and low-income people. The Department is committed to providing access to nutritious food through the major nutrition assistance programs for all eligible people who wish to participate. In FY 2004, USDA targeted FSP, WIC and SBP for special efforts to improve program access. While data are unavailable to assess the success of these FY 2004 efforts in increasing the rate of participation among eligible people, the period did see increased participation in all three targeted programs.

Exhibit 51: Improve Access to Nutritious Food

Annual Performance Goals and Indicators		Fiscal Year 2004		
		Target	Actual	Result
4.1.1	Improve Access to Nutritious Food (Mil):			Deferred
	▪ Food Stamp Program Participation Rate	64%	N/A	
	▪ School Breakfast Program Participation Rate	N/A	N/A	
	▪ Special Supplemental Nutrition Program for Women, Infants and Children Participation Rate (measure under development)	N/A	N/A	

Analysis of Results

The measure has been deferred because data on the number of eligible persons are currently unavailable. Data for the SBP measure should be available for reporting in the *FY 2005 Performance and Accountability Report*. Data for the FSP and WIC measures should be available for the *FY 2006 Performance and Accountability Report*. Analysis of the most recent information available follows:

Food Stamp Program—While the FY 2004 food stamp participation rate is unavailable, new information suggests that participation rates among people eligible for such benefits are lower and rising more slowly than reported previously. The most recent data, based on analysis of U.S. Census Bureau survey information indicate that overall participation rates increased slightly between 2001 and 2002, from 53 percent to 54 percent. While USDA remains committed to achieving the objective of reaching 68 percent of all those who are eligible, as shown in the Strategic Plan 2002-2007, it now appears that this may take longer than previously expected. (See Trend Analysis below for more information.) USDA executed a range of efforts to support and encourage food stamp participation in FY 2004, including:

- Approving waivers to increase FSP access among the elderly and other targeted groups. For example, FNS is working with a number of States on combined application projects (CAP). CAP allows Supplemental Security Income (SSI) recipients to apply for Food Stamp benefits through a simplified process. In one such project in Texas, food stamp participation among the elderly people increased by more than 60,000;
- Awarding 6 grants totaling \$5 million to help increase awareness of USDA's FSP for low-income households and simplifying the application process;
- Awarding \$1 million in grants to faith- and community-based organizations and public agencies to educate people about the benefits of food stamps so that they can make informed decisions about applying and participating;
- Providing outreach and educational materials free upon request, including posters, brochures, flyers and other materials in 35 languages;

- Expanding its Web site with new outreach resources and enhanced the FSP toll-free 1-800 hotline available to the public to learn more about FSP and learn how and where to apply in English and in Spanish;
- Launching the *Food Stamps Make America Stronger* media campaign to raise awareness of the availability of the FSP to help low-income families have access to healthier diets;
- Working with the U.S. Department of Justice to inform Federal program administrators of their obligations regarding the accommodation of people with limited English skills; and
- Launching an FSP National Outreach Coalition to partner and strengthen educational and outreach efforts nationally by sharing efforts and joining forces and resources.

School Breakfast Program—FY 2004 SBP participation rate data will be available in December 2004, and reported in the *FY 2005 USDA Performance and Accountability Report*. SBP makes healthy, nutritious meals available to an average of 8.9 million children at the start of each school day. More than 74,000 schools operated the program in FY 2004. This figure is an increase of more than 1,300 schools from the prior year that gave thousands of additional students access to the program. USDA worked to support and encourage SBP participation in FY 2004 by:

- Continuing promotion of SBP through such activities as School Breakfast Week, which involves schools across America in highlighting the program through events, posters and student activities in the importance of a good breakfast—either at home or served through the program—in being ready for school; and
- Supporting provisions in Child Nutrition reauthorization included in final legislation to expand program access by: 1) requiring States to enroll children who receive food stamps in the free school meals program without an additional application; 2) combining applications for subsidized meals so that each household can submit just one for all its children; and 3) making each certification valid for the school year, eliminating the need to re-apply if circumstances change.

WIC—FY 2004 WIC participation rate data will be available in late 2005, and reported in the *FY 2006 Performance and Accountability Report*. In FY 2004, USDA continued efforts to ensure that funding was available to support participation for all those eligible who wish to participate. During the year, rising food costs and increased participation made it necessary to provide additional funding to WIC State agencies to allow applicants to join the program. USDA distributed more than \$170 million from sources for program grants, including a contingency fund created for this purpose in FY 2003.

Exhibit 52: Trends in Improving Access to Nutritious Food

Trends	Fiscal Year Actual				
	2000	2001	2002	2003	2004
Food Stamp Program % of eligible people participating	55.7% Baseline	53.2%	53.8%	N/A	N/A
School Breakfast Program % of school children participating	14.2% Baseline	14.5%	15%	15.5%	N/A
WIC Program % of eligible people participating (measure under development)	N/A	N/A	N/A	N/A	N/A

Food Stamp Program: Newly available information suggests that participation rates among people eligible for food stamp benefits are lower and rising more slowly than previously reported. This is largely the result of important policy reforms that expanded eligibility by making it easier, for example, for a low-income family to own a reliable car to get to work and still participate.

The policy reforms were expected to depress participation rates, as a percentage of eligible participants, for two reasons. First, it takes time for information about rule changes to make its way into communities, and for people to act on that information. Second, the main beneficiaries of the rule changes—working poor families—tend to

have lower-than-average participation rates. As a result, overall participation rates increased just slightly between 2001 and 2002. While USDA remains committed to achieving the strategic plan objective of reaching 68 percent of all those who are eligible, it now appears that it may take longer than previously expected. It will take more time and effort to promote the rule changes to new potential participants.

School Breakfast Program: Trend data indicate that the proportion of children enrolled in school who participate in SBP has risen slowly but steadily in recent years. This use reflects USDA's continuing efforts to encourage schools to operate the program. In FY 2004, approximately 8.9 million children received breakfast through the program each school day.

WIC: A methodology to estimate the number of people eligible to participate in WIC is currently under development. Data are expected to be available in late 2005 and will be reported in the *FY 2006 Performance and Accountability Report*.

OBJECTIVE 4.2: PROMOTE HEALTHIER EATING HABITS AND LIFESTYLES

Exhibit 53: Resources Dedicated to Promoting Healthier Eating Habits and Lifestyles

USDA Resources Dedicated to Objective 4.2	FY 2004	
	Actual	Percent of Goal 4
Program Obligations (\$ Mil)	\$901.2	2%
Staff Years	914	32%

Introduction

Eating healthy is vital to reducing the risk of death or disability due to heart disease, certain cancers, diabetes, stroke, osteoporosis and other chronic illnesses. Despite this, a large gap remains between recommended dietary patterns and what people in the U.S. actually eat. USDA's nutrition assistance programs focus on improving eating behaviors through nutrition promotion and shaping food benefits to help ensure improved nutrition levels. For the benefit of the total U.S. population, the Department uses Federal nutrition policy—through such avenues as the *Dietary Guidelines for Americans* and the food guidance system—and nutrition education to provide scientifically based information about healthy diets and lifestyles. The guidelines provide advice about food choices that promote health and prevent disease.

The Nation faces an alarming increase in the obesity of children and adults, and associated diseases related to poor eating habits of Americans. The nutritional quality of diet is the connection between agriculture and health. A key to maintaining long-term health and decreasing the risk for chronic diseases is selecting an appropriate diet in moderation in combination with regular physical activity.

Overview

USDA used its nutrition assistance programs and its broader nutrition education efforts to promote healthier eating and physical activity across the U.S. It worked to improve nutrition education efforts within each of the major nutrition assistance programs. Highlights in FY 2004 included a series of projects to identify new strategies to address unhealthy weight gain through WIC, and new Team Nutrition educational materials designed to encourage fruit and vegetable consumption and healthier school environments. Additionally, a major review and reengineering effort of food stamp nutrition education is in progress. This effort is designed to ensure that it focuses on changing behaviors using the best strategies available.

USDA also provided technical support to the Dietary Guidelines Advisory Committee in its review of the Dietary Guidelines for Americans. Additionally, the Department launched a broad-based review and update of the Food Guidance System that details the guidelines. USDA also continued updating interactive tools that consumers in the U.S. can use to assess their diet and physical activity (www.cnpp.usda.gov). USDA agencies promote healthy food choices, dietary habits and eating behavior through research to improve understanding of

optimal nutrient requirements at all stages of the life cycle, the relationship between diet, physical exercise and health, and the factors influencing individual food choices. The Department conducts and supports multidisciplinary nutrition research and education that considers interrelated factors affecting nutritional status, such as genetics, physiology, sociocultural factors, psychology, economics, agricultural and food systems, and public policy.

Selected Results in Research, Extension and Statistics

Fast Food Linked to Poor Nutrition Among U.S. Children—A collaborative study conducted by USDA and Harvard University scientists showed decreased nutritional dietary quality and increased caloric intake among U.S. children on days they ate fast food. Despite intense public interest, there has been little scientific examination of the effects of eating fast food on nutritional status or health outcomes. Almost one in three children ate fast food on typical days. Findings generally confirmed what most parents would expect. U.S. children who ate fast food consumed more total calories, more calories per gram of food, more total and saturated fat, more total carbohydrate, more added sugars and more sugar-sweetened beverages than those who did not. The former group also consumed less milk, fiber, fruit and non-starchy vegetables. Some experts estimate that childhood consumption of fast foods increased from 2 percent of daily meals in the late 1970s to 10 percent of daily meals by the mid-1990s. The findings are important because childhood obesity is becoming more prevalent. Inadequate consumption of fruits and vegetables has been associated with such obesity-related problems as cardiovascular disease and diabetes. Fruits and non-starchy vegetables may protect against excessive weight gain because of their low-energy density and high-fiber content. The study was published in the *Medical Journal of Pediatrics* in January 2004 and is summarized at <http://pediatrics.aappublications.org/cgi/content/abstract/113/1/112>.

Process Packs Protein into Snacks—Whey proteins that remain after cheese making are a key ingredient in new nutritious snack foods produced through a process developed by USDA. The Department recently filed a patent on the process, which uses a standard industry device called the twin-screw extruder to make crunchy snacks with whey proteins. The new snacks could help meet the demands of health-conscious consumers. By using whey, the process boosts protein in expanded snacks, such as breakfast cereals, corn puffs, cheese curls and energy bars, from the traditional average of between 2 and 5 percent to 35 percent. Several high protein snacks developed through a Cooperative Research and Development Agreement with Harden Foods, Inc., a minority-owned company in Philadelphia, Pennsylvania, will be ready for market by December 2004. Using this USDA patent pending texturization technology, Harden has produced successfully market-ready cheese curls, tortilla chips and other snack products with reduced amounts of carbohydrates. Several other companies also have submitted applications to license this technology.

If Clogged Arteries Are Your Problem, Try Eating Oats—Of the 65 million Americans with heart disease and millions more at risk, diet is considered the first line of defense. Oats are known to lower serum cholesterol because of their water-soluble fiber content. Meantime, new research shows other ingredients in oats have additional benefits. Researchers funded by USDA have shown that antioxidant compounds in oats, called avenanthramides, significantly reduce the ability of white blood cells from sticking to cells lining the artery, thereby decreasing the chances for plaque buildup. The suppression of plaque provided by avenanthramide compounds may lessen the gradual constriction of vessels that leads to hardening of the arteries. Water-soluble fiber from oats long has been believed to help reduce the amount of cholesterol circulating in blood. Elevated levels of cholesterol indicates a risk for heart disease. To gain heart-healthy benefits from fiber and avenanthramides, the researchers suggest adding oat products as part of an overall healthy diet and cutting down on high-fat, high-cholesterol foods. The study was published in the biomedical journal *Atherosclerosis* in July 2004 and can be found at www.ncbi.nlm.nih.gov/entrez/query.fcgi?cmd=Retrieve&db=pubmed&dopt=Abstract&list_uids=15186945.

Rice Offers a Healthier Way to “Batter Up”—Consumers need to avoid fried foods because they contain high levels of fat oil and may pose other health risks. USDA researchers examined a variety of batters, made with long-grain rice, waxy rice, wheat or corn, to see which flour type would absorb the least amount of oil. The findings showed that batters made with long-grain rice flour and small amounts of other specially modified rice ingredients absorbed about 55 percent less oil than the traditional wheat batter. Rice flour has unique properties

that resist oil absorption. A U.S. food ingredients company is negotiating an exclusive license to produce and market this product. Notice of Intent to Grant Exclusive License has been published in the *Federal Register*. Comments must be received before October 25, 2005.

Enhancing Absorption of Chromium—USDA scientists have developed a new, stable and more absorbable form of the element chromium. Chromium helps transfer sugar from the blood to muscles, thereby helping to maintain normal blood-sugar levels. People with impaired sugar levels are at high risk for type II diabetes and increased cardiovascular disease. As much as 40 percent of the adult population is diagnosed with pre-diabetes and an additional 16 million have diabetes. This element also has been found to help maintain normal blood-sugar levels. The new chromium compound is a water-soluble complex of natural chromium mixed with the essential amino acid histidine, which helps enhance the mineral's absorption within the body. Currently, there is no blood test to distinguish adequate or deficient chromium levels. Scientists are developing tests to assess people's chromium levels and evaluating the interaction between these levels and sugar circulating in blood. The U.S. Patent and Trademark Office issued a patent to USDA in February 2004 (#6,689,383), which can be found at www.uspto.gov. The Department's Office of Technology Transfer is seeking U.S. companies interested in obtaining a license on the new compound and conducting clinical trials associated with product safety and proper dosage.

Understanding America's Food Choices—Combating obesity will require better knowledge of why people make the food choices they do. This fight also will necessitate potential policy interventions designed to influence choices. USDA published *Low-Income Households Expenditures on Fruits and Vegetables*. While increases in income result in more fruit and vegetable purchases in higher-income households, these same increases in low-income households result in the purchase of other products. Another study found that while the consumption of salty snacks would fall if a tax were imposed specifically on them, this decrease would be smaller in percentage terms than the size of the tax.

Improving Food Choices of People Who Use Food Stamps—Ohio State University operates the Family Nutrition Program (FNP) for food stamp program participants in 74 of the State's 88 counties. In FY 2004, it reached 91,672 people in programs covering nutrition, food shopping and budgeting, meal management, and food safety. Fourteen percent of participants began using the recommended practices they learned. Additionally, 70 percent learned new information and 44 percent planned to make recommended changes. Of the 15,252 people attending the shopping/budgeting presentation, 24 percent began using recommended practices.

Improved Peanuts Reduce Serum Cholesterol—The Sun Oleic 97R peanut, developed at the University of Florida Institute of Food and Agricultural Sciences with partial support from USDA, surpasses olive oil in cholesterol lowering properties. This hybrid peanut offers growers 10-to 14-percent better yields than the industry standard. It also offers manufacturers and retailers a 3-to 15-fold increase in product shelf life. The peanut is being touted for its health-promoting qualities. A University of Florida nutrition study showed that the new peanut, in conjunction with a low-fat diet, helped reduce coronary-risk factors by lowering blood-cholesterol levels in postmenopausal women.

Enhancing Production of Health-Promoting Soy Isoflavones—South Dakota State University scientists supported by USDA discovered that soybean isoflavone levels vary significantly across the country. Isoflavone is a nutrient found chiefly in soybeans. The scientists discovered that isoflavone levels decrease dramatically from the north to the south. They attributed the differences to soybean variety, crop year, location and growth conditions. By determining why soybean isoflavone content fluctuates, it may be possible to create a variety that features stable levels of this health-promoting phytochemical.

Serving the Public

Overweight and obesity soon will rival cigarette smoking as a leading cause of premature death and disability in the U.S. Improved diets can help with weight management and reduce the risk of certain types of cancers and Type II diabetes, the most common form of the disease. USDA's efforts focus on updating nutrition policy, providing information and promoting behavioral changes that can reduce weight, obesity and other diet-related

health conditions. These actions hold the potential to improve the lives of millions of Americans and reduce the social costs of these conditions.

Science has established strong links between diet and health. Researchers attribute about 300,000 premature deaths annually to poor diets. The total costs attributed to being overweight and obese are estimated to be nearly \$120 billion annually. Even small improvements in the average diet would yield large health and economic benefits to individuals and society as a whole.

To this end, the Department will continue promoting healthier eating and lifestyle behaviors as a vital public-health issue. The *Dietary Guidelines for Americans* is the cornerstone of Federal nutrition guidance. Using the new *Guidelines*, and guidance updated in 2004, USDA will continue its leadership role of providing advice on patterns Americans can follow to improve overall health through proper nutrition.

In the same vein, the nutrition assistance programs managed by USDA touch the lives of one in five Americans—an enormous opportunity to promote healthier behaviors. In 2004, the Department maintained its focus on getting benefits to children and low-income people that contribute to a healthy diet, and the skills and motivation to encourage healthy eating and increased physical activity.

Challenges for the Future

While USDA's goal of reducing obesity levels begins with understanding what constitutes a healthy diet and the appropriate balance of exercise, success ultimately requires individuals to change their diets by modifying their eating behavior and increasing their physical activity. Crafting more effective messages and nutrition education programs to help people make better food choices requires understanding their current choices and the relationships between these choices and their attitudes, knowledge and awareness of diet/health links. Accomplishing this understanding requires data that link behavior and consumption decisions for individuals of various backgrounds, regions, ages and genders. While data exist on a national scale, current survey sample sizes do not yield reliable information for population subgroups.

While updated Federal nutrition guidance is critical in helping Americans develop and maintain healthier diets and lifestyles, using this guidance to motivate Americans to change remains a major challenge in light of the limited resources available for nutrition promotion. USDA will continue to explore ways to devote significant long-term resources to develop consumer-friendly and cost-effective nutrition education materials. These materials will be used both within Federal nutrition assistance programs and with the general public.

More broadly, attaining performance outcomes in this area depends partly on the emphasis that the Nation places on healthier eating, including products and practices in the food marketplace. Additionally, physical activity and other lifestyle issues have a significant affect on body weight and health.

KEY OUTCOME: PROMOTE MORE HEALTHFUL EATING AND PHYSICAL ACTIVITY ACROSS THE NATION

USDA promotes healthful eating through its comprehensive nutrition research and education programs as well as through the design of program food benefits. The nutrition research and education programs are targeted to nutrition-assistance program participants and the general public. For each target audience, the challenge is to find effective ways to translate research into working knowledge to understand what people eat. USDA assesses its performance in promoting healthful eating and physical activity among low-income populations served by the Federal nutrition-assistance programs. This is done by monitoring the Healthy Eating Index score (HEI). HEI is a measure of diet quality developed by USDA's Center for Nutrition Policy and Promotion. The Department sets targets for improvement in the HEI both for the U.S. population as a whole and among people with incomes at or below 130 percent of poverty. The Department also tracks and uses health data on overweight and obesity.

Exhibit 54: Promoting Healthier Eating Habits and Lifestyles

Annual Performance Goals and Indicators		Fiscal Year 2004		
		Target	Actual	Result
4.2.1	Healthy Eating Index (HEI) for:			Deferred
	▪ People with incomes under 130% of Poverty (Mil)	N/A	N/A	
	▪ The U.S. Population (Mil)	64.6	N/A	

Analysis of Results

The measure has been deferred because data are unavailable. FY 2004 data will be available in 2006 and reported in the *FY 2006 Performance and Accountability Report*. USDA continued efforts to promote improvement in dietary practices for low-income people. In the development of Federal nutrition policy, the Department successfully initiated updates to the *Dietary Guidelines for Americans* and the food guidance system, helping to deliver up-to-date nutrition information and guidance to the American public. USDA also:

- Continued improvement of FSP nutrition education by drafting the Food Stamp Nutrition Education Policy Framework and posting it on its Web site for public comment. This effort ultimately will make the program more effective in educating and motivating Food Stamp Program eligibles to improve their diets;
- Provided technical assistance to State agencies or partners in the development of State Nutrition Action Plans (SNAPs), which will help State agencies better coordinate nutrition strategies across the programs that serve their people;
- Distributed more than 1.2 million *Eat Smart, Play Hard* nutrition education materials to schools, food stamp offices and others delivering nutrition assistance programs for use by the children and low-income people they serve;
- Announced the next phase in the review of the food guide by seeking public comment about its "Proposal for Food Guide Graphic Presentation and Consumer Education Materials." This food guide, an educational tool, will interpret—and help Americans use—the revised *Dietary Guidelines for Americans*, scheduled for release in early 2005. When Americans follow this science-based information, they can enhance their nutritional well-being; and
- Introduced the Interactive Physical Activity Tool (IPAT), allowing consumers to assess their daily physical activity against expert recommendations. As an integral part of assessing their diet with the Interactive HEI, the IPAT encourages Americans to develop and maintain an active lifestyle. When combined with a nutritious diet, an active lifestyle promotes overall health and helps to reduce obesity and weight.

Exhibit 55: Trends in Promoting Healthier Eating Habits and Lifestyles

Trends	Fiscal Year Actual				
	2000	2001	2002	2003	2004
Healthy Eating Index (HEI) for people with incomes under 130% of poverty (Mil)	62	N/A	N/A	N/A	N/A
Healthy Eating Index for the U.S. population (Mil)	63.8	N/A	N/A	N/A	N/A

While data on trends in diet quality from 2001 to 2004 currently are unavailable, evidence from other sources indicates that problems related to diet quality persist, both among low-income people and the general population. USDA's ongoing efforts during this period to promote behavior change, both through the nutrition assistance programs and its nationwide nutrition policy and promotional efforts, have been focused on motivating changes to reduce and prevent excessive weight gain and obesity.

KEY OUTCOME: INCREASE NUTRITION INFORMATION AVAILABLE TO THE PUBLIC

In 2004, USDA labs released three nutrient databases to the public. All are freely available at www.nal.usda.gov/fnic/foodcomp. The major release was the National Nutrient Database for Standard Reference, which includes the most essential nutrients in foods commonly eaten in the U.S. As the American diet changes, updates to this database are essential to know if the public can get adequate amounts of essential nutrients. The database is available for use on personal digital assistants (PDA), personal computers and Web-based applications. Availability in a variety of computer formats has increased the access and utilization of this valuable national resource by the scientific community, private industry and the general public.

Two additional databases also were released in 2004:

- Choline in common foods; and
- Proanthocyanidins in fruits, vegetables and nuts.

Choline is a vitamin-like compound essential to the human diet. It is important for many cellular functions including making new cell membranes and developing the memory. *Proanthocyanidins* are plant pigments that function as antioxidants. Higher consumption is related to reduced risk of chronic diseases such as cancer and heart disease.

In 2004, USDA released the new “What We Eat in America” survey. It is freely available at www.barc.usda.gov/bhnrc/foodsurvey/home.html. This release represents the first year of full integration of two nationwide dietary intake surveys—the Continuing Survey of Food Intakes by Individuals (CSFII) conducted by USDA and the National Health and Nutrition Examination Survey (NHANES) conducted by the U.S. Department of Health and Human Services (HHS). The database contains nutrient values and typical food portion weights for foods commonly eaten by Americans. It has been applied to the USDA’s Healthy Eating Index and Pyramid Servings Database. These are available to the public on food packages, in advertising, and through the Web for self-evaluation of diets at <http://www.cnpp.usda.gov/healthyeating.html>. This continuing nationwide survey provides essential information on foods and nutrients consumed by Americans.

Exhibit 56: Provide Nutrition Information

Annual Performance Goals and Indicators	Fiscal Year 2004		
	Target	Actual	Result
4.2.2 Determine food consumption patterns of Americans and provide sound scientific analyses of the U.S. food consumption information to enhance the effectiveness and management of the Nation’s domestic food and nutrition assistance program			Exceeded
<ul style="list-style-type: none"> ▪ Number of reports from the USDA Food and Nutrient Database 	4	7	

Analysis of Results

In 2004, USDA scientists reported significant new findings on a variety of nutrition issues related to health promotion with a special focus on preventing obesity. They identified dietary patterns associated with adverse weight gain. This finding indicated that adults with wider waistlines ate more meat and potatoes or white bread. The scientists also found that fast-food consumption by children tends to be associated with lower dietary-nutritional quality and excess caloric intake. These findings, derived from the “What We Eat in America” survey, help determine eating patterns for healthy body-weight maintenance.

For intervention strategies aimed at individuals who need to lose weight, USDA scientists determined that one-third of obese women who diet recurrently and have a restrained dietary pattern have marked bone loss. This finding counters the general belief that obese women have normal or high bone density. This knowledge is critical in designing effective weight-loss plans to minimize bone loss in women at risk for osteoporosis.

USDA exceeded its target in FY 2004 primarily as a result of publishing two databases on previously unavailable minor components of foods. These one-of-a-kind databases are used widely by scientists, the food industry and the public. They are considered the definitive reference source in evaluating the healthfulness of foods. These databases are unique assets that exist nowhere else. Private companies often use the data to produce diet-analysis software. That software is used to produce interactive Web sites at which the public can analyze individual foods, a recipe or diets. Additionally, the public can download applications and nutrient data for personal computers and PDAs free of charge. These latter applications earned a Special Service Award from the Secretary.

Exhibit 57: Trends in Determining Food Consumption Patterns

Trends	Fiscal Year Actual				
	2000	2001	2002	2003	2004
Number of reports from the USDA Food and Nutrient Database	6 Baseline	4	5	4	7

USDA scientists have enhanced significantly the public's knowledge of dietary intervention in 2004. This allows consumers in America to maintain and improve health, be aware of the types and amounts of foods they should eat and know the nutrients they consume in those foods. All of this focuses on being better able to make dietary choices that can improve the health of the Nation.

OBJECTIVE 4.3: IMPROVE FOOD PROGRAM MANAGEMENT AND CUSTOMER SERVICE

Exhibit 58: Resources Dedicated to Improving Food Program Management and Customer Service

USDA Resources Dedicated to Objective 4.3	FY 2004	
	Actual	Percent of Goal 1
Program Obligations (\$ Mil)	\$134.5	Less than 1%
Staff Years	1,171	42%

Introduction

USDA is committed to ensuring that nutrition assistance programs serve those in need at the lowest possible costs and with a high level of customer service. Managing Federal funds for nutrition assistance effectively, including prevention of program error and fraud, is a key component of the President's Management Agenda. USDA focused on maintaining strong performance with the food stamp payment-accuracy rate as its key performance goal in this area.

Overview

USDA continued to improve management by reducing program errors and continuing its use of electronic technology to enhance customer service. The Department achieved a critical goal in FY 2004 by completing, with its State agency and retailer partners, the nationwide implementation of electronic benefit transfer (EBT) for the delivery of food stamp benefits. EBT uses debit card technology to allow FSP recipients to use their benefits to purchase food, eliminating the need for paper coupons. It improves convenience for recipients while also making new tools available to identify and take action against program abuse—a "win-win" for good management and customer service.

While FY 2004 results of collaborative efforts between States and USDA to improve payment accuracy are unavailable, the FY 2003 payment error rate fell to a new record low of 6.64 percent.

Selected Results in Research, Extension and Statistics

Women, Infants and Children (WIC) and the Supermarket Retail Prices for Infant Formula—

WIC provides food, nutrition counseling and access to health services to low-income women, infants and children. Rebates from infant-formula manufacturers to State WIC agencies support more than one-quarter of all WIC participants. Despite these moves, concerns have been raised that WIC and its infant-formula rebate program may impact prices faced by non-WIC consumers. USDA conducted the most comprehensive national study to date on retail infant-formula prices. The study showed that, for a given set of wholesale prices, WIC and its infant-formula rebate program resulted in modest increases in the supermarket price of the product. This increase is especially true in States with a high percentage of WIC formula-fed infants.

Understanding the Nation’s Food Assistance Programs—Several important studies were completed that provide policymakers, program agencies and others with information to improve USDA food assistance programs. Research on program dynamics and administration examined changes over time in families’ income and FSP participation. The research found that monthly incomes of households receiving food stamps varied much less than households that were eligible but not participating. USDA also continued to publish “The Food Assistance Landscape,” a semi-annual periodical that highlights recent research on USDA’s food assistance programs and contains important and up-to-date program statistics and economic indicators that affect program participation and expenditures. “The Food Assistance Landscape” helps policy officials better understand program operations, target populations and the economic and policy environment in which the programs operate.

Serving the Public

USDA’s continued focus on improving nutrition-assistance program management and customer service reflects its long-term core commitment to prevent waste, inefficiency and abuse. The sheer size of these programs demands that the utmost attention be given to applying efficient management practices and, to the extent possible, preventing errors in distributing benefits. Deficiencies in customer service undermine the effectiveness of the programs in reaching clients with the benefits they need. Maintaining public trust in Federal nutrition-assistance programs is vital to their success and continued support.

Challenges for the Future

Some erroneous and improper payment problems are inherent to the legislatively mandated program structure. This structure is intended to serve people in special circumstances and settings. USDA must shape its management approach in light of the need to make services convenient and accessible to participants. Additionally, State and local Governments bear direct responsibility for delivering the programs. The Department must address erroneous and improper payment problems through monitoring and technical assistance. This approach requires adequate numbers of trained staff supported by a modernized information technology infrastructure to ensure full compliance with national program standards, and prevents or minimizes error, waste and abuse.

To meet the challenge of continued improvements in payment accuracy in the Food Stamp Program (FSP), USDA continues to dedicate resources to this area. Despite this, two significant challenges will impact future success. Congressional action has changed the quality-control process, lowering the risk of penalties for poor State agency performance. It remains to be seen how States will react to these changes. Additionally, State budgets have been and will continue to be extremely tight. This factor could hurt State performance in the payment-accuracy arena. USDA will continue to provide technical assistance and support to maintain payment accuracy in the context of this changing program environment.

KEY OUTCOME: MAINTAIN A HIGH LEVEL OF INTEGRITY IN THE NUTRITION ASSISTANCE PROGRAMS

While 2004 data are unavailable, the food stamp payment accuracy rate has increased over the past several years and reached a record high in 2003. This record likely reflects both changes in the definition of program error as well as the sharing of best practices among states for improving payment accuracy.

Exhibit 59: Increase Efficiency in Food Management

Annual Performance Goals and Indicators		Fiscal Year 2004		
		Target	Actual	Result
4.3.1	Improve Food Program Management and Customer Service			Deferred
	▪ Increase Food Stamp Payment Accuracy Rate	92.2%	N/A	

Analysis of Results

The FY 2004 Food Stamp Payment Accuracy Rate will become available in June 2005 and be reported in the *FY 2005 Performance and Accountability Report*.

The FY 2003 Food Stamp Payment Accuracy rate was a record high 93.36 percent. The corresponding national error rate was 6.64 percent. This reflects a combination of 5.05 percent in benefit overpayments, and 1.59 percent in benefit underpayments. Twenty-one State agencies, including Texas and New York, achieved a payment error rate less than 6 percent. California, with a rate of 7.96 percent, showed a marked improvement over FY 2002's error rate of 14.84 percent. Eleven State agencies experienced a high enough error rate to be subject to sanctions if they do not improve in FY 2004.

USDA efforts such as the Partner Web (an intranet for State Food Stamp agencies) and the National Payment Accuracy Workgroup (consisting of representatives from USDA headquarters and regional offices) contributed significantly to this success. It made timely and useful payment accuracy-related information and tools available across regions and States. Additionally, the Department continued to use an early detection system to target States that may be experiencing a higher incidence of errors based on preliminary Quality Control (QC) data.

In the *FY 2003 Performance and Accountability Report*, the measure was deferred. The target of 93.4 percent was met.

Exhibit 60: Trends in Increase Efficiency in Food Management

Trends	Fiscal Year Actual				
	2000	2001	2002	2003	2004
Increase Food Stamp Payment Accuracy Rate	91.1%	91.3% Baseline	91.7%	93.4%	N/A

USDA's close working relationship with its State partners over the last several years, along with program changes to simplify rules and reduce the potential for error, has resulted in consistent increases in the Food Stamp Payment Accuracy rate. The most important factor in maintaining improved performance in this area is the need for State partners to continue and renew their commitment to utilize findings from the quality control system. To support State improvement, USDA will continue efforts with the National Payment Accuracy Work Group to share best practice methods and strategies. USDA also will continue to resolve QC liabilities through settlements, which require States to invest in specific program improvements.

STRATEGIC GOAL 5: PROTECT AND ENHANCE THE NATION'S NATURAL RESOURCE BASE AND ENVIRONMENT

The United States Department of Agriculture (USDA) continues to implement the President's Healthy Forest Initiative (HFI), in cooperation with the U.S. Department of the Interior (DOI) and non-Federal partners. HFI was developed in response to unhealthy conditions on America's public lands due to the suppression of fires and a lack of active forest and rangeland management during the last century. The initiative has amended regulatory processes to ensure more timely decisions and greater efficiency. This includes:

- Improving procedures for developing and implementing fuels treatment and forest restoration projects in priority forests and rangelands, in collaboration with local Governments;

- Reducing the number of overlapping environmental reviews by combining projects analysis and establishing a process for concurrent project clearance by Federal agencies;
- Developing guidance for weighing the short-term risks against the long-term benefits of fuels treatment and restoration projects; and
- Developing guidance to ensure consistent NEPA procedures for fuels treatment activities and restoration activities, including development of a model Environmental Assessment for these types of projects.

USDA worked with DOI and Congress in a bipartisan effort to protect America's forests with passage of the Healthy Forest Restoration Act (HFRA). HFRA strengthens public participation in developing high-priority forest health projects and reduces the complexity of environmental planning allowing Federal land agencies to use the best science and methods available to manage land under their stewardship. It also provides a more effective appeals process encouraging early public participation in project planning, and issues clear guidance for courts when reviewing litigation concerning forest health projects.

An interim field guide was released jointly with DOI implementing these new tools and authorities. Training sessions were conducted to increase the understanding of USDA field employees in their use. The field guide will improve the analysis of certain forest and rangeland restoration projects. Specifically, projects that already have been determined necessary by States, tribes and local communities will qualify for expedited National Environmental Policy Act review. To qualify, the projects must occur on one or more of the following types of areas:

- At-risk communities in the wildland-urban interface;
- High-risk municipal watersheds;
- Areas that provide habitat for threatened and endangered species; and
- Areas susceptible to insect infestation or disease epidemics.

Management tools provided by the HFI and HFRA enable land managers to reduce the risk of wildland fire to communities and forest resources. Decades of fire exclusion have allowed excess vegetation to crowd forest stands. The crowding makes them more susceptible to uncontrollable fires and pests, degrading wildlife habitat and reducing water yield and timber productivity. USDA and DOI have developed the concept of fire regime condition class as an indicator for the degree to which changes in vegetation have increased the likelihood of forest areas to burn catastrophically. Using streamlined procedures to remove excess vegetation more efficiently can reduce the likelihood of dangerous fire behavior while restoring wildlife habitat, tree resistance to insects and disease, water flows, and the production of quality timber. Interdisciplinary teams of USDA specialists talk to communities when designing vegetation management actions to ensure that forest restoration projects enjoy a high level of public involvement and support. USDA also is working closely with DOI to develop performance measures to track the effectiveness of collaboration with local communities and activities that restore fire-adapted ecosystems.

The ecological functions of public lands are put at risk when excessive concentration of hazardous substances or toxic metals are present, as are the health and safety, of those working there or visiting. In FY 2004, USDA's ongoing environmental cleanup program reduced or eliminated environmental contamination on more than 20 sites. One of these cleanups resulted in the lifting of a fish-consumption warning. Another kept toxic metals-laden mining wastes from entering a salmon stream after a forest fire made the site highly erodible. A third removed 10,000 tons of soil contaminated by polychlorinated biphenyls (PCB).

In addition to this workload, the Department has devoted much effort to providing conservation leadership, technical assistance and financial assistance to the conservation of private lands through new and existing programs. USDA has accomplished much including:

- Allocated \$5.2 billion for programs designed to improve forest and rangeland management, create healthier landscapes and reduce the risk of catastrophic fire;

- Helped develop more than 143,000 conservation plans through the Conservation Technical Assistance program, USDA's basic program for conservation of private lands;
- Designated \$84 million to protect farm and ranch land through USDA's Farm and Ranch Lands Protection Program (FRPP). FRPP is designed to protect productive agricultural land by purchasing conservation easements to limit conversion of farm and ranch lands to non-agricultural uses;
- Provided \$69.4 million to landowners through the Grassland Reserve Program, which enables recipients to protect, restore and enhance grasslands on their property;
- Provided nearly \$32 million through the Environmental Quality Incentives Program (EQIP) to help farmers and ranchers with limited resources develop and maintain economic viability in their farm operations. EQIP is a voluntary program that offers financial and technical assistance to farmers and ranchers who face threats to soil, water, air and related natural resources on their land;
- Provided \$15.5 million to address halt the spread of *Phytophthora ramorum*, or sudden oak death, to non-infested areas of the U.S. Sudden oak death is caused by a fungus and attacks trees and shrubs;
- Implemented Conservation Innovation Grants Program providing \$14.25 million to fund the development and adoption of innovative technologies and approaches through pilot projects and conservation field trials; and
- Launched the Conservation Security Program providing \$41 million in financial and technical assistance to 2,200 farmers and ranchers in 18 watersheds in 22 states promoting the conservation and improvement of soil, water, air, energy, plant and animal life, and other conservation efforts.

OBJECTIVE 5.1: IMPLEMENT THE PRESIDENT'S HEALTHY FORESTS INITIATIVE AND OTHER ACTIONS TO IMPROVE MANAGEMENT OF PUBLIC LANDS

Exhibit 61: Resources Dedicated to Protect the Nation's Resource Base and Environment

USDA Resources Dedicated to Objective 5.1	FY 2004	
	Actual	Percent of Goal 5
Program Obligations (\$ Mil)	\$5,320.4	58%
Staff Years	38,266	70%

Introduction

USDA and DOI are aggressively implementing tools provided by the Healthy Forests Initiative (HFI) and authorities provided by HFRA. USDA, in collaboration with the U.S. Bureau of Land Management, now is using HFRA authorities to expedite planning for projects to reduce fire hazards. These projects largely consist of the removal of excess vegetation or controlled burning (collectively, hazardous fuel treatment) to reduce the risk from catastrophic wildfires that in 2004 alone burned more than 7 million acres. The integration of the fire hazard reduction program with other restoration programs and the overall increase in hazardous fuel treatment is the direct result of HFRA authorities and USDA leadership. USDA will continue to treat hazardous fuel as the primary method of protecting the Nation's natural base from wildland fire.

Overview

USDA is implementing HFI and HFRA through collaboration among Federal, State and local Governments, and non-Governmental organizations. The Department is using HFRA authorities to work with communities to develop Community Wildfire Protection Plans (CWPP) that reduce wildland fire hazard in areas surrounding communities. USDA's partners also are engaged in this process. The Western Governors' Association, the National Association of Counties, the Society of American Foresters, and the National Association of State Foresters (NASF) compiled the handbook *Preparing a Community Wildfire Protection Plan* to educate

communities about wildfire hazard mitigation and to organize communities to draft these plans and track accomplishments.

Other 2004 accomplishments include:

- More than 76 percent of the hazardous fuel treatments occurred in areas located near communities;
- Fuels reduction efforts significantly increased from 1.4 million acres in 2003 to 2.3 million acres in 2004 due to a streamlined procedures and a focused USDA commitment;
- Using authority provided under Title IV of HFRA, USDA currently has six landscape-scale research projects that are planned on nearly 3,000 acres. The purpose of these projects is to conduct landscape-scale applied research to address insect infestations and diseases; and
- Continued development of LandFire, an interagency landscape-scale fire, ecosystem and vegetation-mapping project. The information provided in LandFire will help land managers make informed decisions for reducing wildland fire risks across landscapes.

Selected Results in Research, Extension and Statistics

Effects of Changes in Fuel Structure on Fire Behavior—A major goal of both the National Fire Plan and the Healthy Forests Initiative is to reduce the potential for uncharacteristically severe fires by decreasing the levels of hazardous fuels, with a focus on forest ecosystems that were characterized historically by frequent, low-severity fires. The effectiveness and effects of various fuel treatments for restoring dry forests in the Western United States are summarized in a state-of-knowledge synthesis paper, which provides important guidance for hazard reduction activities. Major conclusions include:

- Fire behavior is strongly influenced by fuel structure and composition;
- Reducing surface and ladder fuels can decrease fire severity and the probability of crown fire substantially;
- A landscape approach is more likely to have significant overall impacts on fire behavior and suppression capability than an approach that treats individual stands in isolation.

Utilization of Forest Biomass—Important considerations in hazardous fuel reduction include developing practical methods for harvesting and using harvested biomass, and tools for evaluating the economics of biomass utilization. Forest Service (FS) researchers have developed several models to help managers and policy makers understand the potential to use fire hazard reduction treatments to meet energy needs, and to evaluate the economics of biomass utilization. The Fuel Treatment Evaluator is a Web-based tool to help assess the biomass potential from forests. This tool allows users to identify and prioritize hazardous fuel reduction opportunities in forests based on forest condition, the need for thinning and proximity to the wildland-urban interface. Research evaluation of a new biomass bundling machine indicates that it can be a cost-effective forest management tool, which reduces fire risk, avoids prescribed fire limitations, improves storage life of residues and improves the recovery of biomass for utilization. Researchers also are working with business owners to help promote local uses of small diameter lumber.

Study Reveals Cause of Disease in Beneficial Insects—The mystery behind the decline of beneficial biocontrol weevils that help control the invasive weed water hyacinth in Florida has been solved by USDA scientists. They found that a microorganism is killing the weevils and reducing their reproductive capacity. The two closely related South American weevils have been used since the 1970s to control water hyacinth. Water hyacinth is an aquatic weed that clogs waterways, displaces native vegetation and degrades wildlife habitats in Florida. The weevils are mass-reared and, once released, feed on the weed and help prevent it from spreading. Recently, the weevils' effectiveness had been declining for unknown reasons. The scientists attributed the decline to a disease caused by the microorganism *microsporidium*. Tests determined that a recently discovered, still unnamed, *microsporidium* was decreasing weevil survival rates by 30 percent and reducing their reproductive capacity. The study's findings demonstrate the importance of selecting disease-free organisms for biological control programs. If it is determined to be economically practical to treat weevil colonies, researchers will work at developing a method to cure them of the disease.

Forest Carbon Dioxide Sequestration— University of Wisconsin-Madison forest ecologists and USDA scientists are conducting a unique outdoor study on land in northern Wisconsin. The research reveals how increases in carbon dioxide and ozone impact forests and global climate change. Scientists are studying how quaking aspen, paper birch and sugar maple – major components of forests that cover much of the Northeast U.S. – respond to the levels of carbon dioxide and ozone expected by 2050. The initial results show that aspen and birch grew 20 percent to 28 percent faster with elevated carbon dioxide than they did in the reference area. In contrast, adding just ozone decreased aspen and birch growth by 20 percent to 26 percent, and the gas’ combined effects on growth offset each other when both are elevated. The results suggest that these trees will not slow the rising carbon dioxide level unless ozone pollution is controlled.

Serving the Public

Hazardous fuel reduction treatments help protect life and property by reducing the intensity of wildland fires. In recent years, the U.S. has consistently experienced some of the worst wildfire seasons on record. In 2002, wildland fires burned 7.2 million acres, nearly double the 10-year average. In southern California’s “October 2003 Fire Siege,” more than 750,000 acres erupted in flames, claiming 24 lives and destroying 3,710 homes. This ongoing trend of catastrophic wildfire seasons indicates that the USDA, along with all other land-management agencies, must increase efforts to reduce fire hazards using hazardous fuels funds. Reduction of excess vegetation decreases fire hazards while also improving firefighter and public safety. In 2004, USDA treated 2.5 million acres to remove excess vegetation. Approximately 1.7 million of these acres were treated specifically to reduce fire hazardous fuels funds. An additional 700,000 acres were treated using other restoration and rehabilitation programs (i.e., wildlife habitat, watershed, timber and pest management that also reduced fire hazards). To maintain this level of accomplishment in 2005 and reduce the risk of future catastrophic wildland fires, USDA must use available resources to work collaboratively with all Federal, State and local entities.

Challenges for the Future

Future challenges include ensuring public and firefighter safety while protecting lands, which still are threatened by fire in forests dense with vegetation and fuel. Additional challenges are the continued drought conditions in many western states and the expansion of communities into previously uninhabited wildlands (the wildland-urban interface). While the number of USDA-managed acres impacted by wildland fire fell dramatically from 2003 to 2004 by 900,000 acres, the historical trend is for increasing impact from wildland fire. As drought continues and communities expand into forested areas, the potential increases for even more deadly and damaging fires. Other challenges include the cost of containing wildfires.

Existing hazardous fuel treatment performance currently is based on outputs of acres treated and the number of acres treated as result of local collaboration. The Office of Management and Budget (OMB) Performance Assessment Rating Tool (PART) determined in 2002 that the Wildland Fire Management Program did not demonstrate results based on lack of baselines and targets for recently created performance measures developed as a result of the “10-year Comprehensive Strategy for the National Fire Plan.” Research has shown that treatments to remove excess vegetation for fire and restoration purposes can impact the size and behavior of wildland fires dramatically. The current performance measures for hazardous fuel treatment do not capture the results of treatments on the landscape. They track acres treated as an output measure. USDA and DOI recognize the need to develop a new performance measure that demonstrates the impact of treatments beyond the direct area treated. This new performance measure is being developed as part of a pilot process to prioritize treatments for hazardous fuel reduction and restoration of fire-adapted ecosystems at the landscape scale. For more information on the PART, visit www.whitehouse.gov/omb/budget/fy2004/pma/usdawildlandfire.pdf.

Recent research has identified 73 million acres administered by USDA and 59 million acres of privately-owned forest land at high risk of ecologically destructive wildland fire. Commercial utilization of excess vegetation has been identified as one way to lower the cost of Government forest fuel-reduction treatments through cooperation with private enterprise. A barrier to expanding forest biomass utilization is the limited market for this material because of reduced forest products processing capacity in much of the Western U.S. Much of this material is small diameter and non-traditional species. This factor presents a further barrier to utilization where forest products processing capacity remains. Title II of HFRA authorizes measures to further commercial use of

biomass. A significant challenge for USDA and DOI is to expand the acreage of hazardous fuel and restoration treatments with available funding by increasing the commercial utilization of hazardous fuel. USDA and DOI hope to promote the increased use of biomass as a domestic source of energy, and are developing a strategy to encourage biomass utilization.

KEY OUTCOME: REDUCE THE RISK FROM CATASTROPHIC WILDLAND FIRE

Implementing the President's Healthy Forest Initiative and other actions to improve management of public lands involves the integration of several key USDA programs that manage vegetation. The hazardous fuel reduction program is a key piece of the effort to implement HFI and HFRA. Strategically placed treatments by USDA and partners will continue to increase the Department's ability to protect communities by reducing fire size and altering fire behavior.

Exhibit 62: Hazardous Fuel Reduction

Annual Performance Goals and Indicators		Fiscal Year 2004		
		Target	Actual	Result
5.1.1	Number of acres of hazardous fuel treated that are in the wildland urban interface (WUI).	1,000,000	1,736,000	Exceeded
5.1.2	Number of acres of hazardous fuel treated that are in Condition Classes 2 or 3 in Fire Regimes 1, 2, or 3 outside the wildland urban interface (WUI). ¹	259,000	531,000	Exceeded

¹ Fire regime condition class is an indicator for the degree of departure of forest areas from historical vegetation and disturbance patterns.

Analysis of Results

USDA exceeded its 2004 performance goals for protecting the health of the Nation's forests and other public lands through aggressive pro-active efforts. These increased efforts have significant value to all Americans. They protect human life and whole communities that reside in areas adjacent to national forests and other public lands. The 2.3 million acres treated in FY 2004 exceed the Department's FY 2004 goal by more than 80 percent. Improved management tools and favorable weather conditions allowed teams to treat significantly more at-risk acreage. Overall accomplishment for hazardous fuel treatments increased 61 percent from 1.4 million acres in FY 2003 to 2.3 million acres in FY 2004. The increase in accomplishment above the FY 2004 target also resulted from improvements in fire regime condition class that protect communities and resources from wildland fire on 636,000 acres due to activities to restore forest health, wildfire habitat, watershed condition, and timber productivity in fire-adapted ecosystems.

In FY 2005, USDA plans to reduce fire hazard on 1.8 million acres using direct funding, and on an additional 700,000 acres as a secondary benefit from other management activities. The USDA Strategic Plan proposes that the Department treat 11 million cumulative acres by FY 2007. The successes of FY 2004 moved USDA well on its way toward meeting this goal.

Exhibit 63: Trends in Treatment of Hazardous Fuel

Trends	Fiscal Year Actual				
	2000	2001	2002	2003	2004
Number of acres of hazardous fuel treated that are in the WUI.	N/A	611,551 Baseline	764,364	1,114,106	1,736,000
Number of acres of hazardous fuel treated that are in Condition Classes 2 or 3 in Fire Regimes 1, 2, or 3 outside the WUI.	N/A	N/A	N/A	293,127 Baseline	531,000

USDA tracked hazardous fuel treatment with a single performance measure for all treatment activities prior to FY 2001 and initiation of the National Fire Plan. In FY 2001, USDA began to track fire hazard reduction in the wildland-urban interface (WUI). In FY 2003, an additional performance measure based on fire regime condition

class was established to track treatment on forests more susceptible to catastrophic wildland fire because of excess vegetation resulting from fire exclusion. Performance in FY 2004 includes the contribution of improved fire regime condition class resulting from resource restoration activities, in addition to direct hazardous fuel reduction treatments.

Management Challenge

The USDA Office of Inspector General has identified the FS internal control structure as a management challenge. (Appendix A contains the Office of the Inspector General's report on USDA's major management challenges.) In response to this challenge, FS is planning to:

- Develop and implement a national schedule of internal program reviews for FY 2005 and FY 2006 that ensures high priority, agency-wide issues are addressed;
- Conduct comprehensive risk assessments for FS programs and develop plans to address identified risks;
- Provide consolidated report of review findings to USDA by July 31, 2005, and develop a process to monitor actions to address "significant" review findings;
- Conduct annual reviews/analyses to ensure funding is spent as intended for higher priority agency programs (e.g., National Fire Plan, fire rehabilitation program); and
- Continue making progress towards implementing the agency-wide, comprehensive, Performance Accountability System, thereby improving implementation of the Government Performance and Results Act of 1993 (GPRA).

OBJECTIVE 5.2: IMPROVE MANAGEMENT OF PRIVATE LANDS

Exhibit 64: Resources Dedicated to Improving Management of Private Lands

USDA Resources Dedicated to Objective 5.2	FY 2004 Actual	Percent of Goal 5
Program Obligations (\$ Mil)	\$3,834.2	42%
Staff Years	16,407	30%

Introduction

Non-Federal land makes up almost 70 percent of the total area of the U.S. The vast majority of that land is privately owned cropland, rangeland, pastureland and forestland. Millions of individuals are responsible for making decisions on the use and management of those lands. Their decisions form the foundation of a substantial and vibrant agricultural economy that provides food and fiber for the Nation. The productive and sustainable use of natural resources on private lands, therefore, is a vital goal for the nation. Achieving the dual goals of a productive and profitable agricultural sector and a high-quality environment requires good management based on sound science and practical technology. Good management helps sustain the productive capacity of these important agricultural lands. In 2004, USDA helped producers develop conservation plans for 35.5 million acres, providing producers with a management tool to know the capability of their soils, condition of their rangeland and woodlands, and requirements for irrigation. This provides the land user with the knowledge on how best to use the land to continue supporting healthy plant, animal and human communities. USDA's most recent inventory of resource conditions on non-Federal lands indicated that progress in controlling erosion is being maintained and that the loss of wetlands has been halted. USDA's technical assistance to agricultural producers has been key in helping them address both these resource concerns.

Overview

USDA helps farmers and ranchers improve their management of the soil, water and related resources on non-Federal lands. In 2004, the Department worked with natural resource managers to maintain and improve land productivity and environmental quality by providing:

- Technical assistance tailored to the needs of individual farmers and ranchers;
- Financial assistance in the form of cost shares and incentive payments to apply key practices on working land; and
- Easements and rental payments to protect sensitive land.

USDA also provides technical and financial assistance to State agencies to help non-industrial private forest landowners better manage, protect and utilize their forest resources. Additionally, USDA provides research, technology development, resources inventory and assessment programs. These USDA activities provide the information and effective tools resource managers need to be good stewards of the Nation's land and water.

In 2004, the Department provided technical assistance to hundreds of thousands of producers in planning and applying conservation to better manage their soil and water resources. The Department's assistance helped managers of private lands maintain soil quality, protect water and air quality, and enhance wildlife habitats.

Selected Results in Research, Extension and Statistics

New Method Can Boost Yields, Lower Fertilizer Use—Grain crop farmers who need to know how much nitrogen fertilizer to apply to the soil could save money and protect the environment. This is being made possible by a fertilizer-application method recently developed by USDA scientists and cooperators at the University of Missouri-Columbia. Grain farmers usually use the “yield-goal” method to determine how much nitrogen to use based on the estimated yield. The researchers have completed a large-scale study on corn showing that farmers who use this method may be losing per-acre profit and using too much nitrogen. Yield was found to be a poor predictor of how much nitrogen was needed because it is hard to determine the season's yield months before harvest. Additionally, the method does not consider changes in weather or the soil variability within fields. Using new methods, the researchers found that yield only accounts for about 15 percent of what is known as corn's “economically optimal nitrogen fertilizer rate (EONR).” It was discovered that, if farmers could grow corn knowing the EONR and how it varies within fields, on average they could make \$15 more per acre, than if they allocated fertilizer by the yield-goal formula. This figure excludes costs associated with determining EONR and variable-rate fertilizer application. This increase in profit would come from both higher yields and less fertilizer.

Old Soil Study Uncovers Value of Long-term Nitrate Research—A second look at a USDA experiment completed nearly 30 years ago demonstrated that short-term studies cannot reveal the value of conservation efforts to correct such problems as the contamination of soil and groundwater by nitrates. USDA soil scientists found that nitrate applied during the experiment, conducted between 1969 and 1974, apparently took nearly 30 years to move through soils and reach a 70-foot-deep water table. In the original study, conducted on a 74-acre field in western Iowa, fertilizer was applied to soil at three times the normal rate. The resulting soil nitrate concentration was tracked for the next decade. In 1996, USDA scientists were preparing to monitor groundwater for a new experiment when they detected the nitrate from the old experiment 60 feet deep in the soil. Leaching of nitrate from agricultural fertilizers has been linked to such concerns as drinking-water quality and hypoxia, a condition in which water bodies contain low oxygen amounts. While farmers are being encouraged to use nitrogen more efficiently, resulting environmental improvements have been difficult to document using studies lasting just two to four years. These new findings indicate that the benefits of application of a conservation practice within a watershed may not be apparent for several decades. Efforts to determine the cost-effectiveness of public conservation programs must take this into account.

USDA's Gentle, But Tough, Termiticide Now Patented—USDA scientists have patented a new toxic bait that is tasty to termites but designed to eradicate them. Formosan subterranean termites alone cost Americans about \$1 billion annually in control and repair costs. The new termiticide contains low concentrations of naphthalene, a solvent commonly used in mothballs. USDA researchers have found that, even

at low doses, the termiticide helps control native Eastern subterranean termites as well as the more notorious Formosan subterranean termite. The researchers were seeking replacements for wood preservatives that contain heavy metals, such as arsenic, chromium and copper. Their research found that certain naphthalenic compounds prevented wood decay *and* killed native termite colonies. USDA incorporated the naphthalenic compounds into a cellulose-based matrix, slow-acting toxic bait that appeals to termites' taste buds, which encourages wider distribution throughout the colony. Because they are effective at low doses, the termite-killing compounds are both environmentally friendly and cost-effective.

Water Treatment Residues Curb Phosphorus Runoff—Residue from water-treatment plants, often discarded as waste into landfills, may instead provide an effective means of preventing phosphorus runoff from farms. USDA scientists are studying an alum-based water treatment residual that increases the soil's capacity to bond phosphorus, a vital plant nutrient. The studies may especially benefit States along the mid- to southern-Atlantic seaboard. In these regions, sandy soils generally absorb and hold less phosphorus. Increased absorption of phosphorus would curb runoff of this important nutrient. Phosphorus runoff can lower the oxygen content of water bodies and spoil the taste of drinking water. Applying this residue would be especially useful for livestock operators. Phosphorus in manure makes agricultural facilities, such as large livestock production operations, potential sources of runoff pollution.

Environmental Compliance—In 2004, USDA released a report on environmental mechanisms, *Environmental Compliance in Agriculture: Past Performance and Future Potential*. Since 1985, U.S. agricultural producers have been required to practice soil conservation on highly erodible cropland and conserve wetlands as a condition of farm program eligibility. Evidence suggests that these requirements have helped reduce soil erosion and preserve wetlands. Extending compliance to nutrient management in crop production could yield additional environmental gains.

Regulations for Land Application of Manure from Confined Animal Feeding Operations—USDA analysis played an important role in the design of the recent EPA water-quality regulations for confined animal-feeding operations. As a result of the Department's analysis comparing costs and effectiveness on land applications of animal waste, EPA shifted to a more cost-effective option in its final regulations.

Reducing Runoff—Several USDA-supported studies resulted in promising means to reduce runoff. Nonpoint source pollution often comes from hardscapes, such as asphalt and concrete roads and drives. Impervious surfaces intensify storm water runoff, prevent rain from replenishing underground water reservoirs and trap warmth that heats up cities. In Florida, where 100,000 new homes are built annually, USDA is helping to minimize the environmental impact of these homes. In one effort, nearly 6,000 acres of an 11,000-acre project will remain a sanctuary for local flora and fauna. Wisconsin researchers identified ways for builders to reduce the amount of hardscape on a site by 30 percent by making modest changes. Ohio State University students and faculty helped reduce runoff into the Olentangy River watershed located in central Ohio by installing bioswales—engineered stretches of grass, plants, trees and bushes that filter storm water runoff. The successful use of bioswales will allow more than 250 Ohio communities to comply with Federal runoff mandates.

Serving the Public

Farmers, ranchers and private forest and other landowners manage two-thirds of the Nation's land. They are the primary stewards of U.S. soil, air and water. USDA assists them in adopting environmentally sound management practices and provides information on soil quality, water management, water quality, plant materials, resource management and wildlife habitat. Additionally, USDA assists landowners and land managers in using this information to implement sustainable production techniques. Those who receive technical assistance are more likely to plan, apply and maintain conservation systems that support agricultural production and environmental quality as compatible goals. In 2004, the Department assisted people in developing conservation plans for 32.4 million acres of cropland and grazing lands and creating or restoring 1.7 million acres of agricultural wetlands.

USDA's technical experts help people in communities work together to protect their shared environment. The assistance provided to State and local governmental entities, Tribes and private sector organizations helps them protect the environment and improve the standard of living and quality of life for the people they represent.

USDA conducts research and develops and transfers technology, including conservation standards, specifications and guidelines for conservation practices. The Department also collects and disseminates data on water and soil conditions and related resources. The information and technical tools USDA develops and provides to resource managers help sustain natural resources. Department information reaches a wide and diverse audience, with increasing emphasis on electronic communications technology.

Challenges for the Future

Greater population densities exert greater pressures on the environment. As the landscape becomes a more and more dense mosaic of developed areas scattered within agricultural forested land, the need for conservation increases while the options available to producers may be constrained. USDA will continue to work with producers and its conservation partners to successfully implement conservation practices and to preserve the Nation's resources and environment.

KEY OUTCOME: MAINTAIN THE PRODUCTIVE CAPACITY OF THE RESOURCE BASE AND QUALITY OF THE ENVIRONMENT

Privately owned cropland, grazing lands and forestland represent a substantial and vibrant agricultural economy that provides food and fiber for the Nation. In FY 2004, USDA's conservation programs helped producers maintain the productive capacity of 32.4 million acres through development and implementation of conservation plans on cropland and grazing land that help support healthy and productive plant, animal and human communities. In addition, the conservation applied with USDA assistance in past years continues to protect the landscape.

The basis for sound management of agricultural land is a conservation plan that helps each producer manage a specific production unit. Each producer needs to know the capabilities of the soil of the farm's fields and the condition of rangeland and woodland that is part of the operation. In areas where irrigation is practiced, producers also need forecasts of water supply to plan the year's crops. In FY 2004, USDA continued to increase emphasis on helping producers develop technically sound plans to provide a framework for their activities.

The extent of land on which producers have developed a conservation plan is an indicator of the amount of land on which producers are trying to be good stewards. Plans developed in one year are typically applied in following years. The extent of land on which producers have actually applied the practices planned is an indicator of progress toward protecting soil, water, and related resources.

USDA's Conservation Operations provides the basic resource inventory data, technical tools and comprehensive-planning approach producers need to manage their soil and water resources well. The Conservation Technical Assistance (CTA) Program is the primary avenue through which USDA assists agricultural producers and other land managers to plan environmentally and economically sustainable operations. USDA provides technical and financial assistance to apply conservation practices through the Environmental Quality Incentives Program (EQIP) and other programs authorized by FSRIA. In FY 2004, USDA worked hard to ensure that this increasing level of public investment in conservation was directed to solving high priority resource concerns.

Exhibit 65: Maintain the Productive Capacity of the Natural Resource Base and the Quality of the Environment

Annual Performance Goals and Indicators		Fiscal Year 2004		
		Target	Actual	Result
5.2.1	Conservation plans written for cropland and grazing lands (Mil acres)	31.7	32.4	Met
5.2.2	Cropland and grazing lands with conservation applied to protect the resource base and environment (Mil acres)	26.8	27*	Met

*Preliminary results. Actual shown includes cropland and grazing lands where conservation was applied with all NRCS programs.

Analysis of Results

USDA met its FY 2004 goals for helping producers plan for conservation efforts on the Nation's private lands. Conservation plans are essential to good management of soil and water resources. A conservation plan describes the schedule of operations and activities needed to solve natural-resource problems and take advantage of opportunities. Conservation planning helps individual managers consider their operations within the larger landscape of which a farm or ranch is a part. It also helps land managers consider the effects of their actions on that wider environment. They can avoid actions that would damage natural resources offsite while meeting their economic targets for the operation.

Reported performance for the FY 2004 measure for conservation plans is higher than the target and the baseline year. This increase is caused by several factors. It is partly the result of a change in how the measure was defined in FY 2004 and in the system for reporting performance in FY 2004 compared to earlier years. It also results from the increased public investment in conservation authorized by FSRIA, which is motivating farmers and ranchers to ask for more assistance in conservation planning.

While the target for application of conservation appears to have been met, final analysis of the data is incomplete. Analysis is needed to estimate the performance at the program level rather than in total. It is possible that the analysis will find that performance for the two programs on which the target is based was less than projected. For FY 2005, the agency has implemented further refinements to its accountability system to ensure progress on program specific targets can be monitored and costs documented. The availability of technical expertise to help producers get conservation on the land is a major determinant of the rate at which producers can act. In FY 2004, USDA continued to encourage technical assistance providers in the private sector to come forward to help USDA implement its conservation programs.

The long-term goal is to have a land-management system that leads to a high productive capacity for future generations. This would come while people today continue to enjoy the benefits of a high-quality environment and an economically healthy agricultural sector that produces abundant supplies of food and fiber.

Annual targets for the assistance USDA will provide for planning and application are based on data about resource condition and trends. This information was developed in resource inventories and covers priorities identified in local, State and national plans. Conservation needs and available program resources are evaluated to establish feasible annual targets.

Exhibit 66: Trends in Planning and Application of Improved Management of Cropland and Grazing Lands

Trends	Fiscal Year Actual				
	2000	2001	2002	2003	2004
Conservation plans written for cropland and grazing lands (Mil acres) ¹	14.9	15.2	13.1	31.4 Baseline	32.4
Cropland and grazing lands with conservation applied to protect the resource base and environment (Mil acres) ²	19.5	24.5 Baseline	23.8	26.0	27

¹ Includes all planning reported as assistance provided through the CTA. Data for FY 2000-2002 are not comparable to later years. In FY 2003, policy on planning was revised and reporting instructions were clarified.

² Data for FY 2002 and 2003 include only land where conservation was applied with assistance from the Conservation Technical Assistance program or Environmental Quality Incentives Program.

USDA's strategic plan for FY 2002-2007 set a strategic goal of helping producers apply needed conservation treatment on 130 million acres during that period. For the FY 2002-2004 period, USDA had provided assistance to improve management on nearly 77 million acres.

A major challenge is to develop a practical and reliable tool to document the effects of conservation practices on water and air quality. Better knowledge will enable USDA to focus programs on the most serious problems. By the end of FY 2005, we expect to have this analytical system in place to estimate the effects of specific

conservation practices on cropland health. It also will study the effects of the movement of sediment, nitrogen and phosphorus from agricultural operations.

KEY OUTCOME: ENSURE DIVERSE WILDLIFE HABITATS

Wetlands are among the most biologically diverse areas on earth. They provide habitat for a rich mixture of plants and animals, including many rare and endangered species. Wetlands also protect shorelines, filter impurities from water, help control floodwaters, regulate water flow and decrease soil erosion. Since the early 1980's, USDA has focused increasing attention to protecting wetlands. The strategy for protecting wetlands and wetland wildlife habitat relies heavily on encouraging private landowners to protect wetlands under long-term or permanent easements offered through USDA's Wetlands Reserve Program. This is a voluntary conservation program that offers landowners the means and opportunity to protect, restore and enhance wetlands on their property with the financial assistance of USDA. The Department also requires agricultural producers to protect wetlands to participate in other USDA programs.

Exhibit 67: Ensure Diverse Wildlife Habitats

Annual Performance Goals and Indicators	Fiscal Year 2004		
	Target	Actual	Result
5.2.3 Agricultural wetlands created or restored through the Wetlands Reserve Program (WRP) (Mil acres)	1.7	1.7	Met

Analysis of Results

The target for the measure was met. The Wetlands Reserve Program is very popular and consistently enrolls the target number of acres. The program has shown a steady climb in enrollment of acres by increasing by approximately 200,000 acres a year since FY 2001. The program also is efficient. A recent internal evaluation indicated that the cost of acquiring easements has remained relatively stable. It has risen only in response to increasing prices of agricultural land.

In 1990, the U.S. set a goal of preventing any net loss of wetlands. USDA's 2002 National Resources Inventory found that our Nation is achieving this goal on agricultural land. Much of the prevention of loss resulted from USDA's efforts to help people restore wetlands and discourage their conversion to agricultural uses.

The performance measure reported here includes the wetlands and associated uplands that have been protected and restored under easements or agreements. Adjacent uplands are included in the program where necessary to preserve the wetland's health. The measure represents the program's cumulative accomplishments to date. The majority of land protected through this program is under permanent easement, ensuring that the ecosystem will be maintained in perpetuity. In addition to permanent easements, the program offers producers the options of 30-year easements and of cost-share agreements. FSRIA authorized an increase in the cumulative level for the program to 2.28 million acres, which is considered a long-term target. The Wetlands Reserve Program is the most important USDA program that protects wetlands.

Exhibit 68: Trends in Wetland Protection

Trends	Fiscal Year Actual				
	2000	2001	2002	2003	2004
Agricultural wetlands created or restored through WRP. Million acres	0.9	1.1	1.3 Baseline	1.5	1.7

USDA anticipates that this upward trend in wetlands protection will continue. The President has set a new goal of increasing the acreage of wetlands. During the next 5 years, the new goal includes:

- Restoring and creating at least 1 million acres of wetlands;
- Improving the quality of at least 1 million acres of wetlands; and

- Protecting at least 1 million acres of wetlands.

The benefits of these outcomes will be enhanced by further efforts to improve associated uplands and river habitat. For example, ducks will have the wetland they need for food and dry land habitat nearby for nesting. USDA will work in cooperation with U.S. Departments of the Interior and Transportation, the U.S. Environmental Protection Agency, the Army Corps of Engineers and the National Oceanic and Atmospheric Administration to achieve the President's goals.

One challenge in wetlands protection is developing better tools for tracking wetlands status and values. Another is improving coordination among Federal agencies with a role in wetlands protection. Additionally, better coordination is needed on remote sensing and ground-level data collection on wetlands gain, loss and quality. USDA will continue to work with other federal agencies and conservation partners to ensure wetlands protection.

KEY OUTCOME: COMMUNITIES AND INDIVIDUALS PROTECTED AGAINST FLOOD RISKS AND BENEFITING FROM PRODUCTIVE USE OF WATER RESOURCES

USDA provides assistance in reducing flood damage within the context of comprehensive water-resources planning. The ability of water resources to meet the Nation's needs is an increasing concern across the Nation. Concerns focus on water quality and quantity. Comprehensive, locally led planning and management can ensure that watersheds provide adequate supplies of clean, well-managed water. USDA assists individuals, Tribes and communities with comprehensive water resources planning and management. The Department's programs provide technical and financial assistance to help local and State entities plan and implement projects. These projects are designed to protect water quality, improve its supply and enhance wildlife habitat. In FY 2004, all the Small Watershed protection projects completed with USDA assistance prevented an estimated \$266 million in flood damage. USDA also helps local communities protect watersheds through its Conservation Operations Program, which provides basic resource inventory data on soil moisture and water supply forecasts and a comprehensive planning approach for addressing problems.

Exhibit 69: Communities and Individuals Protected Against Flood Risks and Benefiting from Productive Use of Water Resources

Annual Performance Goals and Indicators		Fiscal Year 2004		
		Target	Actual	Result
5.2.4	Reduction in average annual flood damage (\$Mil)	16	16.5	Exceeded

Analysis of Results

This measure has exceeded its target. In FY 2004, the agency transitioned to a new reporting system for the water resources programs. The FY 2004 data in the new system provide a baseline for future years, but may not be comparable to earlier years. The value shown in the table is an estimate of the reported benefits that should be considered 2004 performance. This measure represents the results of the watershed protection projects completed during FY 2004. The measure includes the effects the new projects had on losses that floods caused to agriculture. Flood prevention projects provide protection for many years. The planned life of a floodwater retarding structure is generally 50 years. The number in the table will not include the total value of assets protected by projects completed in earlier years that figure is far higher. In FY 2004, for example, the agriculture flood reduction of all projects in operation totaled more than \$266 million. Most of these watershed-protection projects have multiple purposes and provide benefits such as water supply, wildlife habitat and recreation as well as flood damage reduction.

USDA helps communities plan the use of watersheds and flood plains to provide benefits and protect property values. This benefits all residents. The table below shows the annual savings in flood damage that were provided by watershed protection projects completed during each of the fiscal years. That is, it shows the annual

increase in benefits rather than the total annual flood reduction benefits of USDA's programs. These benefits are provided by:

- Building structures;
- Planning local and land use;
- Treating critical areas;
- Purchasing easements; and
- Developing and implementing early-warning and emergency response plans.

Exhibit 70: Trend in Flood Damage Reduction

Trends	Fiscal Year Actual				
	2000	2001	2002	2003	2004
Reduction in average annual flood damage (\$Mil)	NA	21	22 Baseline	20	16.5

Working with individuals and communities to help reduce the risk of flood damage is a continuing process. Progress toward the goal of meeting the needs for flood damage protection in a consistent and thorough manner is challenged by many factors. One is development in flood prone areas, which increases the number of individuals and communities at risk.

USDA has provided technical and financial assistance to local sponsors in the development of water resources since the 1940s. Nearly 2,000 projects cover 140 million acres and include a network of 10,000 small watershed structures across the U.S. These projects help prevent and relieve flooding to protect human health and safety. They also have contributed to flood protection and improving water quality and supplies. This creates wildlife habitat and provides recreational opportunities.

Many of the current structures designed to protect individuals and communities from flood risks are nearing the end of their life cycles. More than 1,000 of these structures will require rehabilitation or other action to ensure public health and safety within the next 10 years. USDA is working with the local sponsors who own these structures to assess the risks and either rehabilitate or decommission their structures.

In the next few years, USDA will continue activities to assist producers to adopt comprehensive conservation systems that enable them to meet their production goals while fully protecting the health and quality of natural resources including soils and grazing land ecosystems. USDA will focus on providing the technical assistance and technology to enable local people to plan comprehensive, wide area planning to meet their goals. USDA also will continue to focus on helping producers to comply with federal, state, and local regulations for protecting the environment and to practice a level of stewardship that makes regulation unnecessary.

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FISCAL YEAR 2004 PROGRAM OBLIGATIONS INCURRED

The following table depicts the component agencies and staff offices of the U.S. Department of Agriculture with total program level dollars for each account allocated to each objective. The program level dollars are displayed in millions and have been rounded to the nearest tenth. An account's funding was allocated to more than one objective when the amount for each objective was significant and could be identified. The table provides a general indication of the funding dedicated to each objective. Staff office and departmental management accounts generally support all USDA objectives and, in most cases, have been reallocated equally among all strategic objectives.

Exhibit 71: USDA Program Obligations

USDA FY 2004 Program Obligations (Dollars in Millions)															
Agency	Account	Program Obligations	1.1	1.2	1.3	1.4	2.1	2.2	3.1	3.2	4.1	4.2	4.3	5.1	5.2
OSEC	Office of the Secretary	23.7	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8
OCFO	OCFO	11.5	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9
	Working Capital Fund	261.1	20.1	20.1	20.1	20.1	20.1	20.1	20.1	20.1	20.1	20.1	20.1	20.1	20.1
OCIO	OCIO	56.0	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3
	Common Computing Environment	212.7	16.4	16.4	16.4	16.4	16.4	16.4	16.4	16.4	16.4	16.4	16.4	16.4	16.4
DA	Agriculture Buildings and Facilities Rental Payments	178.1	13.7	13.7	13.7	13.7	13.7	13.7	13.7	13.7	13.7	13.7	13.7	13.7	0
	Departmental Administration	37.2	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9
	Hazardous Materials Management	17.3	-	-	-	-	-	-	-	-	-	-	-	17.3	-
OCR	Office of Civil Rights	21.4	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6
OC	OC	9.4	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
OIG	OIG	80.0	6.2	6.2	6.2	6.2	6.2	6.2	6.2	6.2	6.2	6.2	6.2	6.2	6.2
	IG Assets Forfeiture Funds	1.3	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
OGC	OGC	36.0	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8
OCE	OCE	11.4	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9
NAD	NAD	13.5	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
OBPA	OBPA	7.4	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
HSS	Homeland Security Staff	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
ERS	Economic Research	72.7	12.4	4.4	4.4	16.0	3.6	5.1	1.5	2.2	2.9	2.9	5.8	-	11.6
NASS	NASS	146.9	103.1	-	-	7.6	28.9	-	-	3.1	-	-	-	-	4.1
ARS	ARS Salaries and Expenses	1,160.0	-	-	109.0	-	-	-	109.0	656.6	-	104.4	-	90.5	90.5
	Buildings and Facilities	160.5	-	-	15.1	-	-	-	15.1	90.8	-	14.4	-	12.5	12.5
	ARS-No Year Funds	13.6	-	-	1.3	-	-	-	1.3	7.7	-	1.2	-	1.1	1.1
CSREES	Extension Activities	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	-	0.1	-	0.1	0.1
	Research and Education Activities	624.2	56.2	56.2	81.1	18.7	18.7	18.7	43.7	87.4	-	49.9	-	96.8	96.8

USDA FY 2004 Program Obligations (Dollars in Millions)															
Agency	Account	Program Obligations	1.1	1.2	1.3	1.4	2.1	2.2	3.1	3.2	4.1	4.2	4.3	5.1	5.2
CSREES (cont'd)	Integrated Activities	52.0	0.1	0.1	0.6	0.6	0.6	0.6	4.2	25.0	-	7.3	-	6.8	6.2
	Initiative for Future Agriculture & Food Systems	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-	0.0	-	0.0	0.0
	Native Americans Institutions Endowment Fund	1.9	0.1	0.1	0.2	0.1	0.1	0.1	0.1	0.2	0.2	0.2	-	0.3	0.3
	Native Americans Institutions Endowment Fund - Feeder Account	8.9	0.6	0.4	0.8	0.4	0.4	0.4	0.4	1.1	0.7	0.8	-	1.4	1.4
	Community Food Projects	5.0	-	-	-	-	-	-	-	-	-	-	5.0	-	-
	Section 2501	6.2	1.6	-	1.6	1.6	-	-	-	1.6	-	-	-	-	-
	Risk Management	5.0	-	-	-	5.0	-	-	-	-	-	-	-	-	-
	Biodiesel Fuel Education Program	1.0	-	-	1.0	-	-	-	-	-	-	-	-	-	-
	APHIS	Salaries and Expenses	1,149.2	137.9	-	-	-	-	-	-	1,011.3	-	-	-	-
	Buildings and Facilities	16.2	-	-	-	-	-	-	-	16.2	-	-	-	-	-
	Trust Funds	2.1	-	-	-	-	-	-	-	2.1	-	-	-	-	-
FSIS	FSIS-Salaries & Expenses	774.7	-	-	-	-	-	-	774.7	-	-	-	-	-	-
	FSIS-No Year Funds	139.0	-	-	-	-	-	-	-	139.0	-	-	-	-	-
	Trust Funds	3.6	-	-	-	-	-	-	3.6	-	-	-	-	-	-
GIPSA	Salaries and Expenses	39.4	16.2	0.8	2.0	17.3	3.2	-	-	-	-	-	-	-	-
	Inspection and Weighing Services	36.9	36.9	-	-	-	-	-	-	-	-	-	-	-	-
AMS	Marketing Services	77.5	77.5	-	-	-	-	-	-	-	-	-	-	-	-
	Payments to States and Possessions	3.3	3.3	-	-	-	-	-	-	-	-	-	-	-	-
	Perishable Ag. Commodities Act Fund	9.7	9.7	-	-	-	-	-	-	-	-	-	-	-	-
	Funds for Strengthening Markets/Income/Supply	875.1	875.1	-	-	-	-	-	-	-	-	-	-	-	-
	Wool Research Development and Promotion Trust Fund	2.2	2.2	-	-	-	-	-	-	-	-	-	-	-	-
	Expenses & Refunds, Inspection & Grading of Farm Products	169.0	169.0	-	-	-	-	-	-	-	-	-	-	-	-
RMA	Administrative and Operating Expenses	71.0	-	-	-	71.0	-	-	-	-	-	-	-	-	-
	Federal Crop Insurance Corporation Fund	4,090.7	-	-	-	4,090.7	-	-	-	-	-	-	-	-	-
FSA	Salaries and Expenses	1.0	-	-	-	1.0	-	-	-	-	-	-	-	-	-
		1,273.7	-	31.8	1,076.3	-	-	-	-	-	-	-	-	-	165.6
	Salaries and Expenses /Transfer to CCC	115.1	-	-	94.4	-	-	-	-	-	-	-	-	-	20.7
	State Mediation Grants	4.0	-	-	-	4.0	-	-	-	-	-	-	-	-	-

USDA FY 2004 Program Obligations (Dollars in Millions)															
Agency	Account	Program Obligations	1.1	1.2	1.3	1.4	2.1	2.2	3.1	3.2	4.1	4.2	4.3	5.1	5.2
FSA (cont'd)	Agricultural Credit Insurance Fund (Prog.)	491.6	-	-	-	491.6	-	-	-	-	-	-	-	-	-
	Dairy Indemnity Program	0.6	-	-	-	0.6	-	-	-	-	-	-	-	-	-
	Emergency Conservation Program/Transfer to CCC	26.7	-	-	-	26.7	-	-	-	-	-	-	-	-	-
	Tree Assistance Program/Transfer to CCC	4.0	-	-	-	4.0	-	-	-	-	-	-	-	-	-
	Agricultural Credit Insurance Fund	14.1	-	-	-	14.1	-	-	-	-	-	-	-	-	-
	Farm Storage Facility Loan Direct Financing Acct.	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Farm Storage Facility Loan Direct Financing Acct.	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Ag. Conservation Guarantee Financing Acct.	1.2	-	-	-	1.2	-	-	-	-	-	-	-	-	-
	Agricultural Credit Insurance Fund-Direct (Fin.)	2,102.0	-	-	-	2,102.0	-	-	-	-	-	-	-	-	-
	Agricultural Credit Insurance Fund-Guar. (Fin.)	185.5	-	-	-	185.5	-	-	-	-	-	-	-	-	-
	CCC Apple Loans Direct Loan Financing Account	0.6	-	-	-	0.6	-	-	-	-	-	-	-	-	-
	CCC Export Loans Program Account	578.9	-	-	-	578.9	-	-	-	-	-	-	-	-	-
	CCC Export Loans Program Account (Admin.)	4.1	-	-	-	4.1	-	-	-	-	-	-	-	-	-
	Commodity Credit Corporation	24,839.5	-	-	2,980.7	21,858.8	-	-	-	-	-	-	-	-	-
	CCC Livestock Indemnity Program	0.3	-	-	-	0.3	-	-	-	-	-	-	-	-	-
	CCC Export Guarantee Financing Account	643.0	-	-	-	643.0	-	-	-	-	-	-	-	-	-
	CCC Export Guaranteed Loans Liquidating Account	1.1	-	-	-	1.1	-	-	-	-	-	-	-	-	-
	CCC Emergency Boll Weevil Direct Loan Financing Account	0.2	-	-	-	0.2	-	-	-	-	-	-	-	-	-
	CCC Emergency Boll Weevil Direct Loan Program Account	0.2	-	-	-	0.2	-	-	-	-	-	-	-	-	-
	CCC Farm Storage Facility Loans Program Account	0.9	-	-	-	0.9	-	-	-	-	-	-	-	-	-
NRCS	Conservation Operations	914.0	-	-	-	-	-	91.4	-	-	-	-	-	-	822.6
	Watershed Rehabilitation Program	29.0	-	-	-	-	-	29.0	-	-	-	-	-	-	-
	Biomass Research and Development Program	14.0	-	-	14.0	-	-	-	-	-	-	-	-	-	-
	Farm Security and Rural Investment Programs	1,577.0	-	-	-	-	-	-	-	-	-	-	-	-	1,577.0
	Resource Conservation and Development	53.0	-	-	-	-	-	26.5	-	-	-	-	-	-	26.5
	Watershed Surveys and Planning	10.0	-	-	-	-	-	4.0	-	-	-	-	-	-	6.0
	Watershed and Flood Prevention Operations	156.0	-	-	-	-	-	31.2	-	-	-	-	-	-	124.8

USDA FY 2004 Program Obligations (Dollars in Millions)															
Agency	Account	Program Obligations	1.1	1.2	1.3	1.4	2.1	2.2	3.1	3.2	4.1	4.2	4.3	5.1	5.2
	Wetlands Reserve Program	1.0	-	-	-	-	-	-	-	-	-	-	-	-	1.0
	Forestry Incentives Program	1.0	-	-	-	-	-	-	-	-	-	-	-	-	1.0
RD	Rural Community Advancement Program	925.0	-	-	-	-	277.5	647.5	-	-	-	-	-	-	-
	Salaries and Expenses	641.0	-	-	-	-	192.3	448.7	-	-	-	-	-	-	-
RHS	Rental Assistance Program	581.0	-	-	-	-	-	581.0	-	-	-	-	-	-	-
	Rural Housing Assistance Grants	44.0	-	-	-	-	-	44.0	-	-	-	-	-	-	-
	Mutual and Self-Help Housing Grants	35.0	-	-	-	-	-	35.0	-	-	-	-	-	-	-
	Rural Housing Insurance Fund (Prog.)	861.0	-	-	-	-	-	861.0	-	-	-	-	-	-	-
	Rural Housing Insurance Fund (Liq.)	285.0	-	-	-	-	-	285.0	-	-	-	-	-	-	-
	Rural Housing Insurance Fund Direct (Fin.)	2,469.0	-	-	-	-	-	2,469.0	-	-	-	-	-	-	-
	Rural Housing Insurance Fund-Guar. (Fin.)	129.0	-	-	-	-	-	129.0	-	-	-	-	-	-	-
	Rural Community Facility Loans-Direct (Fin.)	624.0	-	-	-	-	-	624.0	-	-	-	-	-	-	-
RHS (cont'd)	Farm Labor Housing	33.0	-	-	-	-	-	33.0	-	-	-	-	-	-	-
	Rural Community Facility Loans-Guar.(Fin.)	16.0	-	-	-	-	-	16.0	-	-	-	-	-	-	-
RBCS	Rural Cooperative Development Grants	40.0	-	-	-	-	40.0	-	-	-	-	-	-	-	-
	Rural Business Investment Program	1.0	-	-	-	-	1.0	-	-	-	-	-	-	-	-
	Renewable Energy Programs	23.0	-	-	-	-	23.0	-	-	-	-	-	-	-	-
	Rural Development Loan Fund (Prog.)	22.0	-	-	-	-	22.0	-	-	-	-	-	-	-	-
	Rural Economic Development Grants	11.0	-	-	-	-	11.0	-	-	-	-	-	-	-	-
	Rural Economic Development Loans (Prog.)	3.0	-	-	-	-	3.0	-	-	-	-	-	-	-	-
	Rural Economic Development Loans (Fin.)	21.0	-	-	-	-	21.0	-	-	-	-	-	-	-	-
	Rural Development Loan Fund-Direct (Fin.)	59.0	-	-	-	-	59.0	-	-	-	-	-	-	-	-
	Rural Business and Industry Direct Loans (Fin.)	4.0	-	-	-	-	4.0	-	-	-	-	-	-	-	-
	Rural Business and Industry Direct Loans-Guar.(Fin.)	144.0	-	-	-	-	144.0	-	-	-	-	-	-	-	-
	Rural Empowerment Zones/ Enterprise Communities	13.0	-	-	-	-	13.0	-	-	-	-	-	-	-	-
RUS	RETRF (Prog. Acct.)	391.0	-	-	-	-	273.7	117.3	-	-	-	-	-	-	-
	Rural Telephone Bank Program Account	4.0	-	-	-	-	2.8	1.2	-	-	-	-	-	-	-

USDA FY 2004 Program Obligations (Dollars in Millions)															
Agency	Account	Program Obligations	1.1	1.2	1.3	1.4	2.1	2.2	3.1	3.2	4.1	4.2	4.3	5.1	5.2
RUS (cont'd)	Distance Learning and Medical Link Programs	68.0	-	-	-	-	47.6	20.4	-	-	-	-	-	-	-
	High Energy Cost Grants	31.0	-	-	-	-	21.7	9.3	-	-	-	-	-	-	-
	Rural Communication Development Fund	2.0	-	-	-	-	1.4	0.6	-	-	-	-	-	-	-
	Distance Learning Telemedicine Direct Loan (Fin. Acct.)	642.0	-	-	-	-	449.4	192.6	-	-	-	-	-	-	-
	Rural Development Insurance Fund (Liq. Acct.)	69.0	-	-	-	-	48.3	20.7	-	-	-	-	-	-	-
	Rural Telephone Bank (Fin. Acct.)	213.0	-	-	-	-	149.1	63.9	-	-	-	-	-	-	-
	RETRF (Fin. Acct.-Direct)	5,298.0	-	-	-	-	3,708.6	1,589.4	-	-	-	-	-	-	-
	Rural Water & Waste Disposal Loans (Direct Fin. Acct.)	1,479.0	-	-	-	-	1,035.3	443.7	-	-	-	-	-	-	-
	RETRF (Liq. Acct.)	929.0	-	-	-	-	650.3	278.7	-	-	-	-	-	-	-
	Rural Telephone Bank (Liq. Acct.)	49.0	-	-	-	-	34.3	14.7	-	-	-	-	-	-	-
	Appalachian Reg. Commission Transfer	17.0	-	-	-	-	11.9	5.1	-	-	-	-	-	-	-
FAS	Scientific Activities Overseas (Foreign Curr. Prog)	0.2	-	0.2	-	-	-	-	-	-	-	-	-	-	-
	Trade Adjustment Assistance for Farmers	78.7	78.7	-	-	-	-	-	-	-	-	-	-	-	-
	Salaries and Expenses	196.2	127.5	68.7	-	-	-	-	-	-	-	-	-	-	-
		5.3	3.4	1.9	-	-	-	-	-	-	-	-	-	-	-
		4.4	2.9	1.5	-	-	-	-	-	-	-	-	-	-	-
		12.6	8.2	4.4	-	-	-	-	-	-	-	-	-	-	-
	McGovern-Dole International Food for Education	149.2	-	149.2	-	-	-	-	-	-	-	-	-	-	-
	Title I Ocean freight Differential Grants	40.5	-	40.5	-	-	-	-	-	-	-	-	-	-	-
	P.L. 480 (Liq. Acct.)	2.5	-	2.5	-	-	-	-	-	-	-	-	-	-	-
	P.L. 480 (Prog.)	244.6	-	244.6	-	-	-	-	-	-	-	-	-	-	-
	P.L. 480 Title II	1,669.3	-	1,669.3	-	-	-	-	-	-	-	-	-	-	-
	P.L. 480-Direct (Fin. Acct.)	262.7	-	262.7	-	-	-	-	-	-	-	-	-	-	-
	Debt Reduction (EAI) Fin. Acct.	278.4	-	278.4	-	-	-	-	-	-	-	-	-	-	-
FNS	Food Donations Programs	3.0	-	-	-	-	-	-	-	-	3.0	-	-	-	-
	Food Stamp Program	28,927.0	-	-	-	-	-	-	-	-	28,637.7	289.3	-	-	-
	Commodity Assistance Program	175.0	-	-	-	-	-	-	-	-	175.0	0	-	-	-
	Food Program Administration	142.0	-	-	-	-	-	-	-	-	84.5	7.8	49.7	-	-
	Special Supplemental Nutrition Program (WIC)	4,960.0	-	-	-	-	-	-	-	-	4,612.8	347.2	-	-	-
	Child Nutrition Programs	11,395.0	-	-	-	-	-	-	-	-	11,395.0	-	-	-	-

USDA FY 2004 Program Obligations (Dollars in Millions)															
Agency	Account	Program Obligations	1.1	1.2	1.3	1.4	2.1	2.2	3.1	3.2	4.1	4.2	4.3	5.1	5.2
FS	Land Acquisition Title VIII	8.1	-	-	-	-	-	-	-	-	-	-	-	8.1	-
	Capital Improvement and Maintenance	634.2	-	-	-	-	-	-	-	-	-	-	-	634.2	-
	Forest and Rangeland and Research	326.0	-	-	-	-	-	-	-	-	-	-	-	326.0	-
	State and Private Forestry	390.7	-	-	-	-	-	-	-	-	-	-	-	78.1	312.6
	National Forest System	1,708.2	-	-	-	-	-	-	-	-	-	-	-	1,708.2	-
	Wildland Fire Management	1,811.9	-	-	-	-	-	-	-	-	-	-	-	1,739.4	72.5
	Payments to States	316.1	-	-	-	-	-	-	-	-	-	-	-	-	316.1
	Payments to States, Northern Spotted Owl Guarantee	4.9	-	-	-	-	-	-	-	-	-	-	-	4.9	-
	Management of National Forest Lands for Subsistence Uses	5.6	-	-	-	-	-	-	-	-	-	-	-	5.6	-
	Federal Infrastructure Improvement	(0.2)	-	-	-	-	-	-	-	-	-	-	-	(0.2)	-
	Working Capital Fund	205.8	-	-	-	-	-	-	-	-	-	-	-	205.8	-
	Land Acquisition	92.9	-	-	-	-	-	-	-	-	-	-	-	92.9	-
	Recreation Fees for Collection Costs	0.8	-	-	-	-	-	-	-	-	-	-	-	0.8	-
	Federal Payment, Payments to States, National Forests Fund	21.0	-	-	-	-	-	-	-	-	-	-	-	-	21.0
	Timber Roads, Purchaser Elections	1.9	-	-	-	-	-	-	-	-	-	-	-	1.9	-
	Roads and Trails for States, National Forest Fund	(7.3)	-	-	-	-	-	-	-	-	-	-	-	(7.3)	-
	Timber Salvage Sales	62.4	-	-	-	-	-	-	-	-	-	-	-	62.4	-
	Expenses, Brush Disposal	11.7	-	-	-	-	-	-	-	-	-	-	-	11.7	-
	Range Betterment Fund	2.6	-	-	-	-	-	-	-	-	-	-	-	2.6	-
	Payment to Minnesota from the National Forests Fund	2.1	-	-	-	-	-	-	-	-	-	-	-	-	2.1
	Licenses Programs	0.1	-	-	-	-	-	-	-	-	-	-	-	-	0.1
	Restoration of Forest Lands	(2.0)	-	-	-	-	-	-	-	-	-	-	-	(2.0)	-
	Operation and Maintenance Quarters	3.9	-	-	-	-	-	-	-	-	-	-	-	3.9	-
	Timber Sale Pipeline Restoration Fund	6.1	-	-	-	-	-	-	-	-	-	-	-	6.1	-
	Recreation Fee Demonstration Program	46.0	-	-	-	-	-	-	-	-	-	-	-	46.0	-
	Midwin National Tall grass Prairies Rental Fees	0.9	-	-	-	-	-	-	-	-	-	-	-	0.9	-
	Land Between the Lakes Management Fund	3.7	-	-	-	-	-	-	-	-	-	-	-	3.7	-
	Other Land Uses	0.2	-	-	-	-	-	-	-	-	-	-	-	0.2	-
	Valles Caldera Fund	0.5	-	-	-	-	-	-	-	-	-	-	-	0.5	-
	Legacy Fund	58.5	-	-	-	-	-	-	-	-	-	-	-	-	58.5

USDA FY 2004 Program Obligations (Dollars in Millions)															
Agency	Account	Program Obligations	1.1	1.2	1.3	1.4	2.1	2.2	3.1	3.2	4.1	4.2	4.3	5.1	5.2
FS (cont'd)	Payments to Counties ,National Grasslands	6.1	-	-	-	-	-	-	-	-	-	-	-	-	6.1
	Cooperative Work Trust Fund	(42.6)	-	-	-	-	-	-	-	-	-	-	-	(42.6)	-
	Reforestation Trust Fund	18.3	-	-	-	-	-	-	-	-	-	-	-	18.3	-
	Gifts and Bequests	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Transfer from DOL to USDA for Job Corps	100.1	-	-	-	-	-	-	-	-	-	-	-	100.1	-
	Federal Highway Transfer (FS)	8.1	-	-	-	-	-	-	-	-	-	-	-	8.1	-
Total		114,289.0	1,796.5	2,891.5	4,458.2	30,221.8	7,374.8	9,211.8	1,168.3	1,990.0	44,985.7	901.2	134.5	5,320.4	3,834.2
Total by Goals						39,368.0		16,586.6		3,158.4			46,021.4		9,154.6

FISCAL YEAR 2004 STAFF YEARS

The following table depicts the component agencies and staff offices of the U.S. Department of Agriculture with estimated staff years obligated to each objective. Staff years have been rounded to the nearest tenth and have been allocated to more than one objective when the amount of each objective was significant and could be identified. Staff offices and departmental management generally support all USDA objectives and, in most cases, have been reallocated equally among all objectives.

Exhibit 72: USDA Staff Years

USDA FY 2004 Staff Years														
Agency	Staff Years	Objectives												
		1.1	1.2	1.3	1.4	2.1	2.2	3.1	3.2	4.1	4.2	4.3	5.1	5.2
OSEC	73	5.6	5.6	5.6	5.6	5.6	5.6	5.6	5.6	5.6	5.6	5.6	5.6	5.6
OCFO	1,599	123.0	123.0	123.0	123.0	123.0	123.0	123.0	123.0	123.0	123.0	123.0	123.0	123.0
OCIO	307	23.6	23.6	23.6	23.6	23.6	23.6	23.6	23.6	23.6	23.6	23.6	23.6	23.6
DA	521	40.1	40.1	40.1	40.1	40.1	40.1	40.1	40.1	40.1	40.1	40.1	40.1	40.1
OC	98	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5
OIG	597	45.9	45.9	45.9	45.9	45.9	45.9	45.9	45.9	45.9	45.9	45.9	45.9	45.9
OBPA	61	4.7	4.7	4.7	4.7	4.7	4.7	4.7	4.7	4.7	4.7	4.7	4.7	4.7
OGC	321	24.7	24.7	24.7	24.7	24.7	24.7	24.7	24.7	24.7	24.7	24.7	24.7	24.7
OCE	55	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2
HSS	6	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
OCR	148	11.4	11.4	11.4	11.4	11.4	11.4	11.4	11.4	11.4	11.4	11.4	11.4	11.4
NAD	116	8.9	8.9	8.9	8.9	8.9	8.9	8.9	8.9	8.9	8.9	8.9	8.9	8.9
ERS	491	83.5	29.5	29.5	108.0	24.6	34.4	9.8	14.7	19.6	19.6	39.3	-	78.6
NASS	1,343	953.7	-	-	77.9	252.8	-	-	26.7	-	-	-	-	32.6
ARS	8,444	-	-	3,208.7	-	-	-	844.4	2,111.0	-	253.3	-	1,013.3	1,013.3
CSREES	443	35.4	35.4	35.4	22.2	17.7	17.7	26.6	44.3	-	93.0	-	57.6	57.6
APHIS	6,761	-	-	-	-	-	-	-	6,761.0	-	-	-	-	-
FSIS	9,503	-	-	-	-	-	-	9,503.0	-	-	-	-	-	-
GIPSA	690	282.9	13.7	35.6	303.6	-	-	55.2	-	-	-	-	-	-
AMS	3,323	3,323.0	-	-	-	-	-	-	-	-	-	-	-	-
RMA	520	-	-	-	520.0	-	-	-	-	-	-	-	-	-
FSA	5,883	-	405.9	-	5,018.2	-	-	-	-	-	-	-	-	458.9

USDA FY 2004 Staff Years														
FSA Non-Federal	11,017	-	-	-	8,538.2	-	-	-	-	-	-	-	-	2,478.8
NRCS	12,346	-	-	-	-	-	1,111.1	-	-	-	-	-	-	11,234.9
RD	6,666	-	-	-	-	1,999.8	4,666.2	-	-	-	-	-	-	-
FAS	1,025	830.7	194.3	-	-	-	-	-	-	-	-	-	-	-
FNS/CNPP	1,496	-	-	-	-	-	-	-	-	415.9	248.3	831.8	-	-
FS	37,648	-	-	-	-	-	-	-	-	-	-	-	36,895.0	753.0
Total*	111,501	5,809	979	3,608	14,888	2,595	6,130	10,739	9,258	736	914	1,171	38,266.0	16,407.0
Total by Goals*			25,285			8,725		19,997			2,821		54,673	

*Goal and objective totals have been rounded to the nearest whole number. Totals affected by rounding.

DATA ASSESSMENT OF PERFORMANCE MEASURES

STRATEGIC GOAL 1: ENHANCE ECONOMIC OPPORTUNITIES FOR AGRICULTURAL PRODUCERS

Objective 1.1: Expand International Marketing Opportunities

KEY OUTCOME: IMPROVE INTERNATIONAL MARKETING OPPORTUNITIES

1.1.1 Dollar value of trade preserved through FAS staff interventions and trade agreement monitoring (\$Mil)

- **Completeness of Data**—Data for the World Trade Organization and tariff rates are projected estimates based on results posted to the performance tracking system within the Foreign Agricultural Service. Data for successfully retaining and assuring U.S. trade access to export markets are projected estimates based on results posted during the first three quarters of FY 2004. Fourth quarter estimates were derived using the average quarterly reporting and discounting the results to reflect any large, one-time annual events not expected to be repeated in the final quarter. If any trade access disputes are resolved successfully by the end of the fiscal year, USDA will update this data accordingly.

The primary sources of trade data are U.S. Customs, which was absorbed into the U.S. Department of Homeland Security, information compiled by the U.S. Census Bureau, the USDA publication “Foreign Agricultural Trade of the United States,” and other databases. For some products, trade data are not recorded. Estimating the potential value of a sanitary and phytosanitary accomplishment may be a challenge, especially where new exports to a previously closed market are concerned. In arriving at these estimates, USDA considers such factors as similar exports by other countries, the importing countries’ respective purchasing power and sales into comparable markets. In addition to trade data, other sources include market reports compiled by USDA and industry estimates.
- **Reliability of Data**—Data are highly reliable and used by agency and Department officials to highlight successes in the trade-policy arena.
- **Quality of Data**—USDA uses an automated performance tracking system to collect and analyze actual performance data. The data are collected from the Department’s network of overseas offices and headquarters staff conducting trade compliance and enforcement activities, and providing trade negotiation support to the U.S. Trade Representative (USTR). An established procedure is maintained to review each reported success for verification and the prevention of double counting. There often is a lag time between reporting successful resolution of trade issues and reporting the estimated value to U.S. agriculture. This also can happen with independent verification through the U.S. Government’s official trade statistics. There is no known remedy immediately available to address this problem.

Exhibit 73: Performance Threshold for 1.1.1

Threshold Documentation Table					
Performance Goal	Owner	Target	Performance Thresholds		
			Exceeded	Met	Unmet
1.1.1 Dollar value of trade preserved through FAS staff interventions and trade agreement monitoring (\$Mil)	FAS	2,000	> 2,500	2,500 to 1,500	<1,500
<p>Rationale for Met Range: Annual targets for this measure, based on five years of program history, have demonstrated that the performance levels are controlled by international parties. USDA annual targets reflect U.S. expectations for successfully addressing international compliance with trade agreements and resolving actual U.S. trade access issues that arise so that domestic exports can continue. Additionally, the level of international cooperation and agreement with U.S. proposed trade negotiations depends on international parties. A met or exceeded target reflects USDA successes in addressing barriers to U.S. trade. An unmet target can mean that USDA monitoring activities prevented noncompliance.</p>					

OBJECTIVE 1.2: SUPPORT INTERNATIONAL ECONOMIC DEVELOPMENT AND TRADE CAPACITY BUILDING

KEY OUTCOME: SUPPORT FOREIGN FOOD ASSISTANCE

1.2.1 Improve food security and nutrition through McGovern-Dole International Food for Education and Child Nutrition Program by providing daily meals and take-home rations for mothers, infants and school children (Mil)

The data for the McGovern-Dole International Food for Education and Child Nutrition Program are monitored and evaluated through the application of a biannual survey designed by the USDA's NASS. The survey methodology and reporting details are listed in the Government Publication, "The Global Food for Education Pilot Program: A Review of Project Implementation and Impact," Appendix 1, pages 289-305, February 2003.

- **Completeness of Data**—All cooperating sponsors who participate as program delivery partners are required to follow an exact established survey methodology developed by the USDA. The survey covers data on food rations distributed and school enrollment and promotions to the next grade level. While the biannual survey results supplied cover the first and third quarters of the fiscal year, there is a 30-day lag time between the survey's completion, coordination and delivery to USDA. Projected estimates between these times are provided through ongoing correspondence with the program organizations. All estimates and results are based on the previous year's signed agreements since the signatures occur during the fourth quarter of the previous fiscal year.

Annual performance targets take into account a one-year lag time for the food aid to arrive in the country. During the first quarter of FY 2004, the FY 2003 agreements for food were delivered to the countries. During the second quarter, approximately half of the agreements counties food for direct feeding. During the third quarter, all of the agreements provided food rations. For most of the fourth quarter, few food rations were distributed as schools are on summer break.

- **Reliability of Data**—Data are reliable, of good quality and used by Department officials to highlight successes in the trade policy arena.
- **Quality of Data**—Data collected following the USDA-developed and required survey tool depend on the program participant's ability to interview food recipients. Access to recipients during the survey period may depend upon social conditions, civil unrest and weather and transportation conditions.

Exhibit 74: Performance Threshold for 1.2.1

Threshold Documentation Table						
Performance Goal	Owner	Target	Performance Thresholds			
			Exceeded	Met	Unmet	
1.2.1 Improve food security and nutrition through McGovern-Dole International Food for Education and Child Nutrition Program by providing daily meals and take-home rations for mothers, infants and school children (Mil.)	FAS	1.25	> 1.50	1.50 to 1.10	< 1.10	
Rationale for Met Range:						
This is a new, pilot food aid program with no historical record. An initial annual target threshold is set at 90 percent of the target. A new threshold will be evaluated after three years of actual data are collected.						

OBJECTIVE 1.3 EXPAND ALTERNATIVE MARKETS FOR AGRICULTURAL PRODUCTS AND ACTIVITIES

KEY OUTCOME: INCREASE SUPPLY OF DOMESTICALLY PRODUCED RENEWABLE FUELS

1.3.1 Increase In Bioenergy Production (biodiesel & ethanol in Mil Gal)

The data source for performance information is the Bioenergy-CCC-850A “Application for Payment” form. Ethanol production also is verified with data reported by the Renewable Fuels Association (RFA), a trade group representing the ethanol industry.

- **Completeness of Data**—Data for both biodiesel and ethanol are year-to-date actual, as of July 23, 2004. Final fiscal year data are not expected until late November.
- **Reliability of Data**—Performance data come directly from Bioenergy Program records, which show production for each fiscal year compared to the previous one. These data are considered reliable. For biodiesel, there are no other data sources. Regarding ethanol, data reported by the RFA, which is the industry standard, are used as a verification of internal data.
- **Quality of Data**—U.S. warehouse examiners conduct on-site examinations to verify the accuracy and completeness of data reported on the Bioenergy-CCC-850A.

Exhibit 75: Performance Threshold for 1.3.1

Threshold Documentation Table					
Performance Goal	Owner	Target	Performance Thresholds		
			Exceeded	Met	Unmet
1.3.1 Increase in bioenergy production (Mil Gal)	FFAS/FSA				
▪ biodiesel		4	> 4.4	3.6 – 4.4	< 3.6
▪ ethanol		200	> 240	200 – 240	< 200
Rationale for Met Range: Management determination					

KEY OUTCOME: INCREASE THE PURCHASES OF BIOBASED PRODUCTS BY FEDERAL AGENCIES, RESULTING IN INCREASED DEMAND FOR FARM COMMODITIES AND INCREASED INVESTMENT IN PROCESSING AND MANUFACTURING ACTIVITY BASED IN RURAL AMERICA

1.3.2 Number of Generic Groupings of Biobased Products Designed for Preferred Procurement by Federal Agencies

Data to support designation of biobased products for preferred procurement by rulemaking are obtained from a number of sources. First, manufacturers and vendors of such products are identified and contacted. USDA asks for their cooperation in providing data and other product information necessary for the designation of an item by rulemaking. Second, product samples are requested from manufacturers and vendors for biobased content testing. Third, product-manufacturing information also is requested from manufacturers and vendors to support an analysis of several environmental factors associated with the use of the product and its life-cycle cost. Finally, the Department asks manufacturers and vendors for the results of industry-accepted performance tests against which their products have been tested.

- **Completeness of Data**—These data are used to develop the required information on generic groupings of biobased products for use in designation rulemaking. They are developed in cooperation with manufacturers and vendors of biobased products that fall under the umbrella of a designation. Data used meet the statutory requirements for designation rulemaking.

- **Reliability of Data**—Data are gathered from cooperating manufacturers and vendors. Then, these data are used in analyses to determine the biobased content of a range of products within a generic grouping and the environmental attributes and life-cycle costs of these products. The data are used in tests that determine American Society for Testing and Materials (ASTM) compliance. This compliance is named for ASTM International, a major standards-setting organization that develops consensus standards using participants from industry, academia and Government. Its standards are used widely around the world. The results from analyses of a range of products then are used to characterize the generic groupings considered consistent with statutory requirements.
- **Quality of Data**—The quality of the data used in analyses is high. Samples of products to be tested for biobased content are handled consistently with ASTM-specified processes. Information is gathered for analysis of environmental attributes and life-cycle costs, which is required to support an ASTM-compliant analytic framework. Information is gathered from manufacturers and vendors for analysis of the environmental and health effects of using the products and the life-cycle costs associated with their use (life-cycle costs are measured over the life of the products, including disposal costs, and stated in current dollars), as opposed to simply the purchase price of the product.

Exhibit 76: Performance Threshold for 1.3.2

Threshold Documentation Table						
Performance Goal		Owner	Target	Performance Thresholds		
				Exceeded	Met	Unmet
1.3.2	Number of generic groupings of biobased products designated for preferred procurement by Federal agencies	OEPNU	2	> 3	1 - 3	< 1
Rationale for Met Range:						
This is a new program and ranges will be re-evaluated each year for reasonableness and identification of a historical trend. The current ranges reflect the cooperation level of manufacturers and vendors in working with OEPNU to develop data required for designation of generic groupings by rulemaking.						

OBJECTIVE 1.4: PROVIDE RISK MANAGEMENT AND FINANCIAL TOOLS TO FARMERS AND RANCHERS

KEY OUTCOME: REDUCE THE ECONOMIC RISK OF AMERICAN AGRICULTURAL PRODUCERS.

1.4.1 Increase the value of risk protection provided to agricultural producers through FCIC-sponsored insurance.

The value of risk protection denotes the amount of insurance in effect protecting and stabilizing the agricultural economy. USDA's value projection target is based on projections developed in November 2003, forecasted participation and conditions current at that time. The baseline model uses the latest information from the crop insurance program and combines it with USDA baseline projections for major crops. These crops include corn, wheat, soybeans, sorghum, barley, rice and cotton. In making the projections, the model holds various factors constant, such as premium rates and average coverage level. The model assumes that all non-major crops behave consistently with other USDA projections for major crops. The baseline model is a tool for developing budget projections contained in Presidential budget requests. The budget and performance projections for the crop insurance program mainly depend on the baseline projections from numerous USDA agencies.

- **Completeness of Data**—The data used in conjunction with performance information is based on actual data reported through the end of the third quarter. To provide the annual data, USDA projects the results for the fourth quarter of the fiscal year based on prior year performance. Analysis has shown that normally 99 percent of the final actual data will be reported to USDA during the first quarter of

the next fiscal year. The Department receives the actual data from insurance companies. It then maintains data through two integrated processing systems that validate the information transmitted by insurance companies. The data then are sent through the system to generate all accounting functions. These processing systems provide a mechanism to ensure that data received are accurate, errors are corrected quickly and timely monthly accounting reports are provided.

- **Reliability of Data**—USDA deems this information to be reliable. The insurance companies receive data from the producers and transmit them to USDA. Once received, the Department takes extensive steps to verify the data’s accuracy and validity. The Standard Reinsurance Agreement (SRA) also provides reinsured companies with disincentives for not following prescribed guidelines and procedures. While the data are deemed reliable, a recent audit by OIG found that the RMA information technology environment might be vulnerable to errors, misuse, abuse, unauthorized access, disruption of service and willful destruction. RMA generally agreed with these findings and has made substantial progress in implementing the agreed to recommendations.
- **Quality of Data**—Data are projected based on historical performance and the target information uses data dependent upon the baseline projections from numerous USDA agencies. To the extent that any of the USDA projections are inaccurate, the projection of value also will be inaccurate.

Exhibit 77: Performance Threshold for 1.4.2

Threshold Documentation Table					
Performance Goal	Owner	Target	Performance Thresholds		
			Exceeded	Met	Unmet
1.4.1 Increase the value of risk protection provided to agricultural producers through FCIC sponsored insurance (\$ Bil)	FFAS/RMA	\$42.7	>\$43.8	\$41.7 to \$43.7	<\$41.6
Rationale for Met Range: Annual targets for this measure, based on five years of program history, have consistently seen a variability of plus or minus two for each fiscal year.					

KEY OUTCOME: IMPROVE ECONOMIC VIABILITY OF FARMERS AND RANCHERS

1.4.2: Increase the Percent of Loans to Beginning and Socially Disadvantaged Farmers

The Farm Loan Program (FLP) makes direct and guaranteed farm ownership and operating loans to family-size farmers and ranchers unable to obtain commercial credit. The data reside primarily in the Program Loan Accounting System (PLAS), Guaranteed Loan System (GLS) and FLP Databases. Web-based reports are the primary means of measuring Farm Loan Program performance. USDA reviews these reports quarterly to monitor progress toward achieving performance goals.

- **Completeness of Data**—Data reported are year-to-date actual as of September 30.
- **Reliability of Data**—Farm Loan Program data are considered reliable. To help ensure data reliability, internal controls are built into the systems. System enhancements and reviews also have contributed to the overall reliability. Additionally, USDA reviews system reports to monitor program performance. Comprehensive internal control reviews are conducted in State offices annually to ensure sound loan-making decisions and that program implementation complies with statutes and regulations. Finally, since most Farm Loan Program data originate from USDA’s accounting system, it is subject to an OIG audit.
- **Quality of Data**—The data used in this report are collected for multiple purposes. They are gathered throughout the normal lending process without significant additional burden or analytical resources needed.

Exhibit 78: Performance Threshold for 1.4.2

Threshold Documentation Table					
Performance Goal	Owner	Target	Performance Thresholds		
			Exceeded	Met	Unmet
1.4.2 Increase the percent of loans to beginning and socially disadvantaged farmer/ranchers	FFAS/FSA	35%	>35.5%	34.5-35.5%	<34.5%
Rationale for Met Range: Management determination based on previous year results.					

STRATEGIC GOAL 2: SUPPORT INCREASED ECONOMIC OPPORTUNITIES AND IMPROVED QUALITY OF LIFE IN RURAL AMERICA

Objective 2.1: Expand economic opportunities through USDA financing of businesses

KEY OUTCOME: IMPROVE RURAL QUALITY OF LIFE THROUGH HOME OWNERSHIP OPPORTUNITIES PROVIDED

Business program data are collected in various systems and ways. The finance office records and reports total loan and grant obligations as of the date the obligation is executed. These data are collected as part of the obligation process. Additionally, RD uses one of its own systems, Guaranteed Loan System (GLS), to collect additional information to satisfy reporting requirements, and for management and evaluation purposes. This information includes the number of jobs created or saved. Data on delinquency status mostly are reported by lenders directly to GLS. In other cases, USDA staff reports delinquency information.

- **Completeness of Data**—Business program data are considered final and complete as of September 30 each year. Other than year-end closing adjustments, once a year is reported, it is not revisited.
- **Reliability of Data**—While borrower financial performance is reported by hundreds of lenders semi-annually to RBCS, all lenders are not submitting required borrower financial performance. Additionally, there is inconsistency in the time periods represented by lender reports. In lieu of a reliable, consistent and complete data set from lenders, the Finance Office's financial data have been found acceptable to OIG, as are State office-verified data on the financial performance of loans. Data for jobs created or saved are obtained by State office staff from borrowers and lenders. They are entered into GLS at the same time that obligations are recorded. These data are reliable when they have been updated and verified by State staff. USDA reports the computed jobs saved or created based on underlying market and financial feasibility projections that support loan applications. The jobs are counted only in one fiscal year, the year the loan is obligated. The delinquency rate, which excludes loans in bankruptcy, is based on reports supplied by lenders on the performance of each loan.
- **Quality of Data**—While the percentage of States verifying third-party financial and jobs data have improved each year, further improvements are needed. They are designing and completing a model to compute and measure the impacts of business programs in rural communities better. These impacts include a fuller description of the economic impact and such "quality-of-life" issues as health and education.

Exhibit 79: Performance Threshold for 2.1.1

Threshold Documentation Table						
Performance Goal	Owner	Target	Performance Thresholds			
			Exceeded	Met	Unmet	
2.1.1 Create or save additional jobs through USDA financing of businesses	RD/RBS (RCAP)	73,569 [Ⓢ]	>77,247	69,890 – 77,247	<69,890	
Rationale for Met Range:						
USDA has initiated a comprehensive study to verify the methodologies available to accurately track the outcomes of these programs. Until that study is complete and implemented, the Department will continue to track jobs. The job data is gathered when projects are obligated in GLS and the jobs projected are computed based on a formula driven by appropriations, each FY the formula is adjusted based on the historic numbers. A met range of 5 percent is used.						

OBJECTIVE 2.2: IMPROVE THE QUALITY OF LIFE THROUGH USDA FINANCING OF QUALITY HOUSING, MODERN UTILITIES, AND NEEDED COMMUNITY FACILITIES.

KEY OUTCOME:

2.2.1 Homeownership

- Completeness of Data**—Homeownership data are actual, final and complete. The initial entry point for homeownership data is the Web-based UniFi system. This centralized server application ensures viable data collection. It tracks performance and forecasts needs. Information entered into UniFi also uploads nightly into the MortgageServ (a.k.a., Fasteller) system that is used to obligate funds, establish closed loans, administer escrow accounts, manage defaulted loans and perform other administrative functions. Brio, a query and reporting tool, serves as the interface between the data warehouse and RD staff.
- Reliability of Data**—Homeownership data originate in systems used to obligate funding and are reliable. Data for initial placement of households into their own homes are reliable since they are linked directly to homeownership loans maintained in USDA's financial accounting systems. No adjustments are made for later defaults and the resulting loss of homeownership.
- Quality of Data**—Homeownership data are based on loan obligations collected in the Dedicated Loan Origination and Servicing system and stored in USDA's Data Warehouse. As such, the data on the number of households are auditable. Data represent the population served based on available U.S. census information.

Exhibit 80: Improve the Quality of Life in Rural America through Homeownership

Threshold Documentation Table						
Performance Goal	Owner	Target	Performance Thresholds			
			Exceeded	Met	Unmet	
2.2.1 Increase financial assistance to rural households to buy a home	RD/RHS (SFH)	41,705	>45,875	37,535- 45,875	<37,535	
Rationale for Met Range:						
The range of 10 percent is based on the historical variance from the target during the past several years in the number of houses sold in the Guaranteed and Direct Single Family Housing loan programs.						

2.2.2 Water and the Environment

- **Completeness of Data**—The Water and Environmental Programs (WEP) collects data initially through the Community Programs Application Processing (CPAP) system. CPAP is a non-financial system in which the agency field staff input data about applicants, borrowers, funding and services provided. The data obligations flow through the Rural Utilities Loan Servicing System (RULSS) to the PLAS and through a data server to a data warehouse.
- **Reliability of Data**—USDA’s data warehouse stores historical information on Department programs and such non-agency data as census information. Program data are downloaded to the warehouse every evening from several accounting databases. Data generally are current through the previous day. The warehouse provides data about obligations and can be used to measure the number of loans, loan amounts, number of borrowers and funds advanced. The warehouse is an easy, accessible online method of extracting information and data for reports and analyses.
- **Quality of Data**—Based on information in CPAP, the number of subscribers receiving new or improved water or wastewater service can be extrapolated from the data warehouse. The WEP National Office and USDA field offices use data from CPAP, the data warehouse and Department accounting systems to review or evaluate the financial, operational and managerial programs of the utilities serving rural customers.

Exhibit 81: Performance Threshold for 2.2.2

Threshold Documentation Table					
Performance Goal	Owner	Target	Performance Thresholds		
			Exceeded	Met	Unmet
2.2.2 Increase the number of subscribers receiving new and/or improved water and/or waste disposal service (Mil)	RD/RUS	.650 Mil	>.680	680 to .610	>.610
Rationale for Met Range: Annual targets for this measure are based on historical activity and are adjusted according to the program level received each fiscal year.					

2.2.3 Electricity

- **Completeness of Data**—Electric Program data are collected from various Rural Utility Service (RVS) documents including RUS Forms 740c and 130, Borrower’s Statistical Profile, Information Publication 201-1 and the borrower’s loan application. The data are complete and accurate, and collected at the time of loan approval and reported annually.
- **Reliability of Data**—Applicants are required to report essential data to the Electric Program. These data are used to administer Department loan funds and to ensure the security of the loans. USDA is developing a new loan tracking and data collection system, Rural Utilities Loan Servicing System (RULSS). The Department will be able to capture and access this information in RULSS in FY 2006.
- **Quality of Data**—All applications undergo an extensive review to determine whether the borrower meets all eligibility requirements for the various loans, guarantees and grants offered by the Electric Program. All approved applications must show feasibility from a financial standpoint and ensure loan security. Loan funds may be used only for the approved purposes for which the loan was made.

Exhibit 82: Performance Threshold for 2.2.3

Threshold Documentation Table					
Performance Goal	Owner	Target	Performance Thresholds		
			Exceeded	Met	Unmet
2.2.3 Increase the number of subscribers receiving new or improved electric service (Mil)	RD/RUS	1.504 Mil	>1.579 Mil	1.59 Mil – 1.429 Mil	<1.429 Mil
Rationale for Met Range: Annual targets for this measure are based on historical activity and are adjusted according to the program level received each fiscal year.					

2.2.4 Telecommunications

- Completeness of Data**—Data are actual, final and complete. The county data are collected from each approved loan application. Applicants are required to detail their proposed service territories. This includes the number of subscribers to be served in the location by county. Loan funds are advanced only for approved purposes. Measuring the extent to which broadband service is deployed in rural America on a county-by-county basis will enable USDA to assess improved economic conditions because of the availability of high-speed telecommunications network access for residents and business.

The data on the number of counties to be served for each loan are derived from applicants’ loan applications. Data must be complete before loans can be approved.
- Reliability of Data**—While applicants are required to perform market surveys of their proposed service areas, the actual counties served may vary from the plan if all funds are not used or the borrower later requests a change of purpose from the original loan application. Overall, the data on counties served are reliable.
- Quality of Data**—All applications undergo an extensive review to determine eligibility. Additionally, all approved applications must show feasibility from a financial and technical standpoint. Applicants also are required to perform market surveys of their proposed service areas. Therefore, the data are reliable. As previously noted, the data on the number of counties to be served for each loan approved come from the applicant’s loan application. The data depend on the borrower drawing down loan funds and constructing the system as portrayed in the applicant’s loan design. Loan funds only may be used for the approved purposes for which the loan was made. Variance may result if a borrower does not draw down all loan funds or request approval for a change of purpose from the original loan. This could result in a different number of counties served from the number specified in the plan.

Exhibit 83: Performance Threshold for 2.2.4

Threshold Documentation Table					
Performance Goal	Owner	Target	Performance Thresholds		
			Exceeded	Met	Unmet
2.2.4 Increase the number of subscribers receiving new and/or improved telecommunications service (Mil)	(RD/RUS)	.695	>.700	.650 to .700	<.650
Rationale for Met Range: Target based on utilization of approximately \$600 million in broadband funding and \$687 million in infrastructure funding. The number of subscribers is based on historical costs. Thus, fluctuations occur when plan investment per subscriber is significantly different from historical costs. They also occur when plant investment per subscriber is significantly different from historical costs from year to year. The met range of 50,000 allows for a modest 7 percent deviation below the estimated target.					

2.2.5 Community Facilities

- **Completeness of Data**—Community Facilities Program data are complete and final. They are collected by means of two streams of input. The finance office records and reports total loan and grant obligations as of the date of obligations. These data are collected as part of the obligation process. Additionally, USDA collects information for management and evaluation purposes. Data on delinquency status are reported by the finance office for community facilities direct loans, and by lenders for the community Facilities guaranteed loans.
- **Reliability of Data**—Community Facilities data are entered into GLS by field staff as the program funds are obligated. Data are final, complete and reliable. They also represent the population served based on available U.S. census information. Population data served by community facilities are estimates. USDA screens data annually for irregularities. Given the variety of areas served by different types of community facilities (e.g., libraries, fire stations, health clinics), estimation is not a precise science. Population estimates served by community facilities are based on engineering studies used for the design of new or expanded public utilities systems. The Department is developing mapping technologies to improve the determination of service areas for community facilities.
- **Quality of Data**—As new programs are authorized, CPAP is used to create data systems that field staff can use to work directly and interactively with applicants. Planned system requirements can be developed quickly. CPAP contains a number of edit checks to enhance reliability. The data are stored on a server and moved nightly to the data warehouse for permanent storage and reporting. This manner of developing system plans greatly enhances data reliability since they are integral to program planning.

Exhibit 84: Performance Threshold for 2.2.5

Threshold Documentation Table						
Performance Goal	Owner	Target	Performance Thresholds			
			Exceeded	Met	Unmet	
2.2.5 Increase the number of subscribers receiving new and/or improved essential community facilities (Mil)	RD./RHS (RCAP)	12	>14	10 to 14	<10	
Rationale for Met Range: Because the number of residents served by each grant may vary widely, it is difficult, if not impossible, to estimate with any precision a range of residents served. One grant for a fire engine could serve 22,000 people whereas the same grant amount for a hospital could server 22,000. Therefore, USDA would consider its 2004 goal unmet if CF serves fewer than 10 million people.						

STRATEGIC GOAL 3: ENHANCE PROTECTION AND SAFETY OF THE NATION'S AGRICULTURE AND FOOD SUPPLY

Objective 3.1: Enhance the Protection of Meat, Poultry and Egg Products from Foodborne Hazards in the United States

KEY OUTCOMES: BASING POLICIES ON SCIENCE

For the two Key Outcomes, USDA uses secure and accurate food safety data systems. The data are derived from sampling plans and analysis of product samples taken from meat and poultry plants by Department employees. The samples are analyzed by International Standards Organization (ISO) accredited laboratories to ensure accurate results. ISO is a network of the national standards institutes of 146 countries. These countries work with international organizations, Governments industry business and consumer representatives. Once the laboratories have the results, they enter them into the Laboratory Sample Flow System. The system then forwards the results to the Microbiological and Residue Computer Information System. The results then are sent to the Pathogen Reduction Enforcement System (PREP). PREP uses the results to schedule future sampling at

USDA-inspected plants. The data are considered to be extremely reliable. Policy, program decisions and resource allocation are based on this data.

Improve Detection of Foodborne Hazards

Data for developing systems for detecting foodborne hazards represent actual accomplishments to date and are highly reliable. Each research unit submits annual progress reports via USDA's state-of-the-art electronic information and database system. Line and program managers review the information and report their findings to Congress, customers, stakeholders, partners and the general public. Progress reports are available at <http://www.ars.usda.gov>. Once there, click on the word "Research" located in the upper left-hand corner of the screen. The reports also are available at the Food Safety Research Information Office (FSRIO). This office is the source for all Federal food safety research information, including the role and duties of the Joint Institute for Food Safety Research. This group was created to coordinate Federal food safety research to ensure that valuable resources are directed to the most needed and most promising projects. Data from the USDA Food Safety Research Program must meet FSRIA's quality standards. Customers and stakeholders provide the Department with continual feedback on the data's quality, relevance, value and usefulness.

- **Completeness, Reliability and Quality of Data**

- **Pathogen measures**—All samples are logged in upon receipt, analyzed and then entered into the Laboratory Sample Flow System. A sample's milestones are posted on an intranet site accessible by the sample collector and other agency personnel to monitor the sample's progress. Reports are generated periodically to review sample status, cumulative results and other sampling data summaries. Any potential errors are brought immediately to the attention of the System Administrator for investigation and correction.
- **Viewing measure**—Audience viewings reflect a combination of documented Hotline calls, electronic mailboxes, Web viewings, newsletter subscriptions, publication distributions, and the Agency Rep, "AskKaren" Web-based initiative. Included is a percentage (20 percent) of various media (TV, radio, print) outlet audience tracking data as compiled by independent media outreach tracking services.

- **Quality of Data**

- **Pathogen measures**—The laboratories are accredited through ISO 17025, which requires extensive quality procedures, documentation and review.
- **Viewing measure**—Viewing data of food safety messages is based on a combination of actual documented records, reports and/or print-outs (daily, weekly and monthly) along with a percentage (20 percent) of the total various media circulation, listener and viewing audience figures provided through tracking services.

- **Reliability of Data**

- **Pathogen measures**—The data are reviewed thoroughly prior to posting annual summaries on the FSIS Web site <http://www.fsis.usda.gov>, publications and published reports.
- **Viewing measures**—USDA defines viewings as a best estimate of the number of people exposed to food safety messages through all the means used to deliver these messages: print, radio or television media, conventions, presentations, newsletters, USDA Web site visits, Meat and Poultry Hotline calls, food safety publications, the USDA Mobile and State partnerships. Data are reviewed weekly and/or monthly prior to inclusion in other reports.

Exhibit 85: Performance Thresholds for 3.1.1, 3.1.2, 3.1.3 and 3.1.4

Threshold Documentation Table					
Performance Goal/Measure	Owner	Target	Performance Thresholds		
			Exceeded	Met	Unmet
3.1.1: Prevalence of <i>Salmonella</i> on broiler chickens.	FSIS	11.7%	<10.0	10 to 12	>12
Rationale for Met Range: For <i>Salmonella</i> in young chickens where existing prevalence is more than 10 percent, a regulatory prevalence of 10 to 12 percent reflects a performance consistent with the target.					
3.1.2: Prevalence of <i>Listeria monocytogenes</i> on ready-to-eat meat and poultry products	FSIS	0.8%	< .7	.7 to .9	>.9
Rationale for Met Range: For <i>Listeria monocytogenes</i> on ready-to-eat meat and poultry products where regulatory prevalence is already below 1 percent, a regulatory prevalence of .7 to .9 percent reflects a performance consistent with the recommended target.					
3.1.3: Prevalence of <i>E. coli</i> 0157:H7 on ground beef.	FSIS	0.37%	<.18%	.18 to .9	> .9
Rationale for Met Range: For <i>E. coli</i> 0157:H7 on ground beef products where regulatory prevalence is already below 1 percent, a regulatory prevalence of .18 to .9 percent reflects a performance consistent with the recommended target.					
3.1.4: Millions of viewings of food safety messages (Mil)	FSIS	94M	>100M	90M to 100M	<90M
Rationale for Met Range: Achieving 90-100 Million viewings is recognized as a sound marketing strategy to raise awareness of safe food handling behaviors.					

OBJECTIVE 3.2: REDUCE THE NUMBER AND SEVERITY OF AGRICULTURAL PEST AND DISEASE OUTBREAKS

KEY OUTCOME: PROVIDE A SECURE AGRICULTURAL PRODUCTION SYSTEM AND HEALTHY FOOD SUPPLY

3.2.1 Number of significant introductions of foreign animal diseases and pests that spread beyond the original area of introduction and cause severe economic or environmental damage, or damage to the health of animals or humans

The process of determining this performance result involves several steps: (1) routine monitoring and surveillance of world animal health problems; (2) investigating specific reports to identify if a new introduction of a significant foreign animal disease has occurred and testing to determine the extent of infection; and (3) evaluation to determine the severity of the damage and summarize the results count.

(1) Routine Monitoring: Notice of the need to investigate a possible foreign animal disease may come from a wide variety of sources spread throughout the country. The National Animal Health Monitoring System conducts planned surveys of diseases likely to have major impact on production and marketing. The National Animal Health Strategic Plan Objective 2 "Develop standards, quality control, and performance metrics for surveillance systems" states that key health indicator data will be collected annually starting in October 2005. Specific causes of loss by age group within each commodity will be gathered. In addition to conducting domestic surveys, USDA also maintains the presence of animal health professionals overseas to collect surveillance information on foreign animal diseases to prevent these diseases from entering the United States.

(2) Foreign Animal Disease Investigations and Testing: USDA set a target of 550 foreign animal disease investigations for FY 2004. When an infection is reported and confirmed, area-wide testing is conducted around the foci of infection using a comprehensive system of statistically significant diagnostic samples. The samples are tested in state-of-the-art laboratories. Testing data are recorded in the Emergency Management Response System (EMRS), National Animal Health Monitoring System (NAHMS) and the National Animal Health

Reporting System (NAHRS.) All susceptible animals within an appropriate distance of the foci of infection are tested. The appropriate area for testing is determined using data regarding disease agents and how those agents are spread (through the air by biological or mechanical). The anticipated spread rate is based on weather conditions and movements or contacts on and off of the infected premises, as well as the anticipated expectations of trading partners regarding testing and surveillance. Animals that are positive or have known exposure within at least two disease agent incubation periods are destroyed or retested until the quarantine is removed. If there are limited numbers of animals around the foci of infection the testing area may be expanded to ensure that no animals are infected, and trace out investigations and testing on all animals from the foci herd may be performed.

Statistical sampling focuses on animals at slaughter and, concentration points if movement is being allowed, or in high risk areas. Door-to-door censuses are completed or requests are made that the public report any sick animals meeting a particular case description. Sampling data should be entered into the National Veterinary Services Laboratories (NVSL) databases, EMRS and National Animal Health Laboratory Network (NAHLN) databases. NVSL validates all samples found positive by other network laboratories.

(3) Reporting and Summarizing Results: As data about introduction arrive, veterinarians on USDA's Emergency Programs Staff analyze them and apply criteria to determine if the introductions are significant and have spread. All introductions of agents listed by World Organization for Animal Health (Office International des Epizooties (OIE)) and considered to be foreign to the U.S. are reported are reported to that body.

- **Completeness of Data**—The end-of-year data are complete, actual and final when the scheduled testing is finished, the samples are analyzed and the quarantined animals are tested and released. A cutoff time for the data, which are used for the final summary count, has been set at approximately one month before the required reporting date. If no data indicating an outbreak has spread have been received in the month preceding the decision, the decision based on that time period will be made. If additional data are submitted indicating an outbreak has spread, they will be considered for the next time period.
- **Reliability of Data**—The summary data are considered reliable when USDA's Deputy Administrator of Veterinary Services' has reviewed and approved them.
- **Quality of Data**—The issues related to collection and reporting of performance information are described above.

Exhibit 86. Performance Threshold for 3.2.1

Threshold Documentation Table					
Performance Goal/Measure	Owner	Target	Performance Thresholds		
			Exceeded	Met	Unmet
3.2.1 Number of significant introductions of foreign animal diseases and pests that spread beyond the original area of introduction and cause severe economic or environmental damage, or damage to the health of animals or humans.	APHIS	0	Not possible	0	1 or above
Rationale for Met Range: These foreign animal diseases are very serious. Veterinary Services seeks to prevent the spread of every single one.					

3.2.2 Number of animals affected by noncompliances documented on inspection reports, and

3.2.3 Percent of facilities in complete compliance at the most recent inspection.

The data source for these measures is the Licensing and Registration Information System (LARIS), which contains facility inspection results data on licensed and registered facilities.

Animal Care field inspectors enter reports into LARIS using laptop computers. Copies of inspection reports are provided to facility personnel and reviewed by supervisory animal-care specialists. There is ample opportunity for correcting any errors. In FY 1999, reports were found to be present in LARIS for 99 percent of active facilities. The validity of the measures was established in 1996 using a team of front-line inspectors and input from stakeholder organizations. Totals are computed by an automated program.

While the percentage of compliant facilities is an excellent, comprehensive, overall measure, it is not a perfect indicator of the welfare of animals. Minor problems that do not affect the welfare of animals directly count against the facilities. To compensate, a measure for animals affected by noncompliances was added. The number of inspections performed also is tracked and made available to managers.

- **Completeness of Data**—It takes animal welfare facility inspectors about a month to finalize their facility inspection data. If they fail to enter the data for a given facility, the computer program that counts the number of facilities in compliance will select the previous inspection report to see if the facility was in compliance on its previous inspection. If results data are required to be reported before the inspectors can enter their findings, the data on the percentage of compliant facilities, while still considered complete, will be based on a slightly earlier time period. This should not affect the results significantly. On the other hand, the computer program that counts the number of animals affected by violations will understate the results, and they will need to be adjusted to represent a full year of findings.
- **Reliability of Data**—While there will be some variation between inspectors in how strict they are, when all their tendencies are pooled, the differences offset each other. The inspectors must continue to use their best professional judgment in the same way each year for comparable results.
- **Quality of Data**—These data are of highest quality. They are taken very seriously by the inspectors and facility owners or managers, and documented with signatures. If there are mistakes or disagreements, an avenue for appeal to the inspector’s supervisor exists.

Exhibit 87: Performance Thresholds for 3.2.2 and 3.2.3

Threshold Documentation Table						
Performance Goal/Measure	Owner	Target	Performance Thresholds			
			Exceeded	Met	Unmet	
3.2.2 Number of animals affected by noncompliances documented on inspection reports Baseline: 2001 = 588,961	APHIS	340,000	>336,600	336,600 to 343,400	<343,400	
3.2.3 Percent of facilities in complete compliance at the most recent inspection	APHIS	70%	>72%	72 to 68	< 68%	
Rationale for Met Range: With so many animals affected by noncompliance, it is reasonable that the results could vary by 1 percent more than or less than the target and still be considered to have met it. Anything beyond 1 percent would mean the target has been exceeded or not met. Note that the goal is to lower this result. A similar basis was used for the percent of facilities in compliance. There are more than 15,000 at any given time. A variation of 1 percent seems insignificant.						

KEY OUTCOME: IMPROVE ANIMAL AND PLANT DIAGNOSTIC LABORATORY CAPABILITIES

3.2.4 Improve the capabilities of animal and plant diagnostic information

- **Completeness of Data**—This measure is direct and verifiable and representative of the ultimate purpose of the Diagnostic Networks, i.e., to detect and identify disease threats.
- **Reliability of Data**—USDA action, other internal and external customers and stakeholders, and regulatory agencies routinely accept the data.

- **Quality of Data**—Most of the data released is published in scientific journals where they undergo peer review before publication. All data released to the public are governed by the USDA Data Quality Guidelines.

Threshold Documentation Table					
Performance Goal/Measure	Owner	Target	Performance Thresholds		
			Exceeded	Met	Unmet
3.2.4 Improve the capabilities of animal and plant diagnostic information.					
<ul style="list-style-type: none"> ▪ Specific plant diseases labs are prepared to detect 	CSREES	3	>4	2 to 4	<2
<ul style="list-style-type: none"> ▪ Specific animal diseases labs are prepared to detect 	CSREES	6	>7	5 to 7	<5
Rationale for Met Range:					
With the possibility of unanticipated research barriers mitigating against achieving the target, it qualifies as a reasonable proposed range.					

KEY OUTCOME: REDUCE THE NUMBER AND SEVERITY OF AGRICULTURAL PEST AND DISEASE OUTBREAKS

3.2.5 Provide scientific information to protect animals from pests, infectious diseases and other disease-causing entities that impact animal and human health.

- **Completeness of Data**—Research is a continuum of discovery so it is constantly being updated. ARS does everything it can to ensure the completeness of its data at the time it is released..
- **Reliability of Data**—ARS data is routinely accepted by the USDA action and regulatory agencies.
- **Quality of Data**—Most of the data released by ARS is published in scientific journals where it undergoes peer review before publication. ARS data released to the public is governed by the USDA Data Quality Guidelines.

Threshold Documentation Table					
Performance Goal/Measure	Owner	Target	Performance Thresholds		
			Exceeded	Met	Unmet
3.2.5 Provide scientific information to protect animals from pests, infectious diseases and other disease-causing entities that impact animal and human health.					
<ul style="list-style-type: none"> ▪ Number of organisms or variants of the microorganisms sequenced each year. 	ARS	55	>57	53 to 57	<53
<ul style="list-style-type: none"> ▪ Number of resistance markers for a variety of diseases identified. 	ARS	8	>9	7 to 9	<7
<ul style="list-style-type: none"> ▪ Number of tests that are transferred to universities, State laboratories, private industry or other countries for use. 	ARS	3	>4	2 to 4	<3
Rationale for Met Range:					
With the possibility of unanticipated research barriers mitigating against achieving the target, it qualifies as a reasonable proposed range.					

STRATEGIC GOAL 4: IMPROVING THE NATION'S NUTRITION AND HEALTH

Objective 4.1: Improve Access to Nutritious Food

KEY OUTCOME: IMPROVE NUTRITION INTAKE THROUGH INCREASED ACCESS TO, AND UTILIZATION OF THESE VITAL PROGRAMS BY THOSE ELIGIBLE TO PARTICIPATE

4.1.1 Improve Access to Nutritious Food

The Food Stamp Program (FSP) Participation Rate—This rate is calculated by comparing estimates of eligible individuals with the number of actual participants. The resulting participation rates estimate the percentage of individuals eligible for FSP who choose to participate.

Participation data are drawn from USDA administrative records. State agency reports are certified accurate and submitted to regional offices. There, they are reviewed for completeness and consistency. If the data are acceptable, the regional analyst posts them to the National Data Bank (NDB) Preload System. NDB is a holding area for data review prior to release. Otherwise, regional office personnel reject the report and the State agency is contacted. Data posted by regional personnel into NDB are reviewed at USDA. If data are reasonable and consistent with previous reports, they will be downloaded to NDB for public release. Otherwise, USDA works with regional offices and States to resolve problems and inconsistencies. This process of review and revision ensures that the data are as accurate and reliable as possible.

The estimate of individuals eligible for the program is developed using a computer model of eligibility requirements applied to data from the U.S. Census Bureau's annual Current Population Survey. This survey covers demographic characteristics of the U.S. population. It uses nationally representative sampling techniques. This data are supplemented with that on food stamp participant characteristics derived from the food stamp quality control (QC) process. Food stamp participant data are based upon statistically valid methodology (For more information on QC, see the assessment section for Objective 4.3.1).

- **Completeness of Data**—Because of the time required to collect and analyze the current population survey and the QC data, reporting on this measure is deferred to the following year's report. Once available, data for both participants and eligible people are complete. Participation data are collected and validated monthly before being declared annual data. The current population survey and QC data represent statistically valid national samples.
- **Reliability of the Data**—The data are highly reliable. Participation data reporting is used to support program financial operations. All of the data are used in published analyses, studies and reports. They also are used to support dialogue with and information requests from the Government Accountability Office (GAO), the Office of Inspector General (OIG) and the Office of Management and Budget.
- **Quality of the Data**—As described above, the data used to develop this measure are used widely for multiple purposes, both within and outside USDA. The measure itself is reported in stand-alone publications as an important, high-quality indicator of program performance.

Special Supplemental Nutrition Program for Women, Infants and Children (WIC) Participation Rate—Currently, the measure—specifically, a methodology to estimate the number of people eligible for WIC—is under development. Reporting on this measure will be deferred until data are available.

School Breakfast Program (SBP) Participation Rate—This measure is calculated by comparing the average daily participation of children in SBP with estimates of total enrollment in U.S. public and private schools. The estimates originate from data collected and compiled by the U.S. Department of Education's National Center for Educational Statistics (NCES). NCES collects and analyzes data related to education in the U.S. and other nations.

Data on public school enrollment are drawn from the NCES Common Core of Data. This is a comprehensive, annual, survey-based national statistical database of information concerning all public elementary and

secondary schools (approximately 100,000) and school districts (approximately 18,000). Data on private school enrollment is drawn from the private school universe survey. This survey represents a biennial data collection on the number of private schools, teachers and students in the U.S.

- **Completeness of Data**—Because of the time required to collect and report the NCES survey data, reporting on this measure is deferred to a subsequent year’s report. Once available, data for both participants and eligible people are complete. Participation data are collected and validated monthly before being declared annual data. The NCES survey data represent statistically valid national samples of public and private school enrollment.
- **Reliability of the Data**—The data are highly reliable. Participation data reporting are used to support program financial operations. NCES surveys are recognized nationally as definitive sources of information on U.S. schools.
- **Quality of the Data**—As described above, the data used to develop this measure are used widely for multiple purposes, both within and outside USDA.

Exhibit 88: Performance Threshold for 4.1.1

Threshold Documentation Table					
Performance Goal	Owner	Target	Performance Thresholds		
			Exceeded	Met	Unmet
4.1.1 Improve Access to Nutritious Food					
▪ Food Stamp Program % Participation	FNS	64%	(+.5%)	Deferred	(-.5%)
▪ School Breakfast Program Participation Rate	FNS	N/A	(+.5%)	Deferred	(-.5%)
▪ Special Supplemental Nutrition Program for Women, Infants and Children Participation Rate		Measure under development	Measure under development	Deferred	
Rationale for Met Range: The participation rate threshold range of ± 5 percent from the target reflects a level of performance consistent with the target.					

Objective 4.2: Promote Healthier Eating Habits and Lifestyles

KEY OUTCOME: PROMOTE MORE HEALTHFUL EATING AND PHYSICAL ACTIVITY ACROSS THE NATION

4.2.1: Healthy Eating Index (HEI) scores for People in Households with Incomes Under 130 percent of Poverty and for the U.S. Population

USDA’s Healthy Eating Index (HEI) is an analysis of data from the U.S. Department of Health and Human Service’s National Health and Nutrition Examination Survey (NHANES). HEI determines the extent to which the diets of survey respondents are consistent with the recommendations of the *Dietary Guidelines for Americans* and the food guidance system. NHANES is a nationally representative survey that provides information on people’s consumption of foods and nutrients, health-related data and Americans’ demographic and socioeconomic characteristics.

- **Completeness of Data**—Because of the time required to collect, analyze and publish NHANES data, reporting on this measure is deferred to a subsequent year’s report. Once available, the HEI data are complete, reflecting a nationally representative sample of the population.
- **Reliability of the Data**—The data are highly reliable. NHANES uses a well-documented, consistent survey protocol. It is used as a basis for a wide range of peer-reviewed research reports. The HEI methodology is used consistently by USDA in analyses of data quality nationwide and interactive tools designed to assess the diet quality of individuals.

- **Quality of the Data**—As described above, the data used to develop this measure are used widely for multiple purposes, both within and outside USDA. The HEI measure itself is published in publicly available reports and used as a national indicator of diet quality.

Exhibit 89: Performance Threshold for 4.2.1

Threshold Documentation Table						
Performance Goal	Owner	Target	Performance Thresholds			
			Exceeded	Met	Unmet	
4.2.1 Promote Healthy Eating (HEI) Habits and Lifestyles:						
▪ HEI for People with Incomes under 130% of Poverty	FNS	N/A	(+1.33)	N/A	(-1.33)	
▪ HEI for the U.S. Population	CNPP	64.6	65.5	<65.5, >63.7		63.7
Rationale for Met Range:						
HEI for People with Incomes under 130 percent of Poverty threshold is based on the 95-percent confidence interval centered on the HEI measure (mean). Though no FY 2004 target was set, the Exceed and Unmet thresholds would be derived from the confidence interval of ± 1.33 points above or below the annual target. Performance that falls within the range between the thresholds is considered to have met the target.						
HEI for the U.S. Population threshold is based on the 95-percent confidence interval centered on HEI measure (mean). The Exceed and Unmet thresholds are derived from the confidence interval of $\pm .95$ points above or below the FY 2004 target. Performance that falls within the range between the thresholds is considered to have met the target.						

KEY OUTCOME: INCREASE NUTRITION INFORMATION AVAILABLE TO THE PUBLIC

4.2.2 Determine food consumption patterns of Americans and provide sound scientific analyses of the U.S. food consumption information to enhance the effectiveness and management of the Nation's domestic food and nutrition assistance program

Each research project submits an annual project report. The report, which is reviewed by the appropriate area office and national program leaders, provides such performance information as achieving project milestones.

- **Completeness of Data**—Research is a continuum of discovery so it is being updated constantly. USDA does everything it can to ensure the completeness of its data at the time it is released.
- **Reliability of Data**—USDA action, other internal and external customers and stakeholders, and regulatory agencies routinely accept the data.
- **Quality of Data**—Most of the data released is published in scientific journals where they undergo peer review before publication. All data released to the public are governed by the USDA Data Quality Guidelines.

Exhibit 90: Performance Threshold for 4.2.2

Threshold Documentation Table					
Performance Goal/Measure	Owner	Target	Performance Thresholds		
			Exceeded	Met	Unmet
4.2.2 Determine food consumption patterns of Americans and provide sound scientific analyses of the U.S. food consumption information to enhance the effectiveness and management of the Nation's domestic food and nutrition assistance program.					
<ul style="list-style-type: none"> Number of reports from the USDA Food and Nutrient Database. 	ARS	4	>5	3 to 5	<3
Rationale for Met Range:					
Data sets determined as the most valuable information from the survey.					

Objective 4.3: Improve Food Program Management and Customer Service**4.3.1: Improve Food Management Efficiency**

Food stamp payment accuracy data drawn from the Quality Control (QC) system are used annually to support performance incentives to promote payment accuracy. They are based upon statistically valid methodology. The QC process uses a systematic random sampling of Food Stamp Program (FSP) participants. The results of these activities are used to determine individual States' combined payment error rate. This rate is composed of over-issuances and under-issuances of FSP benefits. A regression formula is applied to the results of the reviews to calculate official error rates.

State agencies select cases monthly that are reviewed to determine the accuracy of the eligibility and benefit-level determination. They include a client interview and verification of all elements of eligibility, and the basis of issuance of food stamp benefits. Federal reviewers validate a sample of the State's reviews by conducting a second review. State agencies can verify and validate data through an informal review process. This process and current protections designed to ensure the data's accuracy are based on an agreement between the States and Federal reviewers. The process has proven to be a sound method of calculating reliable data.

- Completeness of Data**—The most current data available for this measure are for FY 2003. Analysis of FY 2004 performance will be deferred until next year's report. Once available, the data are complete and reliable.
- Reliability of Data**—QC data are valid and accepted by State FSP agencies as a basis for performance-incentive payments and penalties. GAO and OIG also use it regularly.
- Quality of the Data**—The data used to develop this measure, which are considered the most valid food nutrition intake information available, are used widely for multiple purposes, both within and outside USDA. The measure itself is frequently cited as an important, high-quality indicator of program performance.

Exhibit 91: Performance Threshold for 4.3.1

Threshold Documentation Table					
Performance Goal/Measure	Owner	Target	Performance Thresholds		
			Exceeded	Met	Unmet
4.3.1 Food Stamp Payment Accuracy	FNS	92.2%	<92.5%	92.5% to 91.9 %	>91.9%
Rationale for Met Range:					
The 95 percent confidence interval around the estimate of payment accuracy is \pm .33 percent.					

STRATEGIC GOAL 5: PROTECT AND ENHANCE THE NATIONS' NATURAL RESOURCE BASE AND ENVIRONMENT

Objective 5.1: Implement the President's Healthy Forests Initiative and Other Actions to Improve Management of Public Lands

KEY OUTCOME: REDUCE THE RISK FROM CATASTROPHIC WILDLAND FIRE

5.1.1 Number of acres of hazardous fuel treated that are in the Wildland Urban Interface (WUI)

5.1.2 Number of acres of hazardous fuel treated that are in Condition Classes 2 or 3 in Fire Regimes 1, 2, or 3 outside the WUI (acres)

The data for hazardous fuels treatments are reliable, of good quality and certified by the respective line officer. USDA wildfire and other program managers collected, compiled and analyzed the data.

- **Completeness of Data**—Data are based on actual data.
- **Reliability of Data**—All data for hazardous fuels were reported through the National Fire Plan Operations and Reporting System. This system was co-developed by USDA and U.S. Department of Interior land-management agencies. Validation and oversight are accomplished through monthly conference calls between USDA and regional foresters.
- **Quality of Data**—Data quality has been assessed at greater than 90 percent for project data in all regions. The quality of these data is monitored continuously and being improved with focused training and policy direction on reporting requirements.

Exhibit 92: Performance Threshold for 5.1.1 and 5.1.2

Threshold Documentation Table					
Performance Goal/Measure	Owner	Target	Performance Thresholds		
			Exceeded	Met	Unmet
5.1.1 Number of acres of hazardous fuel treated that are in the Wildland Urban Interface (WUI)	NRE/FS	1.0	>1.1	0.9 to 1.1	<0.9
Rationale for Met Range					
Annual targets for this measure, based on history, have seen a consistent variability of 100,000 acres.					
5.1.2 Number of acres of hazardous fuel treated that are in Condition Classes 2 or 3 in Fire Regimes 1, 2, or 3 outside the WUI	NRE/FS	259,000	>285,000	233,000 to 285,000	<233,000
Rationale for Met Range					
This is a new performance measure for FY 2004. There is no historical information related to the target to establish thresholds. Based on the historical variability within the entire hazardous fuel program, plus or minus 10 percent of target is reasonable.					

OBJECTIVE 5.2: IMPROVE MANAGEMENT OF PRIVATE LANDS

KEY OUTCOME: MAINTAIN THE PRODUCTIVE CAPACITY OF THE RESOURCE BASE AND QUALITY OF THE ENVIRONMENT

5.2.1 Conservation plans written for cropland and grazing lands (Mil acres)

5.2.2 Cropland and grazing lands with conservation applied to protect the resource base and environment (Mil acres)

The chief sources of data for these performance measures are the Customer Service Toolkit, USDA's primary conservation planning tool, and the Performance Results System (PRS).

- Completeness of Data**—Numerous data quality mechanisms are in place within PRS to ensure the completeness of the performance information. This Web-based application includes such integrated quality controls as data type, required fields defined pull-down menus and choice lists. Additionally, the system recognizes records that do not include data identified as critical and requires the user to complete the required data fields before the record can be uploaded to the national database.
- Reliability of Data**—For FY 2004, more than 80 percent of the data reported for this performance measure was uploaded from the Customer Service Toolkit. All natural resource information in Toolkit is drawn from USDA databases. All data on conservation practices are developed in consultation with the client. This process ensures that the data accurately reflect the client's operation, goals and status of the conservation plan. Data are date-stamped, geo-referenced and linked to an employee ID, enabling detailed quality-assurance reviews. Periodic reviews are conducted to assess the accuracy of reported data. Data entered directly through PRS rather than Toolkit also are linked to a specific land unit, enabling on-site reviews to determine the accuracy of data. Because this is the first year of implementation of the new system, not all quality checks that will be part of the fully implemented system were in place for FY 2004.
- Quality of Data**—Overall quality of the performance data is good. The data are based on conservation plans, systems and practices planned and applied to land. The information is entered by field staff located onsite where the conservation is occurring. The staffs entering the data are trained and skilled in conservation planning and application suited to the local resource conditions.

Within PRS, the conservation program responsible for each conservation practice is reported. Because these performance measures refer to conservation plans that include multiple measures, the linkage to specific programs is more complex. For FY 2004, methods were under development to estimate the contribution of each conservation program to planning and application. Overall quality of data is good.

Exhibit 93: Performance Threshold for 5.2.1 and 5.2.2

Threshold Documentation Table						
Performance Goal	Owner	Target	Performance Thresholds			
			Exceeded	Met	Unmet	
5.2.1 Conservation plans written for cropland and grazing lands (Mil acres)	NRCS	31.7	>33	30.1 to 32.9	< 30	
Rationale for Met Range: Variation of plus or minus 5 percent is considered reasonable at the national level. The range of variation is much greater at the state and local levels.						
5.2.2 Cropland and grazing lands with conservation applied to protect the resource base and environment (Mil acres)	NRCS	26.8	>28.1	25.5 to 28	< 25.4	
Rationale for Met Range: Variation of plus or minus 5 percent is considered reasonable at the national level. The range of variation is much greater at the state and local levels.						

KEY OUTCOME: ENSURE DIVERSE WILDLIFE HABITATS**5.2.3 Agricultural wetlands created or restored through the Wetlands Reserve Program (Mil acres)**

Data for acreage enrolled in WRP are reported through a national database.

- **Completeness of Data**—Data are complete for all transactions related to WRP.
- **Reliability of Data**—Data are reported by USDA field and State office personnel. The national program manager reviews the data for accuracy.
- **Quality of Data**—Data are considered of good quality for making management decisions.

Exhibit 94: Performance Threshold for 5.2.3

Threshold Documentation Table						
Performance Goal/Measure	Owner		Performance Thresholds			
5.2.3 Agricultural wetlands created or restored through the WRP (Mil acres)	NRCS	1.7	*N/A	1.6 to 1.7	<1.6	
Rationale for Met Range:						
*Target cannot be exceeded because Congress sets it.						

KEY OUTCOME: COMMUNITIES AND INDIVIDUALS PROTECTED AGAINST FLOOD RISKS AND BENEFITING FROM PRODUCTIVE USE OF WATER RESOURCES**5.2.4 Reduction in Average Annual Flood damages**

- **Completeness of Data**—Reported in Program Operations Information Tracking System (POINTS) developed during FY 2004 to improve completeness of data collection.
- **Reliability of Data**—Initial data may be less reliable in FY 2004, the first year of using POINTS, than will be the case in later years. All States were directed to review prior year data and ensure that it is reliable. The review could result in some adjustments to the initial input.
- **Quality of Data**—High quality data, developed by an agency economist in each State.

Exhibit 95: Performance Threshold for 5.2.4

Threshold Documentation Table						
Performance Goal/Measure	Owner		Performance Thresholds			
			Exceeded	Met	Unmet	
5.2.4 Reduction in average annual flood damage (\$Mil)	NRCS	16	16.5	14.1-16.4	14	
Rationale for Met Range:						
Considered reasonable in comparison to prior year reports and the transition to the new reporting process.						

PROGRAM ASSESSMENT RATING TOOL (PART) EVALUATIONS

Perform. Measure	Program	Findings and Actions	Efficiency Measure	FY 2004 Target	FY 2004 Actual
1.2	Food Aid Programs	<p>Results: "Moderately Effective"</p> <p>Findings:</p> <ul style="list-style-type: none"> ▪ FAS needs to develop performance measures that link to the long-term outcome goals of food security. ▪ USDA is unique in administering food aid on credit terms and focusing on Government-to-Government donations. ▪ The Department has made investments and implemented improvements in their business practices and food aid delivery systems. USDA has planned additional management process improvements that will improve database integration, training, monitoring and prescreening processes. ▪ Performance measures need to be developed that are tied to strategic goals and linked to the budget. Current performance measures, such as the number of food aid agreements signed annually, and the level of funding, are inadequate to measure progress towards achieving strategic goals. ▪ Coordination is lacking with the U.S. Agency for International Development (USAID) for common performance measures since the programs have similar goals. <p>Actions:</p> <p>USDA will administer the food aid programs in a manner that will:</p> <ul style="list-style-type: none"> ▪ Limit duplication and inconsistent program implementation between USDA and USAID and make more efficient use of US food aid resources through the implementation of the President's Management Agenda. The PART affirmed the need for USDA and USAID to coordinate on program performance measures, program evaluation and monitoring, and eligibility criteria. Fund the programs at a level that is consistent with the 2003 Budget, reflecting the Administration's management reform goals. The PART helped identify the need to develop a strategy to replenish the Bill Emerson Humanitarian Trust to ensure the long-term availability of commodities for emergency food assistance. <p>Copy Available: http://www.whitehouse.gov/omb/budget/fy2005/pma/agriculture.pdf</p>	N/A until FY 2006. Baseline and target will be developed by spring 2005.	N/A	N/A

Perform. Measure	Program	Findings and Actions	Efficiency Measure	FY 2004 Target	FY 2004 Actual
1.3.1	Bioenergy Program	<p>Results: "Adequate"</p> <p>Findings:</p> <ul style="list-style-type: none"> ■ Current market conditions for ethanol vary substantially from biodiesel. As a result, the program plays a large role in spurring biodiesel production increases whereas the program is not key in increasing ethanol production because the ethanol market is more mature with an established demand. ■ Other efforts have a greater impact on stimulating increased ethanol production—primarily tax credits, the proposed renewable fuels standard, and California's ban on MTBE. Moreover, this program is only one of a number that provides financial support to construct ethanol facilities (e.g., Business & Industry loans and other USDA grant programs as well as State incentives). ■ Better coordination with other U.S. Department of Agriculture (USDA) bioenergy-related programs is needed. Coordination efforts related to commercialization are substantially weaker than that for R&D activities. ■ While the program made significant improvements in performance measurement, targets should be reassessed to make sure they are ambitious in light of available resources. <p>Actions:</p> <ul style="list-style-type: none"> ■ Ensure a sufficient level of support to growing biodiesel industry. ■ Increase collaboration and coordination between related programs. ■ Assess performance targets to ensure they are ambitious and reasonable. ■ The program performance to budget requests in the FY 2005 President's Budget. <p>Program agreements for the life of the program were executed with participants before this recommendation was made. Biodiesel support level improvements are based on a soybean-conversion factor and price. This has increased support to the biodiesel industry. The program manager has participated in USDA-wide biobased products and coordination council planning sessions and in both ethanol and biodiesel annual industry conferences.</p> <p>Copy Available: http://www.whitehouse.gov/omb/budget/fy2005/pma/agriculture.pdf</p>	<p>Ethanol's percentage or share of total transportation fuel usage.</p> <p>Biodiesel's percentage or share of total diesel fuel usage.</p>	N/A	N/A

Perform. Measure	Program	Findings and Actions	Efficiency Measure	FY 2004 Target	FY 2004 Actual
1.4.1	Federal Crop Insurance Program	<p>Results: "Results Not Demonstrated"</p> <p>Findings:</p> <ul style="list-style-type: none"> ▪ The program's purpose is clear. ▪ Additional planning and performance measurement is needed. The program cannot yet demonstrate the extent of its impact on farm income or in reducing dependence on other ▪ Government support programs. ▪ The management of this program is relatively good. It includes a close partnership with the crop insurance companies. Participation information, such as policies sold, liability, acres, and premiums are provided on a daily basis at a producer level by the companies. The data is crucial to the formulation of the strategic plan. <p>Actions:</p> <ul style="list-style-type: none"> ▪ Establish adequate long-term and short-term measures and goals, and ▪ Identify improvements in the program that will get it closer to becoming a complete risk-management tool for the agriculture sector, such as developing a successful livestock crop insurance plan. <p>Copy Available: www.whitehouse.gov/omb/budget/fy2004/pma</p>	Implemented revised SRA for crop year.	N/A	N/A
	Pesticide Data and Microbiological Data Programs	<p>Results: "Adequate"</p> <p>Findings:</p> <ul style="list-style-type: none"> ▪ The PDP program currently has only one output related long-term performance measure. The program would be strengthened by adopting at least one additional outcome-based, long-term measure of the program's performance. ▪ The most recent review of PDP program operations was conducted by the USDA Inspector General's Office in 1994. While not independent from the program, federal staff also conducts periodic reviews of program operations. ▪ It is difficult to determine the extent to which mechanisms are in place to ensure accountability among program partners. <p>Actions:</p> <ul style="list-style-type: none"> ▪ Develop additional, outcome-based performance measures. ▪ Independent audit of program operations. ▪ Revisit recently developed efficiency measures of a unit cost per test and gauge its effectiveness in helping to control costs and prioritize resources. ▪ Study the feasibility of charging a fee to industry beneficiaries to cover partial/full cost of the pesticide data program. <p>Copy Available: http://www.whitehouse.gov/omb/budget/fy2005/pma/agriculture.pdf</p>	Rates of dollars spent avoided through Strategic Data Analysis 2005.	\$1.23	\$1.23

Perform. Measure	Program	Findings and Actions	Efficiency Measure	FY 2004 Target	FY 2004 Actual
1.4.2	Guaranteed Farm Loan Program	<p>Results: "Moderately Effective"</p> <p>Findings:</p> <ul style="list-style-type: none"> ▪ Develop a measure to assess the long-term goal of improving the financial viability of eligible farmers and ranchers. ▪ Explicitly tie budget requests to accomplishment of annual and long-term performance goals. ▪ Develop ambitious targets for long-term measures. <p>Actions:</p> <ul style="list-style-type: none"> ▪ Conduct a performance-focused review that will include, but is not limited to: analysis of program participants; length of time borrowers remain in program; number of borrowers who "graduate" and return to the program; effectiveness of targeted assistance; and the potential to reduce subsidy rates. ▪ Revise long-term performance measure to better assess progress toward meeting the goal of improving economic viability of farmers/ranchers. ▪ Assess performance targets to ensure they are ambitious. ▪ Develop an efficiency measure such as "cost per loan processed" to track administrative expenses and allow comparison among loan programs. ▪ Tie program performance to budget requests in the 2005 President's Budget. <p>Copy Available: http://www.whitehouse.gov/omb/budget/fy2005/pdf/ap_cd_rom/part.pdf.</p>	Reduce average processing time for guaranteed loans (days).	15	14
	Direct Crop Payments	<p>Results: "Adequate"</p> <p>Findings:</p> <ul style="list-style-type: none"> ▪ The purpose of the program is clear; however the design could be improved. Direct payments are designed as part of a safety net for farmers; however they are going to about 41 percent of all farmers, 85 percent of which have annual sales of at least \$50,000. ▪ The program management has devised performance goals that are designed to improve the delivery of the program. ▪ The program is generally well managed. ▪ Outside sources have reviewed the program and determined that it has provided support in maintaining farm income, but has not been effective in reducing the need for government subsidies. <p>Actions: Because this is a mandatory program, it is difficult to address program weaknesses through the budget process. The limitations of the direct payment program will have to be dealt with legislatively. In response to the PART findings, the Administration will reduce trade barriers through trade</p>	N/A	N/A	N/A

Perform. Measure	Program	Findings and Actions	Efficiency Measure	FY 2004 Target	FY 2004 Actual
1.4.2 (cont'd)		negotiations, to create new markets for U.S. agricultural exports, so that farmers will be less reliant on government income support. Copy Available: http://www.whitehouse.gov/omb/budget/fy2005/pma/agriculture.pdf			
	CCC Marketing Loans	Results: "Moderately Effective" Findings: As statutorily mandated, the marketing assistance loan and LDP program is targeted at providing support on production of relevant marketing assistance loan commodities. For producers with eligible production of one or more of these commodities, the program has, for the most part, effectively provided per-unit revenue support on realized production. Specific findings include: <ul style="list-style-type: none"> ■ The program provides the same level of support (on a per unit basis) to all producers, regardless of financial need. ■ Marketing loans provide support to producers of major field crops, but do not provide a safety net to producers of other crops that may need assistance. ■ Commodity certificate redemption and nonrecourse forfeiture provision allow producers to exceed their payment limits. Actions: <ul style="list-style-type: none"> ■ Suggest the House and Senate Agricultural Committees examine the issue of payment limits for marketing loan and LDP gains and how they could be tightened. ■ More frequent external audits of program effectiveness out to be conducted. ■ Discrepancies between county offices in the delivery of services to producers should be addressed. Copy Available: http://www.whitehouse.gov/omb/budget/fy2005/pma/agriculture.pdf	N/A	N/A	N/A
	Guaranteed Loans	Results: "Moderately Effective" Findings: The assessment found that the program serves a clear need. Due to a number of factors (e.g., market uncertainty, young/beginning farmers who lack sufficient credit history, limited resource farmers, geographic isolation), farmers may have difficulty demonstrating creditworthiness to lenders. The program is comparatively cost-effective with low subsidy rates and the delivery mechanism is consistent with program objectives. However, improvements to performance measures are still needed to demonstrate how the program is improving the economic viability of farmers and ranchers. Specific findings include: <ul style="list-style-type: none"> ■ The agency has improved administrative efficiencies. While a low loss rate on 	N/A	N/A	N/A

Perform. Measure	Program	Findings and Actions	Efficiency Measure	FY 2004 Target	FY 2004 Actual
1.4.2 (cont'd)		<p>guaranteed loans is a proxy indicator for the financial viability of borrowers, there is no measure that indicates the program is providing adequate coverage of the intended market or whether or not there are any unmet needs.</p> <ul style="list-style-type: none"> ▪ Although the program targets beginning and socially disadvantaged farmers, there is no method to assess whether outreach/targeting efforts are the most effective. ▪ Program lacks independent evaluations. <p>Actions:</p> <ul style="list-style-type: none"> ▪ Conduct a performance focused review of the program. ▪ Revise long-term performance measure to better assess progress toward meeting the goal of improving economic viability of farmers/ranchers. ▪ Assess performance targets to ensure they are ambitious. ▪ Develop an efficiency measure such as "cost per loan processed" to track administrative expenses and allow comparison among loan programs. ▪ The program performance to budget requests. <p>Copy Available: http://www.whitehouse.gov/omb/budget/fy2005/pma/agriculture.pdf</p>			
2.1.1	Business & Industry Guaranteed Loan Program	<p>Results: "Adequate"</p> <p>Findings:</p> <ul style="list-style-type: none"> ▪ Long-term performance measurement could be strengthened by evaluating actual program performance with established benchmarks to better understand the community benefits provided by the program. ▪ Reforms are needed to improve the cost-effectiveness of the program. The subsidy rate has increased over the last couple of years and the Inspector General has made numerous recommendations to improve lender servicing, training and oversight. ▪ Budget requests do not yet tie to the accomplishment of performance goals. <p>Actions:</p> <ul style="list-style-type: none"> ▪ Improve long-term performance measurement by comparing actual program data on the types of jobs supported each year with established benchmarks based upon U.S. Department of Labor statistics. This will allow RBS to determine the extent of community benefits more accurately. Such information also will help guide agency decisions on how to manage the funds they receive. 	N/A Baselines and targets are being developed for tracking in FY 2005.	N/A	N/A

Perform. Measure	Program	Findings and Actions	Efficiency Measure	FY 2004 Target	FY 2004 Actual
2.1.1 (cont'd)		<ul style="list-style-type: none"> ■ Complete a rewrite of program regulations to address identified concerns and deficiencies, such as lender performance and eligibility, borrower eligibility, priority goals, and underwriting requirements. These efforts coupled with improvements in program management will help the agency make targeted efforts to decrease delinquency and default rates. ■ Develop an efficiency measure such as "cost per loan processed" to track administrative expenses and allow comparison among loan programs. ■ The program performance to budget requests. <p>Copy Available: http://www.whitehouse.gov/omb/budget/fy2005/pma/agriculture.pdf</p>	Efficiency measures have been drafted for Agency clearance.	N/A	N/A
	Electric	<p>Results: "Adequate"</p> <p>Findings:</p> <p>RUS's electric program is well designed with a clear purpose, which resulted in a high purpose rating. In addition, RUS received a high management rating because the program is effectively managed. However, the analysis reveals a disconnect between USDA's strategic goals and RUS's performance goals and measures. The Department's plan and RUS's goals do not match up with each other. The PART analysis also highlighted the need for better performance measures. Specifically, we found:</p> <ul style="list-style-type: none"> ■ One of USDA's goals is to provide support to rural areas of greatest need. Except for the hardship program, RUS electric loans are not provided in such a way that would focus the support to areas of greatest need and do not always go to rural areas. RUS goals and measures supposedly support USDA's rural development goals, but the link between the goals and measures is not readily apparent. ■ RUS strategic goals are very broad, and it is difficult to demonstrate the impact of program funding on rural economies. Due to this, RUS received low scores in the Strategic Planning and Program Results sections. <p>Actions:</p> <ul style="list-style-type: none"> ■ Target RUS electric loans to areas with high poverty rates. ■ Increase funding for hardship loans that can only be used in areas that are severely depressed (applicants must meet rate disparity thresholds and their consumers must fall below average per capita and household income thresholds). <p>Copy Available: http://www.whitehouse.gov/omb/budget/fy2005/pma/agriculture.pdf</p>	N/A	N/A	N/A

Perform. Measure	Program	Findings and Actions	Efficiency Measure	FY 2004 Target	FY 2004 Actual
2.2.2	Water & Wastewater	<p>Results: "Not Demonstrated"</p> <p>Findings: Summary results showed the program to be extremely well designed and managed. It also found:</p> <ul style="list-style-type: none"> ▪ The program is successful in targeting assistance for water and wastewater infrastructure to poor rural areas. ▪ USDA does an effective job of collecting program data and using it to manage effectively. ▪ Existing measures do not demonstrate adequately results. Improvements to the performance measures need to be made. <p>Action:</p> <ul style="list-style-type: none"> ▪ Develop better annual goals. ▪ Create reasonable long-term goals that measure outcomes. <p>Copy Available: http://www.whitehouse.gov/omb/budget/fy2005/pma/agriculture.pdf</p>	N/A for tracking in FY 2005. Baselines and targets are being developed.	N/A	N/A
2.2.3	Multi-Family Housing	<p>Results: "Results Not Demonstrated"</p> <p>Findings: Summary of results found that the multifamily housing programs generally are run well.</p> <p>Other PART findings include:</p> <ul style="list-style-type: none"> ▪ Although the program achieves what it was designed to do, it is inefficient in that funds needed to show an effect on the problem to the economy as a whole would be prohibitively expensive. ▪ USDA collects data and uses these data in managing the program effectively. ▪ The annual performance measures adequately guide the agency. ▪ The long-term goal needs to be more strategic and focused. <p>Actions:</p> <ul style="list-style-type: none"> ▪ Improve and develop better annual goals. ▪ Develop adequate long-term goals that measure outcomes. <p>Program staff met with OMB examiner during summer 2004 to develop improved long-term measures.</p> <p>Copy Available: http://www.whitehouse.gov/omb/budget/fy2005/pma/agriculture.pdf</p>	N/A for tracking in FY 2005. Baselines and targets are being developed.	N/A	N/A
2.2.4	Telecommunications Loan Programs	<p>Results: "Adequate"</p> <p>Findings:</p> <p>The telecommunications program has a clear purpose and good program management that resulted in high scores in the program purpose and design and program management sections.</p> <ul style="list-style-type: none"> ▪ The PART analysis showed that RUS did not have adequate long-term and annual measures. 	N/A for tracking in FY 2005. Baselines and targets are being developed.	N/A	N/A

Perform. Measure	Program	Findings and Actions	Efficiency Measure	FY 2004 Target	FY 2004 Actual
2.2.4 (cont'd)		<p>Actions: To address these findings, RUS will:</p> <ul style="list-style-type: none"> ■ Develop ambitious targets for the new long-term and annual performance measures. ■ Require program participants recently rural status in the application for a new loan. ■ Determine if the current method of issuing loans, "first in; first out," provides adequate support to the areas with the highest priority needs. ■ Develop a measure that determines how rural the subscribers are. <p>Copy Available: http://www.whitehouse.gov/omb/budget/fy2005/pma/agriculture.pdf</p>			
2.2.5	Community Facilities	<p>Results: "Results Not Demonstrated"</p> <p>Findings: FY 2005 PART assessment status updated FY 2004 Summary of results found that the CF Direct Loan Program serves a clear purpose in improving the quality of life in rural America. Other PART findings include:</p> <ul style="list-style-type: none"> ■ Long-term performance measures that identify the need or gap being addressed should be developed. Furthermore, while annual measures support the long-term goal of the program to enhance the quality of life in rural America, they do not assess the extent to which those with the greatest need are benefiting from the program. ■ The program could benefit from evaluations that focus on the achievement of desired outcomes. ■ The program has achieved increased efficiency through greater outreach efforts and leveraging other funding sources. ■ Budget requests still do not tie to the accomplishments of goals. <p>Actions:</p> <ul style="list-style-type: none"> ■ Develop a long-term measure during FY 2004 that measures outcomes. ■ Consider revising annual measures to more directly link to decisions on how the agency manages the funds it receives. ■ Conduct program evaluation to assess the needs being addressed, populations served and the effectiveness of outreach efforts. ■ Develop an efficiency measure such as "cost per loan processed" to track administrative expenses and allow comparison among loan programs. ■ Tie program performance to budget requests in the 2005 President's Budget. <p>Copy Available: http://www.whitehouse.gov/omb/budget/fy2005/pma/agriculture.pdf</p>	N/A for tracking in FY 2005. Baselines and targets are being developed.	N/A	N/A

Perform. Measure	Program	Findings and Actions	Efficiency Measure	FY 2004 Target	FY 2004 Actual
3.1.1	Food Safety and Inspection Service	<p>Results: "Adequate"</p> <p>Findings: FSIS' purpose and planning rated high because it has a clear and significant role in protecting the Nation's food supply. In addition, the program's outcome goals meaningfully reflect the purpose of this program. However, FSIS received lower scores in management and accountability. Even though, over the last few years, FSIS has undertaken several initiatives to improve resource management efficiencies and cost effectiveness, FSIS still does not have tangible incentives or procedures in place to measure cost effectiveness. FSIS has experienced financial management problems for which efforts are underway to resolve. In addition, the assessment found:</p> <ul style="list-style-type: none"> ■ The program has been effective in reducing incidences of foodborne illness. However, the program is not optimally designed to address food safety, resulting in lower program result scores. ■ Implementation of a new risk-based inspection system should be further evaluated to determine whether it would help FSIS meet their strategic and performance goals and should improve efficiencies and cost effectiveness. <p>Actions: To address these findings, FSIS will evaluate the impact of implementing a risk-based inspection system beyond the current pilot program.</p> <p>Copy Available: http://www.whitehouse.gov/omb/budget/fy2005/pma/agriculture.pdf</p>			
3.2.1	Animal Health Monitoring and Surveillance (Reviewed for the FY 2005 Budget.)	<p>Results: "Effective"</p> <p>Findings:</p> <ul style="list-style-type: none"> ■ The program purpose and design were clear. It addresses a clearly defined problem. The program also was well managed. ■ Resources are allocated to prepare and respond to plant and animal pest outbreaks, and support and coordinate State, tribal and local efforts. ■ Annual and long-term measures reflected program activities. They are chosen program analysts and managers as the best overall indicators of program effectiveness. ■ The programs are striving for excellent scores, such as a 97-percent detection rate within the next 3 years. ■ Only two of the six measures in the overall program met their long-term target. 	Time is required for reporting of sample testing results. The average cost of each surveillance activity.	N/A N/A	N/A N/A

Perform. Measure	Program	Findings and Actions	Efficiency Measure	FY 2004 Target	FY 2004 Actual
3.2.1 (cont'd)		<p>Actions:</p> <ul style="list-style-type: none"> ▪ Update the measures and accomplishments of the program. ▪ Funding for FY 2005 is \$254 million, an increase of about \$80 million from the FY 2004 enacted. Increases are related to Agricultural Defense, and to respond to the discovery of a cow infected with <i>Bovine spongiform encephalopathy</i>. ▪ Add an additional efficiency measure, such as the average cost of an investigation. <p>Copy Available: http://www.whitehouse.gov/omb/budget/fy2005/pdf/ap_cd_rom/part.pdf</p>			
3.2.2 and 3.2.3	Animal Welfare (Reviewed for the FY 2004 Budget.)	<p>Results: "Adequate"</p> <p>Findings:</p> <ul style="list-style-type: none"> ▪ The program has a clearly defined purpose. ▪ There is a need for more independent evaluations. Although APHIS conducts as needed evaluations of its program components and USDA's Office of the Inspector General has conducted evaluations of the program (1992 through 1996). The PART found no evidence of recent reviews outside of the Department. ▪ The program has made improvements in performance measures, and the PART was reassessed for the 2005 Budget to account for these changes. <p>Actions:</p> <ul style="list-style-type: none"> ▪ Animal Care is seeking clearance for a customer satisfaction survey that will evaluate the effectiveness of some of its education and training efforts. ▪ Seek additional input from sources outside of the government, including peer evaluations, when appropriate. ▪ Include at least one additional annual measure, to more closely link annual performance and long-term performance. ▪ The program has made improvements in performance measures, and the PART was reassessed for the 2005 Budget to account for these changes. <p>Copy Available: http://www.whitehouse.gov/omb/budget/fy2005/pdf/ap_cd_rom/part.pdf.</p>	<p>Average cost per Animal Welfare Act (AWA) inspection.</p> <p>Number of repeat/chronic violators of AWA per dollar spent on education/outreach.</p>	N/A	\$1,165 (Est.)
3.2.4	Forestry Research Grants	<p>Results: "Results Not Demonstrated"</p> <p>Findings:</p> <ul style="list-style-type: none"> ▪ The mandate that the program be funding through formula grants may not be the most effective way of allocating resources. Other ways, such as competitive grants, may be more effective in targeting resources to get the greatest overall effect. 			

Perform. Measure	Program	Findings and Actions	Efficiency Measure	FY 2004 Target	FY 2004 Actual
3.2.4 (cont'd)		<ul style="list-style-type: none"> ■ CSREES needs to develop more effective annual measures for this program, including targets that are ambitious. Even though research often may take several years to achieve results, and results are not guaranteed, targets against which to measure progress need to be developed. ■ The program collects information on a timely basis for use by management, and maintains close contact with partners on a routine basis. <p>Actions: The Administration will:</p> <ul style="list-style-type: none"> ■ Consider an alternative way of delivering benefits for this program. ■ Develop at least two annual measures, one of which is based on the research and development criteria. An example could be: The percentage of funded projects that outside peer review determines to meet the research and development criteria. <p>To be included in a new PART to be conducted during the FY 2007 budget process.</p> <p>Copy Available: http://www.whitehouse.gov/omb/budget/fy2005/pma/agriculture.pdf</p>			
3.2.5	Food Safety Research	<p>Results: "Results Not Demonstrated"</p> <p>Findings:</p> <ul style="list-style-type: none"> ■ The program purpose and design are clear. The program is well managed. ■ Long-term and annual measures, with ambitious targets have to be formulated that tie closely with overall Department long-term goals. The Department also needs to develop a few quantifiable annual measures. While this is difficult in the R&D area, where annual results cannot be guaranteed, one possibility is the use of the research and development criteria, which measure the relevance and quality of research. <p>Actions:</p> <ul style="list-style-type: none"> ■ USDA will develop a minimum of three long-term measures, at least one of which directly relates to the Department's long-term food-safety strategy and performance plan. ■ USDA will develop a minimum of two quantifiable annual measures, at least one of which is related to the research and development criteria. ■ The Budget includes \$106 million in funding for this program. Increases are provided for programs related to homeland security. 			

Perform. Measure	Program	Findings and Actions	Efficiency Measure	FY 2004 Target	FY 2004 Actual
3.2.5 (cont'd)		<ul style="list-style-type: none"> To be included in a new PART to be conducted during the FY 2007 budget process. <p>Copy Available: http://www.whitehouse.gov/omb/budget/fy2005/pma/agriculture.pdf</p>			
4.1.1	Food Stamp Program	<p>Results: "Moderately Effective"</p> <p>Findings:</p> <ul style="list-style-type: none"> Food stamp benefits are well targeted to intended beneficiaries and virtually always spent for their intended purpose. The program achieves its annual performance goals to increase program participation and reduce payment error. The program is better designed to reduce hunger and malnutrition related to inadequate income, than to achieve further incremental improvements in the dietary status of low-income people. While the program has been shown to increase food expenditures among program participants and the availability of nutrients in the home food supply, evidence that participation reduces hunger and increases nutrient intake is inconclusive, partly the result of limitations in measurement techniques. <p>Actions:</p> <ul style="list-style-type: none"> The Department will develop a plan for the use of Federal and State program funds to improve nutrition among program participants. The plan will include clear goals, quantifiable outcomes, and specific actions to be undertaken that directly tie to the achievement of the specified outcomes. The plan also will provide for review, assessment and recommendations to improve the effectiveness of current Federal and State activities. The Department will develop studies to demonstrate the impact of program participation on hunger and dietary status. <p>Copy Available: http://www.whitehouse.gov/omb/budget/fy2005/pma/agriculture.pdf; Summary Available: http://www.whitehouse.gov/omb/budget/fy2005/pdf/ap_cd_rom/part.pdf.</p>	92.2%	Food Stamp Accuracy Rate	N/A

Perform. Measure	Program	Findings and Actions	Efficiency Measure	FY 2004 Target	FY 2004 Actual
4.1.1 (cont'd)	National School Lunch Program	<p>Results: "Results Not Demonstrated"</p> <p>Findings:</p> <ul style="list-style-type: none"> ■ While the program generally is well designed and has a clear purpose, a large proportion of children certified for free and reduced-price meal benefits are from households with incomes above the program's eligibility thresholds. ■ While the principal long-term goal of the program, serving meals that meet the dietary guidelines, is ambitious, the annual performance measures are not well linked to the long-term goal. ■ Participating schools do not report on progress towards goals and program funding does not reward schools that meet program goals. ■ There is a high rate of erroneous payments—perhaps as high as 25 percent. ■ While the program achieves long-term goals to a large extent and compares favorably with other programs with similar purposes and goals, annual goals do not support long-term goals directly. <p>Actions:</p> <ul style="list-style-type: none"> ■ Create a system to improve the accuracy of income information submitted by households at the time of application to address the high rate of erroneous payments in the program. ■ Create a performance-based reimbursement system that provides for financial incentives for meals meeting the dietary guidelines. ■ Develop performance measures that meet the long-term goals. <p>Copy Available: http://www.whitehouse.gov/omb/budget/fy2005/pma/agriculture.pdf;</p> <p>Summary Available: http://www.whitehouse.gov/omb/budget/fy2005/pdf/ap_cd_rom/part.pdf.</p>	N/A	N/A	N/A
4.2.1	National School Lunch Program	<p>Actions: Create a performance-based reimbursement system that provides for financial incentives for meals meeting the dietary guidelines.</p> <p>Copy Available: http://www.whitehouse.gov/omb/budget/fy2005/pma/agriculture.pdf. Summary available at http://www.whitehouse.gov/omb/budget/fy2005/pdf/ap_cd_rom/part.pdf.</p>	N/A	N/A	N/A
5.1	McIntire-Stennis Research	<p>Results: "Results Not Demonstrated"</p> <p>Findings:</p> <ul style="list-style-type: none"> ■ The mandate that the program be funded through formula grants may not be the most effective way of allocating resources. Other ways, such as 			
5.1		competitive grants may be more effective			

Perform. Measure	Program	Findings and Actions	Efficiency Measure	FY 2004 Target	FY 2004 Actual
(cont'd)		<p>in targeting resources to get the greatest overall effect. This would require a change in authorizing legislation.</p> <ul style="list-style-type: none"> ■ CSREES needs to develop more effective annual measures for this program, including targets that are ambitious. Even though research may often take several years to achieve results, and results are not guaranteed, targets against which to measure progress need to be developed. ■ The program collects information on a timely basis for use by management, and maintains close contact with partners on a routine basis. <p>Actions:</p> <ul style="list-style-type: none"> ■ Consider an alternative way to delivering benefits for this program. ■ Develop at least two annual measures, one of which is based on the research and development criteria. <p>Copy Available: http://www.whitehouse.gov/omb/budget/fy2005/pma/agriculture.pdf</p>			
	Land Acquisition	<p>Results: "Results Not Demonstrated"</p> <p>Findings:</p> <ul style="list-style-type: none"> ■ The assessment found that the Forest Service Land Acquisition program generally has good accountability, program consistency, staffing, and appraisal valuations. Although the program has taken steps to address some non-strategic planning deficiencies through amended Forest Plans and the Land Acquisition Priority System (LAPS), additional outcome measures are needed that focus on assessing the extent to which the land acquisition program is protecting public benefits provided by acquisitions of private lands for national forests to address program purposes. <p>Additional findings include:</p> <ul style="list-style-type: none"> ■ Although lands are acquired at market value meeting certain criteria, the program lacks meaningful national programmatic priorities that would provide optimal reduction of the government's current and future costs. Rather, emphasis is placed on supporting individual forest plans. ■ The agency has not implemented program unit cost comparisons, such as totalcost/acre acquired, as an efficiency measure, nor has it explored other potentially beneficial measures, such as timing targets or personnel cost/acre acquired. <p>Actions:</p> <ul style="list-style-type: none"> ■ Establish annual performance measures that indicate how land acquisitions advance in a measureable way agency strategic plan milestones. ■ Establish relevant and meaningful efficiency measures. 			

Perform. Measure	Program	Findings and Actions	Efficiency Measure	FY 2004 Target	FY 2004 Actual
5.1 (cont'd)		<ul style="list-style-type: none"> ■ Establish processes that provide analyses of integrated spatial data sets on land management units, ecoregions, conservation lands, land cover and species to identify gaps or needs that in turn highlight priority areas in need of habitat, ecosystem and biodiversity protection. ■ Measure Federal administrative efficiencies associated with third parties purchasing non-Federal lands and placing them in trust prior to Federal purchase. <p>Copy Available: http://www.whitehouse.gov/omb/budget/fy2005/pma/agriculture.pdf</p>			
	Forest Service Capital Improvement and Maintenance	<p>Results: "Adequate"</p> <p>Findings: The program serves a clear and important purpose. The roads and trails accommodate millions of visitors annually. However, the PART evaluation highlighted a number of obstacles the program faces in meeting its long-term goals. Specific findings include:</p> <ul style="list-style-type: none"> ■ The program is relatively well managed. The Forest Service has made significant strides in collecting performance information and establishing reporting protocols that distinguish between critical and non-critical health and safety deficiencies. However, financial management still needs improvement as the Forest Service has had difficulty collecting timely, reliable, and complete financial data on its physical assets. ■ The program scored low on the results section. The program has a significant deferred maintenance backlog (estimated at \$13 billion) and the Forest Service has been unable to demonstrate that it can maintain its current infrastructure needs. ■ The program has improved performance measures and is now using a Facilities Condition Index (FCI) to assess physical infrastructure and prioritize funding needs. <p>Actions:</p> <ul style="list-style-type: none"> ■ Continue to improve the maintenance prioritization process and increase incentives aimed at decommissioning obsolete and underutilized infrastructure. ■ Target \$10 million for deferred maintenance, focusing on the projects that have the highest priority as measured by the improvement in the FCI. <p>Copy Available: http://www.whitehouse.gov/omb/budget/fy2005/pma/agriculture.pdf</p>			

Perform. Measure	Program	Findings and Actions	Efficiency Measure	FY 2004 Target	FY 2004 Actual
5.1.1 and 5.1.2	Wildland Fire Management	<p>Results: "Results Not Demonstrated"</p> <p>Findings:</p> <ul style="list-style-type: none"> ■ The program faces significant obstacles in meeting its long-term goals, most of which appear to be management challenges. A number of management changes are currently underway at the Forest Service to address these issues. ■ The purpose and design of the program is clear and well focused. ■ The cost of responding to fires is rapidly rising and no systematic cost-containment strategy is in place to track and control firefighting efficiency. ■ Although Forest Service has taken substantive steps to improve the hazardous fuels program (the removal of excess wood to reduce the risk of catastrophic fire), more effort is needed to demonstrate that fuels reduction activities adequately targeted adequately and managed efficiently. ■ The long-term goals developed as part of the 10-Year Fire Strategy still require baseline data, annual and long-term targets, and clear prioritization among the 4 goals and 18 measures. <p>Actions: Based on the identified problems in the program, the Administration will implement management improvements in the fire program, including:</p> <ul style="list-style-type: none"> ■ Developing a real-time obligations system to improve the accountability of firefighting costs and accuracy of wildland fire obligations. ■ Improving accountability for firefighting costs and ensuring that States are paying their fair share of such costs. ■ Developing a new fire preparedness model that focuses on efficient allocation of available resources. ■ Establishing project criteria that is consistent with the 10-Year ■ Implementation Strategy to ensure that hazardous fuels reduction funds are targeted as effectively as possible to reduce risks to communities in the wildland-urban interface. <p>Copy Available: http://www.whitehouse.gov/omb/budget/fy2004/pma/usdawildlandfire.pdf.</p>	Number of acres treated within the Wildland Urban Interface (WUI) areas per million dollars gross investment	10,573	7,956
			Number of acres treated outside WUI areas per million dollars gross investment.	8,203	7,956
5.2	Farm and Ranch Lands Protection Program	<p>Results: "Results Not Demonstrated"</p> <p>Findings:</p> <ul style="list-style-type: none"> ■ The program is administered in an effective manner. ■ While the program prioritizes applications at the State level and selects the best projects for protecting important agricultural lands from development, it does not have outcome-based annual or long-term performance measures. Thus, the program cannot demonstrate it is delivering results. 			

Perform. Measure	Program	Findings and Actions	Efficiency Measure	FY 2004 Target	FY 2004 Actual
5.2 (cont'd)		<p>Actions:</p> <ul style="list-style-type: none"> ▪ The Department has contracted with outside research groups, such as American Farmland Trust and several universities, to develop improved performance measures that are outcome based. ▪ Design and implement an evaluation system to provide outcome performance indicators for farm conservation programs. <p>Copy Available: http://www.whitehouse.gov/omb/part.</p>			
	Wildlife Habitat Incentives Program	<p>Results: "Results Not Demonstrated"</p> <p>Findings: The program is managed in an effective manner.</p> <ul style="list-style-type: none"> ▪ WHIP prioritizes funding for rare, threatened, and endangered fish and wildlife. In addition, WHIP leverages significant resources from conservation partners and often acts as a seed source for additional habitat projects. ▪ WHIP could be more effective if its program purpose was more specific and narrowly focused. ▪ Possible overlap exists between WHIP and other conservation programs administered by the U.S. Department of Agriculture, such as the Environmental Quality Incentives Program and the Wetlands Reserve Program. ▪ The program does not have a limited number of ambitious, long-term performance goals that focus on outcomes. ▪ The PART identified no independent and quality evaluations of WHIP. <p>Actions:</p> <ul style="list-style-type: none"> ▪ Work to develop outcome-based performance measures and targets. ▪ Conduct an internal, in-depth review of WHIP during 2003 by a Departmental Oversight & Evaluation team. <p>Copy Available: http://www.whitehouse.gov/omb/part.</p>			
	Conservation Technical Assistance	<p>Results: "Results Not Demonstrated"</p> <p>Findings: The assessment found that CTA pays for NRCS field staff to work in conjunction with State and local units of Government to address resource concerns that are identified at the local level. However, improvements are needed in how CTA reports its activities and tracks its accomplishments. Specific findings include:</p>	Technical assistance cost per acre of cropland planning	Baseline to be established	

Perform. Measure	Program	Findings and Actions	Efficiency Measure	FY 2004 Target	FY 2004 Actual
5.2 (cont'd)		<ul style="list-style-type: none"> ■ The budget does not have adequate transparency. It funds a number of activities beyond field-level technical assistance and it is difficult to trace and connect the budget requests with agency performance and results. ■ The lack of budgetary transparency makes it difficult to determine whether the account's resources are effectively prioritized and targeted. ■ The CTA has difficulty developing a concise list of long-term measures for the PART exercise because it funds many activities beyond providing field-level technical assistance. The performance of many of these activities is not reported. <p>Actions:</p> <ul style="list-style-type: none"> ■ Develop long-term performance measures for CTA that include outcome-based measures and goals. ■ Develop efficiency measures for CTA. ■ Improve the annual measures to better reflect the variety of activities funded by CTA beyond the field-level technical assistance provided to producers. <p>Copy Available: http://www.whitehouse.gov/omb/part</p>			
	Soil Survey Program	<p>Results: "Moderately Effective"</p> <p>Findings:</p> <ul style="list-style-type: none"> ■ The snow survey and water supply forecast program is the only high elevation, data-collection network in the U.S. ■ The water supply forecasts it produces are coordinated with other entities, such as the National Weather Service. ■ The program has developed long-term performance measures that support the programs purpose—baseline data for these new measures currently are unavailable, however. The measures evaluate the program's progress in eliminating information gaps for water supply forecasting purposes, improving water supply data utility, and increasing accuracy of streamflow data. ■ NRCS needs to develop baselines for the new long-term measures. ■ The program also needs to develop adequate efficiency measures. ■ The program's budget requests are not explicitly tied to achieving the long-term goals. It is unclear how performance would increase for the measures if program funding was increased. 			

Perform. Measure	Program	Findings and Actions	Efficiency Measure	FY 2004 Target	FY 2004 Actual
5.2 (cont'd)		<p>Actions:</p> <ul style="list-style-type: none"> Improve long-term performance measures by refining the measures and developing the baseline data. Refine the program efficiency measures. <p>Copy Available: http://www.whitehouse.gov/omb/part.</p>			
	Snow Survey and Water Supply Forecasting	<p>Results: "Moderately Effective"</p> <p>Findings:</p> <ul style="list-style-type: none"> The snow survey and water supply forecast program is the only high elevation, data-collection network in the U.S. The water supply forecasts it produces are coordinated with other entities, such as the National Weather Service. The program has developed long-term performance measures that support the programs purpose—baseline data for these new measures currently are unavailable, however. The measures evaluate the program's progress in eliminating information gaps for water supply forecasting purposes, improving water supply data utility, and increasing accuracy of streamflow data. NRCS needs to develop baselines for the new long-term measures. The program also needs to develop adequate efficiency measures. The program's budget requests are not explicitly tied to achieving the long-term goals. It is unclear how performance would increase for the measures if program funding was increased. <p>Actions:</p> <ul style="list-style-type: none"> Improve long-term performance measures by refining the measures and developing the baseline data. Refine the program efficiency measures. <p>Copy Available: http://www.whitehouse.gov/omb/part.</p>	Average unit cost of a water supply forecast	\$1,022	
	Plant Materials Program	<p>Results: "Results Not Demonstrated"</p> <p>Findings:</p> <ul style="list-style-type: none"> The Plant Materials Program is integrated closely into NRCS' technical assistance delivery system, and the research and training the program provides is fundamental to NRCS' mission. The program is managed effectively. While the program uses a ground-up approach to identify priority and emerging conservation issues that it can address, improvements are needed. The program lacks adequate long-term measures and targets to track its performance. 			

Perform. Measure	Program	Findings and Actions	Efficiency Measure	FY 2004 Target	FY 2004 Actual
5.2 (cont'd)		<ul style="list-style-type: none"> The program's budget requests are not explicitly tied to achieving the long-term goals. It is unclear how performance would increase for the measures if program funding was increased. It also is unclear how additional program funding <p>Actions:</p> <ul style="list-style-type: none"> Develop long-term performance measures by refining the measures and developing the baseline data Develop Plant Material Centers efficiency measures <p>Copy Available: http://www.whitehouse.gov/omb/part</p>			
	Forest Legacy Program	<p>Results: "Moderately Effective"</p> <p>Findings:</p> <p>The assessment found that the program is valuable and generally has strong management. Its effectiveness could improve with the adoption of adequate performance measures that could track the percentage of priority forest lands at risk of conversion to non-forest uses that are maintained in contiguous forest. Additional findings include:</p> <ul style="list-style-type: none"> Recent evaluations and program redesign have led to improvements; however work is needed to develop suitable performance goals and demonstrate results. The program has instituted a project selection process criterion that focuses on the readiness of projects. <p>Actions:</p> <ul style="list-style-type: none"> Complete a strategic plan that will articulate national goals, objectives and outcome-based performance measures, and identifies issues and trends affecting forests in regions across the country. Improve the link between the budget and strategic plans, and reassess funding distribution to ensure proper alignment. Develop efficiency measures. <p>Copy Available: http://www.whitehouse.gov/omb/budget/fy2005/pma/agriculture.pdf</p>			
	National Resource Inventory	<p>Results: "Results Not Demonstrated"</p> <p>Findings:</p> <ul style="list-style-type: none"> NRI is one of the Federal Government's primary sources of information on the status, condition, and trends of soil, water, and related resources in the United States. Provides the basis for specific measures and objectives in the overall NRCS strategic plan. NRCS designed the program well and effectively manages the NRI's data gathering, assessment, and information sharing. 			

Perform. Measure	Program	Findings and Actions	Efficiency Measure	FY 2004 Target	FY 2004 Actual
5.2 (cont'd)		<ul style="list-style-type: none"> ▪ Uses independent evaluations to assure the quality of the NRI's data collection and made improvements to the program's operations based on these reviews. The NRI incorporates the findings from these reviews into its 1-, 2-, and 5-year management plans. <p>Actions:</p> <ul style="list-style-type: none"> ▪ Develop long-term performance measures and set ambitious targets for the measures. ▪ Develop NRI efficiency measures. <p>Copy Available: http://www.whitehouse.gov/omb/budget/fy2005/pma/agriculture.pdf</p>			

N/A = Not Available

PROGRAM EVALUATIONS

Perform. Measure	Title	Findings and Recommendations/Actions	Availability
1.1.1	GAO Report, March 2000, GAO/NSIAD-00-76 - International Trade: Strategy Needed to Better Monitor and Enforce Trade Agreements.	<p>Findings: GAO recommended that the Office of the U.S. Trade Representative and the Department of Commerce and Agriculture jointly develop a strategy to better manage the U.S. Government's growing trade agreement monitoring and enforcement workload.</p> <p>Actions: GAO and FAS Deputy Administrator for International Trade Policy activities are working to implement the GAO report recommendations.</p>	Report is available on http://www.gao.gov/new.items/ns00076.pdf
1.3.2	GAO-040437, Improved USDA Management Would Help Agencies Comply with Farm Bill Purchasing Requirements	<p>Findings:</p> <ul style="list-style-type: none"> ▪ Execute a management plan for completing the work. ▪ Identify and allocate the staff and financial resources needed. ▪ State the priority for the work's completion clearly. <p>Actions: USDA currently is implementing the GAO recommendations .</p>	Report is available on www.gao.gov/cgi-bin/getrpt?GAO-04-437 .
1.4.1	GAO-04-517, Crop Insurance: USDA Needs to Improve Oversight of Insurance Companies and Develop a Policy to Address Any Future Insolvencies	<p>Findings: Improve reviews of companies' financial conditions, establish better coordination with States on the oversight of companies and clarify RMA's authority relative to when a state regulator takes control of a company.</p> <p>Actions: RMA generally agreed with these findings and continues to take action to address them.</p>	Report is available on http://www.gao.gov/atext/d04517.txt
	OIG-05401-12-FM, Financial Statements for Fiscal Years 2002 and 2003	<p>Findings: Improve policies and procedures on access to information systems, and application program and system software changes controls. Additionally, continue to implement and improve policies and procedures to comply fully with the Federal Financial Management Improvement Act.</p> <p>Actions: RMA generally agreed with these findings continues to take action to address them.</p>	Report is available on http://www.usda.gov/oig/webdocs/05401-12-FM.pdf
	OIG-05601-11-Te, Risk Management Agency Review of Written Agreements	<p>Findings: Improve National Office oversight of Regional Office activities relative to written agreements.</p> <p>Actions: RMA generally agreed with this finding and has and continues to take action to address it.</p>	Report is available on http://www.usda.gov/oig/webdocs/05601-11-TE.pdf
	OIG-05099-7-SF, Risk Management Agency, Indemnity Payments to Prune Producers in California – Producer D.	<p>Findings: Review a prune producer and one of its two partners that did not report ownership, size and harvest of their orchards accurately.</p> <p>Recommendations/Actions: RMA has initiated action to address this matter.</p>	Report is available on http://www.usda.gov/oig/webdocs/05099-7-SF.pdf

Perform. Measure	Title	Findings and Recommendations/Actions	Availability
1.4.1 (cont'd)	OIG-05099-17-KC, Risk Management Agency, Established Maximum Price Elections for Agricultural Crops for 2001 and 2002 Crop Years	Findings: Crop Years 2001 through 2002 crop price elections were supported, reasonable and consistently applied adequately. Actions: No action required.	Report is available on http://www.usda.gov/oig/webdocs/05099-17-KC.pdf
	OIG-05099-25-At, Added Land Policy	Findings: Revisions to added land policy since Crop Year 2000 have made yields more representative of producers' operations. Review five producers to determine whether identified errors were willful or intentional. Actions: RMA has initiated action to address the noted discrepancies.	Report is available on http://www.usda.gov/oig/webdocs/05099-25-AT.pdf
	OIG-05099-18-KC, Risk Management Agency, Management and Security of Information Technology Resources.	Findings: RMA's IT environment is vulnerable to errors, misuse, abuse, unauthorized access, disruption of service and willful destruction. Actions: RMA generally agreed with these findings. RMA has made substantial progress in implementing the agreed to recommendations.	Report is available on http://www.usda.gov/oig/webdocs/05099-18-KC.pdf
1.4.2	Farm Service Agency Direct Farm Loan Effectiveness Study	The objectives of this multi-year study being conducted by the University of Arkansas are to (1) identify groups being served by agency loan programs, (2) examine the length of time borrowers remain agency customers and (3) measure and find ways to reduce loan subsidy costs.	A preliminary report for internal use has been issued with a final report due June 1, 2005.
2.1.1	Business Programs Assessment Reviews (BPAR)	Findings: National Office evaluations of the performance of individual State offices. Actions: Findings and recommendations vary widely by State.	Summary of findings to be available on RD Intranet Web site 2 nd quarter of FY05.
2.2.1	Management Control Review SFH Section 523 Self-Help Program	Findings: Management Control Reviews conducted in FY 2004 to evaluate the effectiveness of program operations; reviews are conducted every two to five years, or as needed, by program experts. Actions: Pending receipt of formal report from OMB.	SFH MCR Report to be released in mid-September. Contact RD Financial Management Division at 202-692-0080
2.2.2	Management Control Review: Solid Waste Management Grant Program and Training Grant Program	Findings: MCRs were conducted on the Solid Waste Management Grant Program and Training Grant Program. Actions: The files were supported by the required documentation. There were no significant deficiencies.	MCR information available on RD Intranet Discussion Groups and Document Libraries in October 2004. Contact RD Financial Management Division at 202-692-0080
2.2.3 and 2.2.4	Telecommunications and Electric Data validation process	Findings: Subscriber growth is tracked quarterly on an aggregate basis for performance measurement reporting. Actions: Individual project data are periodically examined by the program line offices, and are verified by General Field Representatives when loans are in process.	Performance data available in a variety of reporting documents and from the RUS BPI coordinator. Project data are available from the individual program line offices. Contact Electric Program at 202-720-9545 Contact Telecommunications Program at 202-720-9554

Perform. Measure	Title	Findings and Recommendations/Actions	Availability
3.1.2	FSIS Program Evaluation/Assessment To Support The Interim FSIS <i>Listeria</i> Ready-to-Eat (RTE) Rule (2004)	<p>Findings: An FSIS team was formed to assess and measure the effectiveness of the new regulation. Control of <i>Listeria monocytogenes</i> in ready-to-eat meat and poultry products, 68 Federal Register, 34208 (June 6, 2003), including evaluating the microbiological verification testing program established by the regulation, communication and outreach aspects of this rulemaking, changes in industry practices that have occurred as a result of adoption of the rule, instructions and training to FSIS inspectors, and the value of FoodNet and other public health data as an indicator of program effectiveness.</p> <p>Actions: Scheduled completion by Dec. 31, 2003</p>	Information may be requested from the USDA Food Safety Inspection Service—Office of Program Evaluation, Enforcement and Review.
3.1.3	FSIS Reviews of Foreign Meat and Poultry Establishments (2004)	<p>Findings: To export product to the U.S., foreign establishments must demonstrate equivalent inspection programs, including acceptable pathogen testing programs. FSIS reviews these programs to ensure equivalency standards are met.</p> <p>Actions: Reviews conducted at least once per year per exporting country, depending on compliance history. Countries and/or establishments may be listed or delisted as approved exporters depending on these and other evaluations.</p>	Information may be requested from the USDA Food Safety Inspection Service—Office of Program Evaluation, Enforcement and Review.
	Evaluation of the Implementation of Directive 10,010.1 (2004)	<p>Findings: Program Evaluation and Improvement Staff (PEIS will conduct an evaluation of the implementation of FSIS Directive 10,010.1, concerning sampling for <i>E. coli</i> 0157:H7, approximately six months after is effective date. Although Office of Field Operations (OFO) implementation will be examined directly, the goal of the evaluation will be to determine if changes to inspection policy or to the Directive itself are necessary to better protect public health.</p> <p>Actions: Scheduled completion by Dec. 31, 2004.</p>	Information may be requested from the USDA Food Safety Inspection Service—Office of Program Evaluation, Enforcement and Review.
	Advanced Meat Recovery Interim Final Rule Evaluation (2004)	<p>Findings: PEIS also plans to evaluate the interim final rules regarding Bovine Spongiform Encephalopathy, focusing on new requirements for Advanced meat Recovery and Specified Risk Materials. Although industry compliance and Office of Field Operations (OFO) implementation would be examined directly, the goal of the evaluation will be to assist the Office of Policy, Program and Employee Development (OPPED) in determining what changes to the interim rules are necessary before they are made final.</p> <p>Actions: Tabled because OIG, GAO and AMS are conducting similar investigations.</p>	Information may be requested from the USDA Food Safety Inspection Service—Office of Program Evaluation, Enforcement and Review.
3.2.1	"Animal Health Safeguarding Report"	<p>Findings: The National Association of State Departments of Agriculture (NASDA) conducted a review of the USDA's Animal Health Safeguarding</p>	NASDA's final report was delivered to USDA officials in November 2001 and is available at:

Perform. Measure	Title	Findings and Recommendations/Actions	Availability
3.2.1 (cont'd)		<p>system, assessing the performance and efficacy of the infrastructure, activities, procedures, policies, partnerships, and authorities that comprise the existing safeguarding system.</p> <p>Actions: The review found performance adequate in handling most assigned roles, and even heroic in some historical efforts to eradicate diseases that have infected U.S. livestock—but resources were fast becoming overwhelmed. The review called for:</p> <ul style="list-style-type: none"> ▪ Improving areas that include, but are not limited to, staffing, equipment, surveillance, detection, applied research, communications and border security. ▪ Improving interagency and interdepartmental cooperation, and the resources to facilitate it. ▪ APHIS formed seven issue groups to develop action plans to address the issues raised in the NASDA review. 	<p>http://www.aphis.usda.gov/vs/pdf_files/safeguarding.pdf</p> <p>Progress achieved in implementing the Review is reported by these Issue Groups monthly and may be viewed at: http://www.aphis.usda.gov/vs/safeguarding/index.html</p>
	“Exotic Newcastle Disease (END) After Action Review”	<p>Findings: An evaluation of APHIS’ response to <i>Exotic Newcastle Disease</i> led to general recommendations about USDA’s animal health emergency response systems. It was finalized on May 21, 2004.</p> <p>Actions: Four major areas were covered in the report:</p> <ul style="list-style-type: none"> ▪ Preparedness; ▪ The Incident Command System; ▪ Human resources; and ▪ External engagement (Action: Pending) 	<p>A copy of the report may be obtained from Dr. John Clifford, Deputy Administrator, USDA APHIS Veterinary Services, 202-720-5193</p>
	“Report of the Secretary’s Advisory committee on Foreign Animal and Poultry Diseases: Measures Relating to <i>Bovine Spongiform Encephalopathy</i> in the United States”	<p>Findings: At the request of the Secretary of Agriculture, an international expert <i>Bovine Spongiform Encephalopathy (BSE)</i> panel was convened to review actions taken by the United States in response to a single finding of <i>BSE</i>. The panel, which was organized as a subcommittee of the Secretary’s Foreign Animal and Poultry Disease Advisory Committee, provided its report on February 4, 2004.</p> <p>Actions: Among the actions taken after this report was received were:</p> <ul style="list-style-type: none"> ▪ Increased sampling for <i>BSE</i> ▪ Animal Identification System – Listening Session; and <p>Web site development.</p>	<p>The report is available at: http://www.animalagriculture.org/BSE/Report_Sec_BSE_2_13_04.htm</p> <p>For information about actions taken see: http://www.aphis.usda.gov/lpa/issues/bse_testing/index.html</p>
4.1.1	Reaching Those in Need: State Food Stamp Participation Rates in 2001	<p>Presents percentage of eligible persons by State. These estimates differ slightly from those reported last year because of the change in the reference period from the month of September to the average month across the fiscal year, and improvements in data and methods.</p>	<p>Available on the FNS Web site at: http://www.fns.usda.gov/oane/MENU/Published/FSP/participation.htm</p>
	Food Stamp Household Characteristics FY 2002	<p>This report provides summary information about the demographics and income circumstances of food stamp households.</p>	<p>Available on the FNS Web site at http://www.fns.usda.gov/oane/MENU/Published/FSP/participation.htm</p>

Perform. Measure	Title	Findings and Recommendations/Actions	Availability
4.1.1 (cont'd)	Food Stamp Program—Elderly Nutrition Demonstrations: Interim Report on Elderly Participation Patterns	Tests three strategies to increase FSP participation among the elderly. Preliminary analysis indicates that elderly participation rose substantially after the demonstrations started. The analysis also provides some evidence that the demonstrations attract elderly individuals eligible for relatively low FSP benefits particularly in Maine and North Carolina, where a large number of individuals eligible for a \$10 benefit are applying.	Available on the ERS Web site at http://www.ers.usda.gov/Publications/efan04009/
	WIC and the Retail Price of Infant Formula	Rebates from infant formula manufacturers to State agencies that administer WIC support over one-quarter of all participants. This report presents findings from the most comprehensive national study of infant formula prices at the retail level.	Available on the ERS Web site at http://www.ers.usda.gov/publications/FANRR39/
	Food Stamp Program Access Study: Eligible Non-participants	While many food stamp-eligible non-participants are aware of the FSP and how to apply, some are unaware of their eligibility. This report was produced as part of the Food Stamp Program Access Study. The study examined local food stamp office policies and practices as possible barriers to participation.	Available on the ERS Web site at http://www.ers.usda.gov/publications/efan03013/efan03013-2/
	Relationship Between the EITC and Food Stamp Program Participation Among Households With Children	This study examines how these two programs interact, particularly with regard to the impact of the EITC on participation during the latter half of the 1990s. The findings are mixed and they provide evidence of negative impact of EITC on FSP participation.	Available on the ERS Web site at http://www.ers.usda.gov/publications/efan04002/
	Food Stamp Program Access Study	This report examines the extent to which local office policies and practices affect households' decisions to apply for food stamps and continue participating once they are approved for stamp benefits.	Available on the ERS Web site at http://www.ers.usda.gov/publications/efan03013/
	Employment Factors Influencing Food Stamp Program Participation: Final Report	This study examines how employment characteristics of low-income households affect FSP participation. The relationship between employment and FSP participation is of special interest because, although more low-income working families are eligible to participate, many do not. Low-income working households are less likely to participate.	Available on the ERS Web site at http://www.ers.usda.gov/publications/efan03012/
	Using One-Stops To Promote Access to Work Supports—Lessons from Virginia's Coordinated Economic Relief Centers: Final Report	The results indicate that the Coordinated Economic Relief Centers (CERCs) helped some customers get information about where to find services and made obtaining them more convenient. Despite this, resource constraints hampered the CERCs' efforts to operate as envisioned, the level of referrals to food assistance.	Available on the ERS Web site at http://www.ers.usda.gov/publications/efan03010/
	The Relationship of Earnings and Income to Food Stamp Participation: A Longitudinal Analysis	This study considers the role that the dynamics of household income plays in determining FSP participation. The two main objectives of the analysis are to (1) determine the extent to which non-participation can be attributed reasonably to temporary low income, and (2) assess why some households that appear to have long-term low income do not participate.	Available on the ERS Web site at http://www.ers.usda.gov/publications/efan03011/

Perform. Measure	Title	Findings and Recommendations/Actions	Availability
4.1.1 (cont'd)	Household Food Security in the United States, 2002	This report, based on data from the December 2002 food-security survey, provides statistics on the food security of U.S. households. The survey also details how much they spent for food and the extent to which food-insecure households participated in Federal and community food assistance programs.	Available on the ERS Web site at http://www.ers.usda.gov/publications/fanr35/
4.2.1	Maternal Employment and Children's Nutrition: Diet Quality and the Role of CACFP	This study analyzed differences in nutrition outcomes among children whose mothers work full time, part time and not at all. It also covered the role that CACFP plays in meeting the nutritional needs of participating children — especially those with working mothers.	Available on the ERS Web site at http://www.ers.usda.gov/publications/efan04006/efan04006-1/
4.2.2	The Economics of Obesity: A Report on the Workshop Held at USDA's Economic Research Service	This report presents a summary of the papers and the discussions presented at the workshop. It was intended to provide an overview of leading health economics research on the causes and consequences of rising obesity in the U.S.	Available on the ERS Web site at http://www.ers.usda.gov/publications/efan04004/
4.3.1	Balancing Food Costs with Nutrition Goals in WIC	A case study of 6 States found that WIC agencies, using a variety of food restrictions, reduced food costs by an average of 15 percent without diminishing participant use and satisfaction. These cost-containment practices appear to have had few adverse outcomes for participants.	Available on the ERS Web site at http://www.ers.usda.gov/AmberWaves/September03/Features/FoodCostsWIC.htm
	Case study of the National School Lunch Program and the School Breakfast Program	The study examined outcomes of the verification process. It also made an independent assessment of income eligibility with specific verification outcomes. To do this, the study used data from in-person interviews with families.	Available on the FNS Web site at http://www.fns.usda.gov/oane/MENU/Published/CNP/FILES/NSLPCaseStudy.htm
5.1.1 and 5.1.2	GAO-04-705 Environmental Effects of Wildland Fire	Findings: Develop and issue guidance, with CEO and taking into account any lessons learned from the CEQ demonstration program, to clarify the assessment and documentation of the risks of environmental effects associated both with conducting and not conducting fuel reduction activities. Actions: USDA reviewed the lessons learned from the CEQ demonstration program and determined that existing direction is generally adequate for implementing these lessons. Risks associated with not taking action to reduce fuels (the no action to reduce fuels (the no action alternative) are assessed with	Available on the GAO Web site: http://www.gao.gov/new.items/d04705.pdf
5.2.2	GAO-03-418: USDA Needs to Better Ensure Protection of Highly Erodible Cropland and Wetlands.	Findings: NRCS and FSA should improve processes for reviewing compliance and enforcing requirements. Actions: Web-based tracking system implemented. Policy revised and clarified.	Report is available on http://www.gao.gov/new.items/d03418

Perform. Measure	Title	Findings and Recommendations/Actions	Availability
5.2.2 (cont'd)	OIG-10099-8-KC: Compliance with Highly Erodible Land Provisions	<p>Findings: Improvements in prescribed controls are needed to strengthen the agency's ability to provide accurate and reliable assessments of producer compliance with the HELC provision.</p> <p>Actions: Web-based tracking system implemented. Policy revised and clarified.</p>	<p>Report is available on www.oig.usda.gov www.usda.gov/oig/webdocs/10099-8KC.pdf</p>
5.2.2 and 5.2.3	GAO-03-418: USDA Needs to Better Ensure Protection of Highly Erodible Cropland and Wetlands.	<p>Findings: NRCS and FSA should improve processes for reviewing compliance and enforcing requirements.</p> <p>Actions: Web-based tracking system implemented. Policy revised and clarified.</p>	<p>Report is available on www.gao.gov www.gao.gov/new.items/d03418.pdf</p>

III. SYSTEMS, CONTROLS AND LEGAL COMPLIANCE

INSPECTOR GENERAL ACT AMENDMENTS OF 1988 REPORT ON AUDIT FOLLOW-UP

BACKGROUND

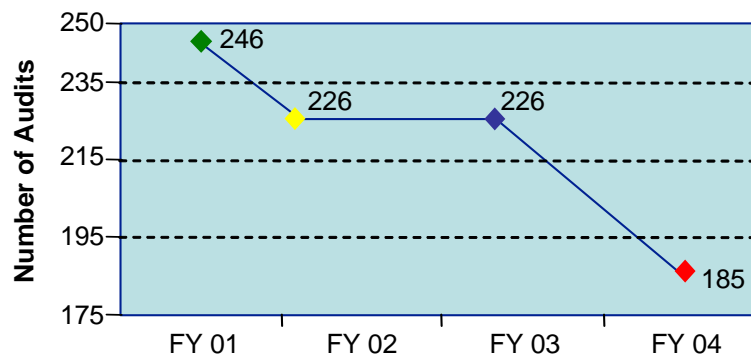
During the course of the fiscal year, OIG audits USDA's programs, systems and operations. OIG then recommends improvements to management based on its findings. USDA management may or may not agree with the audit's findings and/or recommendations. An agreement is reached during the management decision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

Audit follow-up ensures that prompt and responsive action is taken once management decisions are reached on recommendations contained in final audit reports. 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 it for sufficiency and determines if final action is completed.

FY 2004 Results

USDA agencies closed 96 audits in FY 2004 as compared to FY 2003 when only 65 audits were closed; a 48 percent increase in audit closures. This improvement reflects management's commitment to aggressively address deficiencies identified in agency programs and to follow-up with agencies on final action needed to close the audits. USDA's current inventory of audits that have reached management decision and require final action to close the audits includes 55 new audits in FY 2004 for a total of 185 audits. One of these audits is in appeal status. As shown in Exhibit 96, this is an 18 percent decrease from the 226 audits that were open at the end of FY 2003.

Exhibit 96: Decrease in Total Open Audit Inventory



Note: The FY 2003 ending balance was revised from 217 to include 9 audits that reached management decision in September 2003. This adjustment also is reflected in the beginning balances for audits with disallowed costs and funds to be put to better use shown in Exhibits 98 and 100.

Audit Follow-Up Process

The Inspector General Act Amendments of 1988 require an annual report to Congress to provide the status of all resolved audits which remain open. Reports on these resolved audits must include the elements listed in the first three bullets below. 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 legislative solution, reporting may be limited to the number of affected audits.

Exhibit 97: Audit Follow-Up Definitions

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 made.
Funds To Be Put to Better Use (FTBU)	A recommendation by OIG that funds could be used more efficiently if management took actions to implement and complete the recommendation, including: <ul style="list-style-type: none"> ▪ Reductions in outlays; ▪ Deobligation of funds from programs or operations; ▪ Withdrawal of interest subsidy costs on loans or loan guarantees, insurance or bonds; ▪ Costs not incurred by implementing recommended improvements related to the operations of the establishment, a contractor or grantee; ▪ Avoidance of unnecessary expenditures noted in pre-award reviews of contract or grant agreements; or ▪ Any other savings which are specifically identified.
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.

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

Of the 96 audits that achieved final action during the fiscal year, 44 contained disallowed costs (DC). The number of DC audits remaining in the inventory at the end of the fiscal year is 76 with a monetary value of \$81,073,719.

For audits with disallowed costs that achieved final action in FY 2004, OIG and management agreed to collect \$26,097,820. Adjustments were made totaling \$21,765,160 (83 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 \$4,332,660.

Exhibit 98: Inventory of Open Audits With Disallowed Costs

Audits with Disallowed Costs	# of Audits	Amount (\$)
Beginning of the Period	101	\$102,666,949
Plus: New Management Decisions	19	\$4,504,590
Total Audits Pending Collection of Disallowed Costs	120	\$107,171,539
Adjustments		(21,765,160)
Revised Subtotal		\$85,406,379
Less: Final Actions (Recoveries)	44	(4,332,660) ¹
Audits with DC Requiring Final Action at the End of the Period	76	81,073,719
¹ This amount does not include \$319,624 of interest collected.		

Exhibit 99: Distribution of Adjustments to Disallowed Costs

Category	Amount (\$)
Changes in Management Decision	647,413
Legal Decisions	4,167,004
Write-Offs	1,210,868
Agency Documentation	15,671,774
Agency Discovery	(21,210)
Appeals	89,311
Total	\$21,765,160

Final action occurred on 18 audits that involved FTBU amounts. USDA projects more efficient use for 94 percent of the amount identified, based on the corrective actions implemented. The number of FTBU audits remaining in the inventory to date is 37 with a monetary value of \$1,308,465,874.

¹ Exhibits 98 and 100 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 Exhibits 98 and 100 will not equal the total resolved audit inventory balance in Exhibit 96.

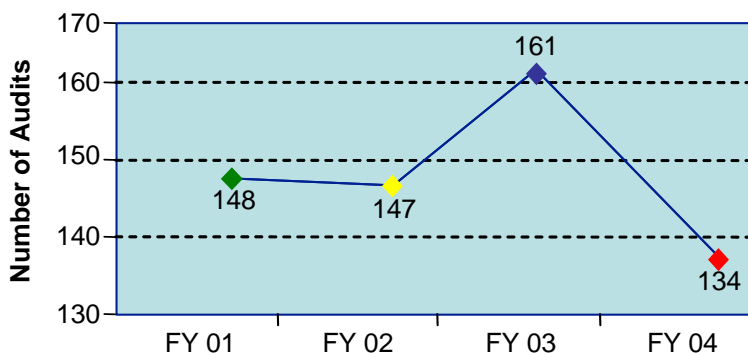
Exhibit 100: Inventory of Open Audits with Funds to be Put to Better Use

Audits with Funds to be Put to Better Use	# of Audits	Amount (\$)
Beginning of the Period	45	\$641,411,712
Plus: New Management Decisions	10	\$747,645,264
Total Audits Pending	55	\$1,389,056,976
Less: Final Actions	18	\$80,591,102
Audits with FTBU Requiring Final Action at the End of the Period	37	\$1,308,465,874
Disposition of Funds to Be Put to Better Use:		
FTBU Implemented		\$75,716,304
FTBU Not Implemented		\$4,874,798
Total FTBU Amounts for Final Action Audits		\$80,591,102

Audits Open One or More Years Past the Management Decision Date

The number of audits outstanding one or more years without final action has decreased 17 percent in FY 2004 from 161 to 134. Two audits are proceeding as scheduled, 87 are behind schedule and agencies have completed corrective actions on 45 audits that only are pending collection of associated disallowed costs.

Exhibit 101: Decrease In Audits Outstanding One or More Years Past Management Decision Date



While an additional 28 audits are scheduled for completion by September 30, 2004, final action documentation will not be evaluated this reporting period.

Exhibit 102: Distribution of Audits Outstanding One or More Years Past the Management Decision Date, Disallowed Costs and FTBU

Agency	No.	Audits On Schedule		Audits Behind Schedule			Audits Under Collection		
		DC(\$)	FTBU (\$)	No.	DC (\$)	FTBU (\$)	No.	DC (\$)	FTBU (\$)
Totals	2	0	0	87	6,788,272	544,032,516	45	61,933,670	16,788,094

Audits that are without final action one or more years past the management decision date and behind schedule are listed individually in the table that follows and 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;
- OGC or OIG advice;
- Conclusion of external action; and
- Administrative action.

MANAGEMENT'S REPORT ON FINAL ACTION (AUDIT FOLLOW-UP)

Exhibit 103: Audits One Year or More Past the Management Decision Date and Behind Schedule

Audits	Date Issued	Estimated Completion Date	Audit Title	Monetary Amount	
				DC (U.S. dollars)	FTBU (U.S. dollars)
(45) Pending issuance of policy/guidance					
03006-1-AT	09/19/95	09/30/04	FSA Management of the Dade County, Florida ASCS Office	684,642	-
04099-01-AT	6/1/2001	03/31/05	RHS Guaranteed Multi-Family Housing Loans	-	-
04099-1-HQ	02/01/96	09/30/04	RHS Legislative Proposals to Strengthen the Rural Rental Housing Program	-	-
04099-3-KC	02/25/02	12/31/04	RHS FY 2001 Financial Statement Field Confirmation Review, Nebraska	-	-
04600-5-KC	09/30/93	09/30/04	RHS Rural Rental Housing Program, Servicing of HUD Section 8/515 Projects	-	4,815,119
04600-47-CH	09/30/94	09/30/04	RHS Rural Rental Housing Program, Management Operations	-	-
04601-1-KC	12/16/96	09/30/04	RHS Rural Rental Housing Program, Additional Servicing of Section 8/515 Projects	65,910	33,147,535
04601-2-AT	03/25/99	09/30/05	RHS Guaranteed Rural Housing Loan Program	5,928	139,146,407
04801-4-CH	02/12/99	09/30/04	RHS Evaluation of Rural Rental Housing Tenant Income Verification Process	-	-
05600-4-TE	09/30/93	09/30/04	RMA FCIC Crop Year 1991 Claims	-	-
08001-2-HQ	03/29/02	04/30/05	FS Aviation Security Over Aircraft Facilities	-	-
08002-2-SF	11/28/00	12/31/04	FS Valuation of Lands Acquired in Congressionally Designated Areas Land Adjustment Program	-	-
08003-2-SF	08/05/98	12/31/04	FS Toiyabe/Humboldt National Forest Land Adjustment Program	-	27,900,000
08003-5-SF	12/15/00	12/31/04	FS Land Acquisitions and Urban Lot Management Program	-	10,329,300
08099-6-SF	03/27/01	03/31/05	FS Security Over USDA Information Technology Resources	-	-
08099-42-AT	08/03/93	10/29/04	FS FY 1992 Financial Statements	-	-
08401-4-AT	07/18/96	12/31/04	FS FY 1995 Financial Statements	-	-
08401-7-AT	07/13/98	12/31/04	FS FY 1997 Financial Statements	-	-
08401-12-AT	02/26/02	12/31/04	FS FY 2001 Financial Statements	-	-
08601-1-AT	03/29/96	10/29/04	FS Management of Hazardous Waste at Active or Abandoned Mines	-	1,950,000
08601-27-SF	03/28/02	12/31/04	FS Review of National Land Ownership Adjustment Team Effectiveness	-	-
08601-30-SF	03/31/03	12/31/04	FS Review of FS Security Over Explosives/Munitions Magazines Located Within National Forest System	-	-
08801-3-AT	06/16/00	12/31/04	FS Real and Personal Property Issues	-	-
08801-6-SF	01/19/00	12/31/04	FS Land Adjustment Program San Bernadine National Forest & South Zone	-	-

Audits	Date Issued	Estimated Completion Date	Audit Title	Monetary Amount	
				DC (U.S. dollars)	FTBU (U.S. dollars)
10099-8-KC	09/10/02	09/30/04	NRCS Compliance with Highly Erodible Land Provisions	-	-
10601-6-TE	09/24/02	09/30/04	NRCS Controls Over Funds Congressionally Earmarked for Conservation Projects	-	-
23099-1-FM	03/30/00	10/31/04	OCIO Security Over Data Transmission in the Department Needs Improvement	-	-
24099-4-HY	02/25/04	09/30/04	FSIS Imported Meat and Poultry Inspection Process, Phase II	-	-
24601-1-CH	06/21/00	09/30/04	FSIS Food Safety and Inspection Service Laboratory Testing of Meat and Poultry Products	-	-
27002-14-CH	01/14/02	09/30/04	FNS State Agencies Oversight of the Child and Adult Care Food Program	-	-
27010-7-KC	04/23/02	12/31/04	FNS Analysis of Large Child and Adult Care Food Program Sponsors, Phase II	-	-
27010-11-CH	08/25/97	09/30/04	FNS National School Lunch Program – Verification of Applications in Illinois	-	31,200,000
27600-6-AT	03/31/95	09/30/04	FNS Day Care Homes Nationwide	-	-
27601-3-CH	03/22/96	12/31/04	FNS Food Stamp Program—Disqualified Recipient System	-	-
27601-7-SF	08/23/99	09/30/04	FNS Presidential Initiative: Operation Kiddie Care	-	34,551,576
27601-27-CH	04/30/02	03/31/06	FNS Food Service Management Companies	-	-
33004-1-AT	03/07/00	TBD	APHIS Plant Protection and Quarantine Activities in Florida	-	-
34001-1-HQ	12/17/96	12/30/04	RBS Minority Enterprise Financial Acquisition Corp., Cooperative Agreement, Kansas City, KS	150,000	100,000
34099-2-AT	09/14/01	03/25/05	RBS Business and Industry Loan Program, Fort Gaines, GA	4,052,351	-
34601-1-HY	07/22/98	09/30/06	RBS Business and Industry Loan Program—Morgantown, West Virginia	-	-
34601-3-CH	03/11/03	09/30/04	RBS Processing of Loan Guarantees to Members of the Western Sugar Cooperative	-	-
34601-7-SF	12/04/02	09/30/04	RBS B&I Liquidation of Loans to the Pacific Northwest Sugar Company in Washington State	-	14,000,000
50401-28-FM	02/01/99	02/28/05	RHS Fiscal Year 1998 Rural Development Financial Statements	-	-
50401-45-FM	11/19/02	09/30/04	OCFO Working Capital Fund Financial Statement Audit for FY 2001	-	-
85099-1-HQ	09/10/01	12/31/04	RD Cooperative Agreement with the Washington State Department of Community, Trade, and Economic Development	-	-
(4) Pending conclusion of investigation, negotiation or administrative appeal					
04801-3-KC	03/31/99	TBD	RHS Bosley Management, Inc. – Sheridan Wyoming	146,690	85,516
04801-6-HY	03/17/99	09/30/04	RHS Rural Rental Housing Program, Lewiston Properties, Fayetteville, NY	-	-
08017-11-KC	07/17/02	06/30/05	FS OMNI Development Corporation Contract	-	2,049,653
34004-5-HY	02/18/00	12/31/04	RBS Audit of Procurement Operations, Virginia State Office, Richmond, Virginia	-	-
(14) Pending receipt and/or processing of final action documentation					
03099-32-KC	12/22/99	09/30/04	FSA Controls Over Administrative Payment Operations	-	-
03601-15-KC	03/31/00	09/30/04	FSA Emergency Conservation Program	12,583	2,794,586
04601-2-HY	07/22/03	10/31/04	RHS Review of Project Funds for Progressive Property Management Inc.	72,511	-
04601-5-KC	08/08/02	TBD	RHS Rural Rental Housing Program Insurance Expenses, Phase III	418,321	15,500,000

Audits	Date Issued	Estimated Completion Date	Audit Title	Monetary Amount	
				DC (U.S. dollars)	FTBU (U.S. dollars)
04801-6-KC	12/18/00	TBD	RHS Rural Rental Housing Program Insurance Expenses, Phase I	1,029,999	9,000
06401-11-FM	07/13/00	09/30/04	CCC FY 1999 Financial Statements	-	-
06401-14-FM	06/27/01	09/30/04	CCC FY 2000 Financial Statements	-	-
08401-11-AT	05/04/01	12/31/04	FS FY 2000 FS Financial Statements	-	-
08601-25-SF	06/22/01	06/30/05	FS Working Capital Fund Enterprise Services	-	2,600,000
08801-2-TE	09/24/98	12/31/04	FS Assistance Agreements with Not-for-profit Organizations	140,497	1,173,925
23099-2-FM	05/22/02	TBD	DA Security of Information Technology Resources at USDA Departmental Administration	-	-
34601-14-TE	09/27/02	TBD	RBS Business and Industry Direct Loan Program – Arkansas	-	-
50099-13-AT	03/29/02	TBD	Multi-Agency Audit Oversight and Security of Biological Agents at Laboratories Operated by USDA	-	-
50099-28-FM	07/18/00	10/31/04	OCIO President's Council on Integrity and Efficiency Critical Infrastructure Protection Review	-	-
(13) Pending systems development, implementation, or enhancement					
02099-1-FM	12/04/01	09/30/05	ARS IT Security	-	-
03601-36-TE	06/08/00	09/30/04	FSA Farm Loan Program Guaranteed Loans	-	205,248,800
05401-8-FM	03/30/00	12/31/04	RMA FY 1999 FCIC Financial Statements Report on Management Issues	-	-
08001-1-HQ	06/28/00	03/31/05	FS Implementation of the Government Performance and Results Act	-	-
09600-5-HQ	04/01/92	12/31/04	RUS FY 1991 Management Letter	-	-
10099-1-TE	02/01/02	12/30/04	NRCS Security Over IT Resources	-	-
24099-1-FM	08/11/03	09/30/04	FSIS Security Over Information Technology Resources at FSIS	-	-
26099-2-FM	03/25/02	09/30/05	NASS Information Technology Security	-	-
27004-3-AT	11/09/01	06/30/05	FNS Florida Food Stamp Program, Tallahassee, Florida	-	15,443,610
27099-4-KC	01/31/00	10/31/04	FNS Food Stamp Program Participation by Disqualified Retailers	-	-
27601-8-CH	01/21/97	10/31/04	FNS Food Stamp Program—Retailer Monitoring with Store Tracking and Redemption Subsystem	-	-
50401-42-FM	06/24/02	12/30/04	OCFO Audit of FFIS Operations	-	-
50601-3-CH	07/23/01	09/30/04	APHIS Assessment of APHIS & FSIS Inspection Activities to Prevent the Entry of Foot and Mouth Disease	-	-
(6) Pending results of internal monitoring or program review					
05099-1-TE	09/30/97	12/31/04	RMA Reinsured Companies Actual Production History Self-Reviews	-	-
05099-8-KC	03/31/00	09/30/04	RMA Standard Reinsurance Agreement Reporting Requirements	-	-
05600-1-TE	09/28/89	12/31/04	RMA Crop Year 1988 Insurance Contracts with Claims	-	-
26099-1-FM	05/14/01	12/31/04	NASS Security of Information Technology Resources	-	-
27401-8-HY	06/27/97	09/30/05	FNS FY 1996 Financial Statements	-	-
33099-2-AT	08/08/02	TBD	APHIS Citrus Canker Eradication Program – State of Florida	-	268,950
(1) Pending results of request for change in management decision					
03099-47-KC	10/31/01	TBD	FSA Security Over FSA/CCC IT Resources	-	-

Audits	Date Issued	Estimated Completion Date	Audit Title	Monetary Amount	
				DC (U.S. dollars)	FTBU (U.S. dollars)
(1) External Action Required					
27099-9-HY	12/14/99	09/30/04	FNS State Option Food Stamp Program	-	-
(3) Pending Administrative Action					
04099-1-HY	11/07/95	TBD	RHS Rural Rental Housing Program, Whistleblower Complaint, San Juan, PR	-	-
23801-1-HQ	08/20/98	TBD	OO Review of Office of Operations Contract with B&G Maintenance, Inc.	-	249,866
27099-22-CH	02/22/02	TBD	FNS Opportunities Industrialization Center of Greater Milwaukee	8,840	1,468,673
Total Number Audits (87)			Total \$	6,788,272	544,032,516

FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT REPORT ON MANAGEMENT CONTROLS

BACKGROUND

USDA has made substantial progress in improving internal controls by reducing the number of existing material deficiencies from eight to one. Two new material deficiencies were added this year for a total of three outstanding weaknesses. This result continues the downward trend that began in FY 2002 when material deficiencies dropped from 32 to 19. USDA's recent progress further demonstrates its commitment to operating its programs efficiently and effectively in accordance with the Federal Managers' Financial Integrity Act (FMFIA). FMFIA requires agencies to provide reasonable assurance that:

- Obligations and costs comply with applicable laws and regulations;
- Federal assets are safeguarded against fraud, waste and mismanagement; and
- Transactions are accounted for and properly recorded.

The Federal Information Security Management Act (FISMA) added a new reporting requirement for FMFIA. 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 Compliance.)

FMFIA requires a separate statement as to whether financial management systems conform to standards, principles and other requirements. This statement ensures that Federal managers have timely, relevant and consistent financial information for decision-making purposes. USDA's goal was to eliminate material internal control weaknesses and financial system nonconformances by the end of FY 2004. While this result was not achieved fully, the Department made significant progress through:

- The continuous evaluation of its programs, operations and financial systems;
- Financial statement and other OIG and GAO audits;
- Management and system reviews; and
- Prompt attention to correcting the causes of identified weaknesses.

USDA's management control program ensures compliance with the requirements of FMFIA and OMB Circulars A-123, "Management Accountability and Control," and A-127, "Financial Management Systems."

Within USDA, Subcabinet officials, agency heads and directors of staff offices 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, USDA management works aggressively to determine the root causes of its material deficiencies and correct them promptly and efficiently.

FY 2004 Results

The “Message from the Secretary” provides USDA’s assurance statement for FMFIA reporting. This message contains a qualified statement of assurance with the objectives for both FMFIA Sections 2 (internal controls) and 4 (financial management systems), except for the weaknesses described in this section. In cooperation with OIG and the OCFO, agency heads and managers have worked diligently to address and correct existing and any newly discovered weaknesses.

USDA agencies report quarterly on progress in correcting existing material weaknesses and/or financial management system nonconformances. The agencies also provide annual assurance statements. Throughout the year, determinations are made as to whether newly identified weaknesses should be declared agency level material deficiencies. A material deficiency describes both material weaknesses and financial system nonconformances collectively. Once one is declared, OCFO staff reviews each agency level material deficiency to determine whether it meets the criteria to be considered a Departmental material deficiency. The criteria for reportable, corrected and downgraded material deficiencies are outlined below.

During the fiscal year, USDA eliminated seven of the eight existing material deficiencies and added two new ones. The scheduled completion date for the existing material weakness in information technology (IT) security has been delayed until FY 2005. The Forest Service’s financial statement audit activities and internal agency monitoring found a new material weakness in financial management controls. This weakness is related to compliance with accounting standards for revenue recognition and reporting accruals. A new financial system nonconformance was added to acknowledge weaknesses in CCC’s accounting for obligations, funds control, and budgetary accounting and reporting policies. The FY 2005 goal is to eliminate the existing material deficiencies and correct any new material deficiencies within one year.

Also, during the fiscal year, as part of the Department’s FY 2003 financial statement audit, OIG advised GIPSA to request a ruling from OGC to determine whether there was a violation of the Anti-deficiency Act. As part of the USDA FY 2003 financial statement audit, the Office of Inspector General instructed GIPSA to request a ruling from the Office of General Counsel (OGC) to determine whether there was a violation of the Antideficiency Act. In July 2004, the OGC determined that GIPSA violated the Antideficiency Act during FY 2003 by exceeding the amount appropriated by Congress in its FY 2002 S&E Appropriation. During FY 2004 GIPSA identified errors that occurred during the conversion of data to the Foundation Financial Information System (FFIS), charges that belonged to another appropriation, and undelivered orders that were no longer valid. Transactions were processed in September 2004 to correct these problems and resulted in sufficient funds to nullify the antideficiency condition. In consultation with OGC, it was determined that a letter be sent to them describing the action taken and requesting them to render another opinion. GIPSA believes the facts will result in the rescission of the Antideficiency Act violation. Additionally, GIPSA implemented USDA’s new accounting system (FFIS), a standard general ledger compliant, integrated budget and accounting system, on October 1, 2002. GIPSA has strengthened its financial reporting with the implementation of FFIS and its data warehouse that provides daily financial data.

USDA Guidelines for Reporting Material Deficiencies

The criteria for Departmental material weaknesses and financial system nonconformances are described below.

A Departmental material weakness is a deficiency in internal controls (Section 2 of FMFIA) that satisfies one or more of the following criteria:

- Merits the attention of the Executive Office of the President and the relevant congressional oversight committees;
- Violates statutory or regulatory requirements;

- Deprives the public of needed services;
- Significantly weakens safeguards against waste, loss, unauthorized use or misappropriation of funds, property or other assets;
- Significantly impairs fulfillment of the Department's mission;
- Results in a conflict of interest; or
- Is of a nature that omission from the annual *Report on Management Controls* could reflect adversely on USDA's actual or perceived management integrity.

A Departmental material financial system nonconformance (Section 4 of FMFIA) is a deficiency that satisfies one or more of the following criteria:

- Merits the attention of the Executive Office of the President and relevant congressional oversight committees;
- Prevents USDA's primary financial management system from achieving central control over agency financial transactions and resource balances; or
- Prevents compliance of the primary financial management system with standards published by the OMB Circular A-127, which includes the availability of timely, consistent and relevant financial information for decision-making purposes.

Material Weakness and Nonconformance Reported Under FMFIA

IT security continues to be a major issue for USDA. It impacts the Department's ability to deliver its programs efficiently and effectively and provide meaningful and reliable reporting. While further efforts are needed to address serious weaknesses within USDA's information security program, the Department and its agencies continue to improve security over IT resources. USDA, under the direction of the OCIO, has worked diligently to facilitate and assist agencies in complying with security mandates. OCIO created a framework to contract for the certification and accreditation of major application and general support systems during the fiscal year. Certification and accreditation of most of USDA's systems has been completed or currently is in progress and expected to be completed in the near future. Additionally, OCIO has been actively involved in the budget process within USDA. This move is designed to ensure that cyber-security and FISMA requirements are addressed in IT acquisitions.

USDA's component agencies need to implement IT security requirements aggressively to reduce the level of vulnerability. The following exhibit describes and summarizes the corrective actions planned for the remaining material deficiencies.

Historical Data on Material Deficiencies

USDA has reduced the number of existing material deficiencies from a high of 32 in FY 2001 to 1 in FY 2004. Two new material deficiencies were added this year for a total of three outstanding weaknesses. This result is a 91-percent decrease in the number of outstanding material deficiencies reported during the past 4 years. The FY 2004 figure also is a 63-percent decrease from last year.

Exhibit 104: Summary of Outstanding Material Deficiencies and Estimated Completion Dates

Responsible Agency(ies)	Material Deficiency Description	Corrective Actions Remaining To Be Taken	Year Identified	Current Estimated Completion Date
Section 2 Material Weakness				
OCIO/RMA/CCC/RD/APHIS/FS	Multi 00-01: USDA Information Security Weaknesses: Weaknesses have been identified in the Department's ability to protect its assets from fraud, misuse and disruption.	<p>OCIO will:</p> <ul style="list-style-type: none"> ▪ Improve the quality and process for managing USDA information security vulnerabilities and actions. ▪ Complete vulnerability assessments of all mission critical systems; ▪ Continue to manage the USDA information survivability program to guide agencies in the development and testing of disaster recovery and business resumption plans for USDA's highest priority mission critical systems; and ▪ Refine or develop new policies as required. <p>RMA will:</p> <ul style="list-style-type: none"> ▪ Enforce newly implemented security policies, formalize draft policies and continue developing additional required policies; <p>RD will:</p> <ul style="list-style-type: none"> ▪ Implement incremental plan of action milestones to resolve network security and logical access control weaknesses ; ▪ Complete certification and accreditation of RUS legacy systems. <p>CCC will:</p> <ul style="list-style-type: none"> ▪ Improve security controls in system authorization and logical access; ▪ Complete tabletop testing as part of the Certification and Accreditation process. Tabletop testing is the simulation of an actual disaster to test documented plans for recovery and resumption of operations; and ▪ Develop a plan to fund, prioritize, and initiate the process to perform and update required employee background investigations. <p>APHIS will:</p> <ul style="list-style-type: none"> ▪ Conclude certification and accreditation of its systems. <p>FS will:</p> <ul style="list-style-type: none"> ▪ Continue to improve its general control environment. 	FY 2000	FY 2005

Responsible Agency(ies)	Material Deficiency Description	Corrective Actions Remaining To Be Taken	Year Identified	Current Estimated Completion Date
FS	04-01: Financial Management Internal Control Weaknesses: Controls inadequate to assure improvements in data quality.	<ul style="list-style-type: none"> ▪ Develop detailed future state process. Work with other teams to develop roles and responsibilities, staffing plan, migration plan, customer service IT requirements, and performance metrics. ▪ Build detailed future state processes (e.g., policies and procedures, reports, etc.). ▪ Build training materials for transition. ▪ Begin process to transition people and processes from the field and the Washington D.C. Office into the Center. ▪ Transition the Northeastern Research Station/Northeastern Area staff and finance activities to the Albuquerque Service Center to address major financial management deficiencies. ▪ Migrate management, administrative support, and customer service functions. ▪ Migrate personal property, real property, and WCF teams. ▪ Complete migration of the payments-grants and agreements and payments-other teams. 	FY 2004	FY 2005
Section 4 Financial Management System Nonconformance				
CCC	04-01: Improvement Needed in Funds Control Mechanisms and Budgetary Financial Accounting and Reporting Policies and Procedures	<ul style="list-style-type: none"> ▪ Identify and group programs with specific obligation and disbursement events; ▪ Identify and implement changes to current financial management processes and systems to improve the accuracy and timeliness of obligation amounts in the CORE financial system; ▪ Revise existing policy to reduce the materiality threshold for recording accrued liabilities from \$5 million to \$1 million; ▪ Revise policy for estimating and recording accruals of producer program payment liabilities. 	FY 2004	FY 2005

Exhibit 105: Material Deficiencies Decline

Fiscal Year	Corrected Deficiencies	New Deficiencies	
2001	10	9	32
2002	15	2	19
2003	12	1	8
2004	7	2	3

Summary of Corrected or Downgraded Material Deficiencies

Material deficiencies, for which corrective actions were completed or deemed no longer material as of September 30, 2004, are summarized below.

Criteria To Downgrade FMFIA Material Deficiencies

A material deficiency may be reassessed and downgraded for one of two reasons. The control vulnerability is no longer considered to be material, or the vulnerability no longer exists. Although downgraded from a material deficiency, it remains possible for these issues to be reported in other sections of this report (such as Improper Payments or Management Challenges). USDA component agencies will continue to monitor and assess downgraded deficiencies through completion of corrective actions.

Guidelines for Reporting a Corrected or Downgraded Material Deficiency

To report a material deficiency as corrected or downgraded, USDA agencies must:

- Demonstrate commitment of senior-level managers to resolve the material deficiency as evidenced by resource deployment and regular monitoring of corrective action progress;
- Provide substantial, timely and documented progress in completing corrective actions for the material deficiency;
- Complete the most significant corrective actions, with the remaining actions being minor in scope and not having a material effect on the program or operation; and
- Implement corrective actions that eliminate or minimize the cause(s) of the material deficiency.

Exhibit 106: Material Deficiencies Corrected or Downgraded

Responsible Agency	Number and Title of Material Deficiencies	Year Identified	Status Corrected/ Downgraded
FNS	94-01: Management of the Child and Adult Care Food Program	1994	Corrected
	99-01: National School Lunch and Breakfast Program Eligibility	1999	Downgraded
	01-01: Procurement in the Child Nutrition Program	2001	Downgraded
FS	03-01: Internal Control Weaknesses	2003	Corrected
CCC	00-01: Foreign Credit Reform System	2000	Corrected
RD	94-01: Direct Loan Servicing and Reporting Subsystem	1994	Corrected
	96-02: Oversight of the Multi-Family Housing Program	1992	Corrected

Material Weaknesses Corrected

FNS-94-01: Management of the Child and Adult Care Food Program

Management and monitoring of weaknesses in the the Child and Adult Care Food Program (CACFP) need strengthening. Sponsoring organizations have been identified as receiving excessive Federal funding for meal service and administration.

The Food and Nutrition Service (FNS) published regulations for CACFP. The regulations implemented legislative reforms to strengthen program integrity and improve management.

FS-03-01: Internal Control Weaknesses

Overall financial management controls are not adequate in the Forest Service.

During the fiscal year, the Forest Service completed the following corrective actions to close the weakness:

- Developed service-level agreements with USDA and the National Finance Center, which included specific responsibilities, roles, clearing timelines and escalation procedures;
- Began a monthly analysis of the composition of its budget and clearing accounts to determine the proper disposition of the account balances;
- Identified revenue sources and issued direction to the field requiring transfer or justification of balances in budget clearing accounts monthly;
- Implemented adequate system controls in PAYCHECK7 to ensure that each employee's supervisor of record appropriately reviews and approves timesheets;
- Developed training materials, trained the trainers and conducted training classes on property, plant and equipment (PP&E) transactions;
- Identified and issued compensating controls to ensure the accuracy of property transactions;
- Completed final review of capitalization controls in the PP&E handbook; and
- Issued policy requiring line officers and unit managers to complete a quarterly certification of all employees on payroll.

FSA-00-01: Foreign Credit Reform Systems

Systems are not fully automated and integrated into the Community Credit Corporation's Core Accounting System (CORE).

The General Sales Manager System (GSMS) was implemented to interface directly with the Commodity Credit Corporation's Core Accounting System (CORE) general ledger. Additionally, the Financial Management System accounting structure was replaced in the Automated Public Law (Pub. L.) No. 83-480 Umbrella System (APLUS) with the CORE accounting structure.

RD-94-01: Direct Loan Servicing and Reporting Subsystem

Direct Loan Servicing and Reporting system is not in compliance with OMB Circular A-127 "Financial Management Systems."

The agency has made substantial progress in the implementation of the Rural Utilities Loan Servicing System (RULSS) to replace the Rural Utility Service (RUS) legacy loan systems. During the fiscal year, the agency:

- Implemented architectural enhancements, the Borrower Director Management Systems, and upgraded to Webshere 4.0;
- Implemented the RUS data warehouse;
- Incorporated Water and Environmental Program (WEP) Loans into RULSS and WEP obligations through the Program Loan Accounting System;
- Implemented the Loan Obligation and Disbursement System – Phase 1 – Obligation request;
- Implemented the Cash Receipts System; and
- Completed the system certification and accreditation requirements.

RD-96-02: Oversight of the Multi-Family Housing Program

The Multi-Family Housing Program lacks adequate oversight and internal controls, which has led to program abuse by program participants.

The agency has made substantial progress in strengthening internal controls and providing adequate oversight of the multi-family housing program. The Multi-Family Housing regulation condenses 13 existing regulations. The proposed rule was published in June 2003. The final draft interim rule was provided to OMB for clearance and final publication in September 2004.

Material Weaknesses Downgraded

FNS-99-01: National School Lunch and Breakfast Program Eligibility

Data indicate a problem with the integrity of household eligibility determinations for free and reduced-price meals.

During the past five years, FNS has engaged in a number of activities to evaluate the extent and nature of weaknesses better. In partnership with State agencies, some of the activities undertaken included conducting demonstration projects, improving certification within the context of current regulations, exploring alternatives to the current process and collecting data on eligibility determination and verification efforts at the school food authority (SFA) level. States are expected to identify and resolve problems with the certification and verification processes based on the data collected. During FY 2004, FNS completed evaluations of the intervention effects on program integrity, participation and administrative burden. Senior agency officials used this information to make recommendations to Congress on ways to improve program integrity. The information also will be used to develop training for State and local officials on ways to reduce administrative errors.

FNS-01-01: Procurement in the Child Nutrition Program

Improper procurement of goods and services have been found to occur in the National School Lunch, School Breakfast and CACFP and Summer Food Service Programs.

FNS identified a number of control features to pursue to strengthen procurement and contract management on the part of cooperating State and local agencies. FNS implemented the following milestones:

- Issued a series of policy and guidance memoranda to expand required and recommended procurement practices. The guidance outlines policy and procedure for requesting applications for proposals and related contract standards. The policy covers bid specification standards required for Federal programs;
- Made presentations on strengthening procurement integrity at gatherings such as the American School Food Service Association (ASFSA) Convention and regional conferences with State agencies. ASFSA is a trade association created to advance the availability, quality and acceptance of school-nutrition programs as an integral part of education;
- Participated on an ASFSA task force to develop an online procurement manual for contracting with SFAs;
- In cooperation with the National Food Service Management Institute (NFSMI), developed and provided training on an equipment procurement manual for SFA use, and a comparable purchasing manual for CACFP. NFSMI is an institute that provides information and services promoting the continuous improvement of Child Nutrition Programs;
- Updated the “First Choice” manual, the primary procurement document for schools and school meal programs; and
- Developed a policy section on procurement contracts for purchasing food and management services.

FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT REPORT ON FINANCIAL MANAGEMENT SYSTEMS

BACKGROUND

The Federal Financial Management Improvement Act (FFMIA) is designed to improve accountability of financial and program managers, provide better information for decision-making, and improve the efficiency and effectiveness of Federal programs. FFMIA requires financial management systems to provide reliable, consistent disclosure of financial data in accordance with generally accepted accounting principles and standards. These systems also must 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 deficiencies in information security policies, procedures or practices to be substantially compliant with FFMIA (referred to as Section 4 in the table below).

FY 2004 RESULTS

During FY 2004, USDA evaluated its financial management systems to assess substantial compliance with the Act. While the Department found itself to be substantially compliant with applicable Federal accounting standards that was not the case with the Federal financial management system requirements, the Standard General Ledger at the transaction level or the FISMA requirement. To reach this conclusion, USDA considered all the information available, including the auditor's opinions of its component agencies, independent contractors and the progress made in addressing the weaknesses identified in the FFMIA section.

While USDA's FY 2003 and FY 2002 Consolidated Financial Statements received an unqualified audit opinion from OIG, the auditor's Report on Compliance with Laws and Regulations also disclosed that the Department was not substantially compliant with FFMIA. OIG found material weaknesses for USDA's financial and accounting systems and information security program. The Department will continue monitoring progress on plans to improve its financial management systems and work to comply fully with the FFMIA and the FISMA requirements, as reported below.

USDA is not compliant with FFMIA – Sections 1, 2 and 3, and the FISMA information security requirement.

Exhibit 107: Initiatives Completed

Initiatives Completed to Achieve FFMIA Compliance		
Instance/Agency	Actions Taken	Completion Date
Section 1—Federal Financial Management System Requirements		
Compliance with OMB Circular A-130		
<ul style="list-style-type: none"> ▪ RD ▪ OCFO ▪ FAS ▪ FS 	<ul style="list-style-type: none"> ▪ Completed system certification and accreditation (C&A) to be in compliance with OMB Circular A-130. ▪ Completed Phase II of the C&A process for Financial and Payroll Systems. ▪ Completed C&A for financial systems. ▪ Completed C&A for financial systems. 	<ul style="list-style-type: none"> 07/30/2004 09/30/2004 09/30/2004 09/30/2004
Quality control reviews of financial statements.		
<ul style="list-style-type: none"> ▪ RD 	<ul style="list-style-type: none"> ▪ Developed a plan of action; trained personnel; provided OIG with RD's quality control checklist; restructured and clarified Statement of Financing crosswalks and documentation; and compiled statements using the Department's Financial Statements Data Warehouse II. 	<ul style="list-style-type: none"> 10/31/2003

Initiatives Completed to Achieve FFMIA Compliance		
Instance/Agency	Actions Taken	Completion Date
Compliance with OMB Circular A-127		
<ul style="list-style-type: none"> RD 	<ul style="list-style-type: none"> Completed a Joint Financial Management Improvement Program (JFMIP) Direct Loan System Requirements review of the RUS Legacy Systems and determined that the existing systems, procedures, and operations substantially comply with the JFMIP functionality. Implemented compensating controls to resolve problems that originally contributed to RUS legacy systems substantial non-compliance 	09/30/2004
<ul style="list-style-type: none"> FSA/CCC 	<ul style="list-style-type: none"> Migrated foreign credit programs accounting data to CORE Accounting System Interfaced GSM and A Plus Systems with CORE Accounting System 	06/30/2004 06/30/2004
Compliance with OMB Circular A-123		
<ul style="list-style-type: none"> FSA/CCC 	<ul style="list-style-type: none"> Reviewed, revised and published accrual policies and procedures. Provided training to financial management personnel on the same. 	09/30/2004
Section 2—Applicable Federal Accounting Standards		
SFFAS No. 7 Accounting for Revenue and Other Financing Sources		
<ul style="list-style-type: none"> FS 	<ul style="list-style-type: none"> Implemented a business process to recognize revenue at point of sale for maps and the national recreation reservations systems. 	06/30/2004
Section 3—Standard General Ledger at the Transaction Level		
Standard General Ledger Posting		
<ul style="list-style-type: none"> FS 	<ul style="list-style-type: none"> Identified, analyzed and corrected invalid posting models. 	09/30/2004
CORE accounting system posting models		
<ul style="list-style-type: none"> FSA/CCC 	<ul style="list-style-type: none"> Implemented changes to financial posting logic, which may have a material impact on CCC's Financial Statements, and improved interface controls between feeder systems and CORE. 	09/30/2004
Section 4—Information Security Policies, Procedures or Practices¹		

¹ Completed corrective actions for this initiative apply to both Section 1 (OMB Circular A-130) and Section 4 (information security policies, procedures or practices) noncompliances and are therefore not repeated in Section 4.

Exhibit 108: Initiatives Remaining To Be Completed

Remaining Initiatives To Achieve FFMIA Compliance				
Initiative	Section of Non-compliance	Agency	Target Completion Date	Remediation Plan Reference
Financial Management Planning and Assurance Process	Section 1 – OMB Circular A-127	RMA	12/31/2004 and ongoing	1.1
Certification and Accreditation of System/Information Technology Security Controls ¹	Section 1 – OMB Circular A-130, and Section 4	RMA	09/30/2005	1.2
		RMA	12/31/2004	1.3
		FSA	12/31/2004	1.4
		APHIS	12/3/2004	1.5
		RD	06/30/2005	1.6
		RD	06/30/2005	1.7
FS	06/30/2005	1.8		
Improve compliance with Federal accounting standards	Section 2	FS	09/30/2005	2.1
Funds Control Mechanisms	Section 3	FSA/CCC	TBD	3.1

Remaining Initiatives To Achieve FFMIA Compliance				
Initiative	Section of Non-compliance	Agency	Target Completion Date	Remediation Plan Reference
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.				
		OMB Circulars: A-123, Management Accountability and Control. A-127, Financial Management Systems. A-130, Management of Federal Information Resources (Appendix 3).		

¹ Remediation Plans for this initiative apply to both Section 1 (OMB Circular A-130) and Section 4 (Information security policies, procedures or practices) noncompliances and are therefore not requested in Section 4.

Remediation Plans to Achieve Substantial Compliance

As required by law, the Department, in consultation with OMB, develops remediation plans that will result in substantial compliance with FFMIA and improved financial management systems. These plans are discussed below.

Area of Noncompliance/Proposed Corrective Actions (Completed Actions are not Shown on this Report)		Target Completion Date
Section 1 – Federal Financial Management System Requirements		
1.1	Financial Management Planning and Assurance Process	
	Agency Points of Contact: RMA — Chief Financial Officer Estimated Resources Needed: FY 2005 FTE: 1 Dollars: TBD	
	<ul style="list-style-type: none"> ▪ Review RMA/FCIC's Financial Management Systems for compliance with financial management systems requirements. ▪ Provide documentation to the OCFO of RMA's continuous monitoring effort to ensure compliance with the financial management systems requirements including a remediation plan for any substantial areas of noncompliance with the FFMIA. 	12/31/2004 and Ongoing Annually
1.2	Information Technology (IT) Security Controls	
	Agency Points of Contact: RMA — Chief Financial Officer Estimated Resources Needed: FY 2005 FTE: 8.5 Dollars: \$1,823,000	
	<ul style="list-style-type: none"> ▪ Enforce newly implemented security policies, formalize draft policies and continue developing additional required policies. ▪ Perform an agency-wide review of user IDs and access levels to monitor the effectiveness of existing controls. ▪ Prescribe and apply a periodic monitoring and review process to ensure that approved policies and procedures for RMA IT operations, processes, functions and activities are applied properly and consistently, and enforced continuously agency-wide. ▪ Prepare and submit quarterly status reports to OCIO until the cited weaknesses in FFMIA reviews and reporting, risk assessments, system certifications, security plans, contingency planning and disaster recovery, background investigations, incident response procedures, security training, performance measures and unauthorized software are corrected. ▪ Develop internal written policies and procedures that establish effective access controls for RMA-controlled users to follow in using RMA, NITC and National Finance Center (NFC) systems in accordance with applicable Federal guidance and Departmental regulation requirements. ▪ Prescribe and implement in RMA's formal directive system a system development lifecycle (SDLC) methodology in accordance with Departmental regulations and provide senior management oversight to ensure that application managers properly implement the prescribed SDLC methodology and management controls. 	12/31/2004 09/30/2005 12/31/2004 09/30/2005 12/31/2004 12/31/2004

Area of Noncompliance/Proposed Corrective Actions (Completed Actions are not Shown on this Report)		Target Completion Date
Section 1 – Federal Financial Management System Requirements (cont'd)		
	<ul style="list-style-type: none"> ■ Add a contract provision requiring background investigations for all IT contractor employees and associated subcontractor employees, where applicable, and ensure they are satisfactorily completed before access to RMA systems, hardware and facilities are authorized. ■ Amend the appropriate contract to describe the specific security services expected from contractor employees and to record the details of the services or deliverables to be provided by them. ■ Develop and apply a policy to conduct a routine and timely review of RMA's firewall configuration and periodically verify the effectiveness of FSA firewall protection that RMA must rely upon. ■ Improve network operating system policy and procedures. ■ Secure funding for the Business Impact Assessment to be completed by a third party. 	<p>11/30/2004</p> <p>11/30/2004</p> <p>12/31/2004</p> <p>12/31/2004</p> <p>12/31/2004</p>
1.3	Application Program and System Software Change Controls	
	<p>Agency Points of Contact: RMA — Chief Financial Officer Estimated Resources Needed: FY 2005 FTE: 3.5 Dollars: \$240,000</p> <ul style="list-style-type: none"> ■ Implement enterprise-wide change management procedures. 	12/31/2004
1.4	Information Security	
	<p>Agency points of Contact: FSA/CCC—Director, Information Technology Services Division Estimated Resources Needed: FY 2005 FTE: 3 Dollars: \$500,000</p> <ul style="list-style-type: none"> ■ Develop and test contingency plans for FSA/CCC financial applications ■ Develop plan to perform security clearance and background checks on all personnel accessing FSA/CCC applications. 	<p>12/31/2004</p> <p>10/31/2004</p>
1.5	Certification & Accreditation	
	<p>Agency Points of /Contact: APHIS—Deputy Administrator, MRP Business Services Estimated Resources Needed: FY 2005 FTE: 1 Dollars: \$23,500</p> <ul style="list-style-type: none"> ■ Complete Phases I & II of Certification & Accreditation for the User Fee System 	12/3/2004
1.6	Certification & Accreditation	
	<p>Agency points of Contact: RD—Deputy Chief Financial Officer Estimated Resources Needed: FY 2005 FTE: 5 Dollars: 300,000</p> <ul style="list-style-type: none"> ■ Complete certification and accreditation of the RUS Legacy System 	06/30/2005
1.7	Strengthen Network Security and Logical Access Controls	
	<p>Agency points of Contact: RD—Deputy Chief Financial Officer Estimated Resources Needed: FY 2005 FTE: TBD* Dollars: TBD*</p> <p>(* Resources needed to resolve the areas of noncompliance will be determined in conjunction with the master plan, a living document, which includes fully defined tasks, timeframes, resources, interdependencies, and responsibilities.)</p> <p>Complete network security enhancements</p> <ul style="list-style-type: none"> ■ Implement incremental Plan of Action Milestones. ■ Summarize the corrected vulnerabilities and rescan to verify corrections. ■ Coordinate with the Information Technology Working Group; Web Farm; St. Louis, MO; and Washington, D.C. to: <ul style="list-style-type: none"> – Ensure the scheduling, analysis, and tracking of vulnerabilities and corrective actions. – Implement policy and procedures describing specific controls to ensure all Transmission Control Protocol/Internet Protocol functions are scanned, tracked, and reported to Agency Information Systems Security Staff (ISSS) and oversight agencies. 	06/30/2005

1.7	Strengthen Network Security and Logical Access Controls	
	<p>Strengthen logical access controls</p> <ul style="list-style-type: none"> ▪ Issue guidance concerning the responsibility of managers in reviewing and monitoring access. ▪ Implement incremental Plan of Action Milestones. ▪ Establish an Information Security-Point of Contact to serve as liaison with the ISSS on security matters and ensure the ISSS is adequately staffed ▪ Implement the Information Systems Security Plan. ▪ Develop a logbook system to track and monitor access requests. Work with the local access network (LAN) support personnel to differentiate between privileged users and implement procedures to restrict authority. ▪ Work with the LAN support personnel to implement policies and procedures for limiting privileged user's accounts. Expand the monthly user access verification and certification process to include reports for all 129 user types within its organization. <p>Establish a database for all current contractors and standardize logbook forms to track and monitor authorized access by contractors. 06/30/2005</p> <ul style="list-style-type: none"> ▪ Implement procedures to verify user identification and access reports. Rural Development managers will attest to the accuracy of the user IDs for their organizations. ▪ Develop a master plan to resolve systemic internal control weaknesses on all platforms. Including migration from the existing logbook system to Magic Solutions. ▪ Conduct a review of the change control process of all major applications and general support systems to ensure the process complies with Departmental guidance. 	
1.8	Improve General Control Environment	
	<p>Agency points of Contact: FS—Financial Management Systems Director 06/30/2005</p> <p>Estimated Resources Needed FY 2005 FTE: TBD Dollars: TBD Remediation plan to be developed.</p>	
Section 2 – Applicable Federal Accounting Standards		
2.1	SFFAS No. 7 Accounting for Revenue and Other Financing Sources	
	<p>Agency points of Contact: FS—Financial Management Systems Director 09/30/2005</p> <p>Estimated Resources Needed FY 2005 FTE: TBD Dollars: TBD Remediation plan to be developed.</p>	
Section 3 – Standard General Ledger at the Transaction Level		
3.1	Funds Control Mechanisms	
	<p>Agency Points of Contact: FSA/CCC—Controller</p> <p>Estimated Resources Needed: FY 2005 FTE: 3 Dollars: \$200,000; FY 2006 FTE: 3 Dollars: \$300,000</p> <ul style="list-style-type: none"> ▪ Identify and implement changes to current financial management processes and systems to improve the accuracy and timeliness of obligation amounts in the core financial system. 09/30/2005 ▪ Develop and implement changes in the program and financial software to record obligations at the transaction level. TBD* 	

* The target date for completing this task will be identified as part of the Modernize and Innovate the Delivery of Agricultural System (MIDAS) project being implemented by the Farm Program Directorate and Financial Management Division. This modernization effort will include the obligation recognition requirements at the transaction level in the new business processes being developed. Input to the MIDAS project will come after FSA identifies and implements changes to current financial management processes and systems.

IV. FINANCIAL STATEMENTS, NOTES, SUPPLEMENTAL AND OTHER ACCOMPANYING INFORMATION

MESSAGE FROM THE CHIEF FINANCIAL OFFICER

I hope that you have received a clear snapshot of the significant role that USDA played in 2004 in enhancing so many aspects of American life. USDA is deeply committed to the performance and accountability process, and the ample opportunities it provides to have real visibility into our diverse operations and to continually improve the quality of services we provide to the American people. In making the most of this process, we are keenly aware of the pivotal role of sound financial management—knowing how resources are spent, having the confidence that programs and services are operating in continually more efficient ways, and possessing a clear sense of ongoing challenges that require management attention and focus.



Through the individual leadership and collaborative efforts of USDA managers, employees, business partners and other stakeholders, we made significant strides in 2004 advancing the Department's impressive recent record of excellence in financial management. Here are some highlights of our substantive results over this past fiscal year:

- Another clean financial audit opinion. USDA had never achieved a clean audit opinion prior to FY 2002, so our ability to sustain this critical performance benchmark is powerful evidence of the Department's improved accountability, internal control and data integrity;
- An 84-percent reduction in material deficiencies from FY 2002 to FY 2004. We are down from 19 to 3, and we plan to eliminate the remaining trouble spots altogether in the year ahead;
- An effective strategic plan for USDA that will guide efforts throughout the Department to align strategic direction, operating budgets and performance measures to drive continued performance enhancements and clear accountability throughout the organization;
- Innovative information technology solutions relating to financial management and administrative systems that allow us to push more resources to the front lines of program delivery. Noteworthy among these is the new real property system that, in one place, accounts for USDA's 22,000 owned and 4,300 leased buildings and 192 million acres of land;
- Improved efficiency in travel through the selection of an electronic travel service provider, greatly simplifying the travel process to USDA's employees and reducing travel costs; and
- Cost-effective and secure payroll and other administrative services reliably and accurately provided Government-wide through our National Finance Center.

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

In FY 2004, we made exceptional progress in financial management in USDA. As proud as we are of that record, we look forward to beating it next year as sound financial management continues to enhance all aspects of USDA's vital work.

Patricia E. Healy
Acting Chief Financial Officer
November 15, 2004

CONSOLIDATED FINANCIAL STATEMENTS

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CONSOLIDATED BALANCE SHEET
As of September 30, 2004 and 2003
(in millions)

	<u>2004</u>	<u>2003 Restated</u>
Assets:		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	\$ 39,488	\$ 36,450
Investments (Note 5)	56	45
Accounts Receivable, Net (Note 6)	625	646
Other (Note 10)	1	7
Total Intragovernmental	<u>40,170</u>	<u>37,148</u>
Cash and Other Monetary Assets (Note 4)	165	241
Investments (Note 5)	15	15
Accounts Receivable, Net (Note 6)	2,478	1,769
Loans Receivable and Related Foreclosed Property, Net (Note 7)	73,841	73,590
Inventory and Related Property, Net (Note 8)	142	278
General Property, Plant, and Equipment, Net (Note 9)	4,914	4,919
Other (Note 10)	89	145
Total Assets (Note 2)	<u><u>\$ 121,814</u></u>	<u><u>\$ 118,105</u></u>
Liabilities:		
Intragovernmental:		
Accounts Payable	809	1,206
Debt (Note 12)	69,053	76,140
Other (Note 14)	18,861	19,918
Total Intragovernmental	<u>88,723</u>	<u>97,264</u>
Accounts Payable	3,430	3,614
Loan Guarantee Liability (Note 7)	1,188	883
Debt Held by the Public (Note 12)	1	80
Federal Employee and Veterans Benefits	836	940
Environmental and Disposal Liabilities (Note 13)	23	21
Other (Notes 14 & 15)	12,629	12,861
Total Liabilities (Note 11)	<u>106,830</u>	<u>115,663</u>
Commitments and Contingencies (Note 16)		
Net Position:		
Unexpended Appropriations	22,158	22,192
Cumulative Results of Operations	<u>(7,174)</u>	<u>(19,750)</u>
Total Net Position	<u>14,984</u>	<u>2,442</u>
Total Liabilities and Net Position	<u><u>\$ 121,814</u></u>	<u><u>\$ 118,105</u></u>

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENT OF NET COST
 For the Years Ended September 30, 2004 and 2003
 (in millions)

	2004	2003 Restated
Program Costs :		
Intragovernmental Gross Costs:		
Benefit Program Costs	\$ 1,092	\$ 1,034
Imputed Costs	629	581
Reimbursable Costs	1,191	2,200
Borrowing Interest Expense	3,702	3,878
Other	(184)	195
Total Intragovernmental Gross Costs	6,430	7,888
Less: Intragovernmental Earned Revenues	993	1,073
Intragovernmental Net Costs	5,437	6,815
Gross Costs With the Public:		
Grants	60,197	63,098
Loan Cost Subsidies	(717)	(778)
Indemnities	2,861	3,848
Commodity Program Costs	2,889	6,567
Stewardship Land Acquisition	113	239
Other (Note 18)	10,892	14,227
Total Gross Costs with the Public	76,235	87,201
Less: Earned Revenues from the Public	7,650	10,767
Net Costs with the Public	68,585	76,434
Net Cost of Operations (Notes 17 & 19)	\$ 74,022	\$ 83,249

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
 For the Years Ended September 30, 2004 and 2003
 (in millions)

	2004		2003 Restated	
	Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations
Beginning Balances	\$ (14,415)	\$ 16,810	\$ (14,699)	\$ 25,619
Prior Period Adjustments (Note 20)	(5,335)	5,382	258	(153)
Beginning Balances, as adjusted	<u>(19,750)</u>	<u>22,192</u>	<u>(14,441)</u>	<u>25,466</u>
Budgetary Financing Sources:				
Appropriations Received	-	87,089	-	76,572
Appropriations Transfer In (Out)	-	127	-	(219)
Other Adjustments (recissions, etc.)	-	(2,665)	(15)	(4,813)
Appropriations Used	84,588	(84,585)	74,837	(74,814)
Nonexchange Revenue	29	-	6	-
Donations and Forfeitures of Cash	2	-	36	-
Transfers In (Out) without Reimbursement	2,219	-	3,790	-
Other Budgetary Financing Sources	-	-	-	-
Other Financing Sources:				
Donations and Forfeitures of Property	4	-	1	-
Transfers In (Out) without Reimbursement	(1,074)	-	(2,019)	-
Imputed Financing from Costs Absorbed by Others	629	-	581	-
Other	201	-	723	-
Total Financing Sources	<u>86,598</u>	<u>(34)</u>	<u>77,940</u>	<u>(3,274)</u>
Net Cost of Operations	<u>(74,022)</u>	<u>-</u>	<u>(83,249)</u>	<u>-</u>
Ending Balances	<u>\$ (7,174)</u>	<u>\$ 22,158</u>	<u>\$ (19,750)</u>	<u>\$ 22,192</u>

The accompanying notes are an integral part of these statements.

COMBINED STATEMENT OF BUDGETARY RESOURCES
 For the Years Ended September 30, 2004 and 2003
 (in millions)

	2004		2003 <i>Restated</i>	
	<u>Budgetary</u>	<u>Non-Budgetary Financing Accounts</u>	<u>Budgetary</u>	<u>Non-Budgetary Financing Accounts</u>
Budgetary Resources:				
Budget Authority:				
Appropriations Received	\$ 94,316		\$ 83,967	
Borrowing Authority (Note 22 & 23)	29,006	\$ 11,356	49,343	\$ 10,257
Net Transfers			(189)	
Unobligated Balances:				
Beginning of Period (Note 24)	16,762	5,802	19,788	5,264
Net Transfers, Actual	(193)		(453)	
Spending Authority From Offsetting Collections:				
Earned				
Collected	23,462	7,519	24,302	7,722
Change in Receivables from Federal Sources	(672)	146	1,602	62
Change in Unfilled Customer Orders				
Advances Received	935		289	
Without Advances from Federal Sources	99	(97)	47	56
Recoveries of Prior Year Obligations	5,256	634	3,865	437
Permanently not Available	<u>(47,065)</u>	<u>(4,376)</u>	<u>(57,167)</u>	<u>(4,275)</u>
Total Budgetary Resources	<u>121,906</u>	<u>20,984</u>	<u>125,394</u>	<u>19,523</u>
Status of Budgetary Resources:				
Obligations Incurred (Note 21):				
Direct	75,508	14,659	71,940	13,721
Reimbursable	27,642		36,692	
Unobligated Balance:				
Apportioned	6,396	5,921	5,850	5,343
Exempt from Apportionment	551	6	328	1
Other Available			9	
Unobligated Balance not Available	<u>11,809</u>	<u>398</u>	<u>10,575</u>	<u>458</u>
Total Status of Budgetary Resources	<u>121,906</u>	<u>20,984</u>	<u>125,394</u>	<u>19,523</u>
Relationship of Obligations to Outlays:				
Obligated Balance, Net, Beginning of Period (Note 24)	21,194	14,871	18,180	13,762
Obligations Incurred	103,150	14,659	108,632	13,721
Less:				
Recoveries of Prior Year Obligations	5,256	634	3,865	437
Change from Federal Sources	(573)	49	1,649	118
Obligated Balance, Net, End of Period:				
Accounts Receivable	(1,978)	(316)	(2,651)	(170)
Unfilled Customer Orders from Federal Sources	(412)	(635)	(313)	(732)
Undelivered Orders	14,353	17,735	14,278	15,351
Accounts Payable	<u>9,047</u>	<u>352</u>	<u>9,880</u>	<u>422</u>
Total Obligated Balance, Net, End of Period	<u>21,010</u>	<u>17,136</u>	<u>21,194</u>	<u>14,871</u>
Disbursements				
Disbursements	98,651	11,711	100,104	12,057
Collected and Advances Received	<u>(24,397)</u>	<u>(7,519)</u>	<u>(24,591)</u>	<u>(7,722)</u>
Outlays				
Outlays	74,254	4,192	75,513	4,335
Less: Offsetting Receipts	<u>1,928</u>	<u>600</u>	<u>1,763</u>	<u>1,292</u>
Net Outlays	<u>\$ 72,326</u>	<u>\$ 3,592</u>	<u>\$ 73,750</u>	<u>\$ 3,043</u>

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENT OF FINANCING
 For the Years Ended September 30, 2004 and 2003
 (in millions)

	<u>2004</u>	<u>2003 Restated</u>
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations Incurred	\$ 117,809	\$ 122,353
Less: Spending authority from offsetting collections and recoveries	<u>37,282</u>	<u>38,382</u>
Obligations net of offsetting collections and recoveries	80,527	83,971
Less: Offsetting receipts	<u>2,528</u>	<u>3,055</u>
Net Obligations	<u>77,999</u>	<u>80,916</u>
Other Resources		
Donations and forfeitures of property	4	1
Transfers in(out) without reimbursement	(1,074)	(2,019)
Imputed financing from costs absorbed by others	629	581
Other	<u>201</u>	<u>723</u>
Net other resources used to finance activities	<u>(240)</u>	<u>(714)</u>
Total resources used to finance activities	77,759	80,202
Resources Used to Finance Items not Part of the Net Cost of Operations:		
Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided	2,532	533
Resources that fund expenses recognized in prior periods	2,529	2,356
Budgetary offsetting collections and receipts that do not affect net cost of operations		
Credit program collections which increase liabilities for loan guarantees or allowances for subsidy	(14,136)	(14,829)
Other	(10,259)	(11,701)
Resources that finance the acquisition of assets	23,151	28,799
Other resources or adjustments to net obligated resources that do not affect net cost of operations	<u>1,509</u>	<u>2,641</u>
Total resources used to finance items not part of the net cost of operations	<u>5,326</u>	<u>7,799</u>
Total resources used to finance the net cost of operations	72,433	72,403
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Periods:		
Increase in annual leave liability	49	42
Increase in environmental and disposal liability	-	1
Upward/Downward reestimates of credit subsidy expense	(341)	(315)
Decrease in exchange revenue receivable from the public	534	758
Other	<u>1,587</u>	<u>2,141</u>
Total components of Net Cost of Operations that will require or generate resources in future periods (Note 28)	<u>1,829</u>	<u>2,627</u>
Components not Requiring or Generating Resources:		
Depreciation and amortization	598	522
Revaluation of assets or liabilities	(633)	284
Other	<u>(205)</u>	<u>7,413</u>
Total components of Net Cost of Operations that will not require or generate resources	<u>(240)</u>	<u>8,219</u>
Total components of Net Cost of Operations that will not require or generate resources in the current period	1,589	10,846
Net Cost of Operations	<u>\$ 74,022</u>	<u>\$ 83,249</u>

The accompanying notes are an integral part of these statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As of September 30, 2004 and 2003
(in millions)

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

Organization

The U.S. Department of Agriculture (USDA) provides a wide variety of services in the United States and around the world. USDA is organized into seven distinct mission areas and agencies that execute these missions.

Listed below are the missions and the agencies within each mission including four Government corporations:

FARM AND FOREIGN AGRICULTURAL SERVICES (FFAS)

- Farm Service Agency (FSA)
 - Commodity Credit Corporation (CCC)
- Foreign Agricultural Service (FAS)
- Risk Management Agency (RMA)
 - Federal Crop Insurance Corporation (FCIC)

FOOD, NUTRITION, AND CONSUMER SERVICES (FNCS)

- Food and Nutrition Service (FNS)

FOOD SAFETY

- Food Safety and Inspection Service (FSIS)

MARKETING AND REGULATORY PROGRAMS (MRP)

- Agricultural Marketing Service (AMS)
- Animal and Plant Health Inspection Service (APHIS)
- Grain Inspection, Packers and Stockyards Administration (GIPSA)

NATURAL RESOURCES AND ENVIRONMENT (NRE)

- Forest Service (FS)
- Natural Resources Conservation Service (NRCS)

RESEARCH, EDUCATION, AND ECONOMICS (REE)

- Agricultural Research Service (ARS)
- Cooperative State Research, Education, and Extension Service (CSREES)
- Economic Research Service (ERS)
- National Agricultural Statistics Service (NASS)

RURAL DEVELOPMENT

- Rural Development (RD)
 - Rural Telephone Bank (RTB) – a corporation
 - Alternative Agricultural Research and Commercialization Corporation (AARC)

Consolidation

The financial statements consolidate all the agencies' results. The effects of intradepartmental activity and balances are eliminated, except for the Statement of Budgetary Resources that is presented on a combined basis.

The financial statements are prepared in accordance with generally accepted accounting principles for the Federal Government.

Reclassifications

Certain reclassifications have been made to prior year amounts to conform to the current year presentation.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Revenue and Other Financing Sources

Revenue from exchange transactions is recognized when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, sales price is fixed or determinable, and collection is reasonably assured. In certain cases, the prices charged by the Department are set by law or regulation, which for program and other reasons may not represent full cost. Prices set for products and services offered through the Department's working capital funds are intended to recover the full costs incurred by these activities. Revenue from non-exchange transactions is recognized when a specifically identifiable, legally enforceable claim to resources arises, to the extent that collection is probable and the amount is reasonably estimable. Appropriations are recognized as a financing source when used. An imputed financing source is recognized for costs subsidized by other Government entities.

Investments

The Department is authorized to invest certain funds in excess of its immediate needs in Treasury securities. Investments in non-marketable par value Treasury securities are classified as held to maturity and are carried at cost. Investments in market-based Treasury securities are classified as held to maturity and are carried at amortized cost. The amortized cost of securities is based on the purchase price adjusted for amortization of premiums and accretion of discounts using the straight-line method over the term of the securities.

Accounts Receivable

Accounts receivable are reduced to net realizable value by an allowance for uncollectible accounts. The adequacy of the allowance is determined based on past experience and age of outstanding balances.

Direct Loans and Loan Guarantees

Direct loans obligated and loan guarantees committed after FY 1991 are reported based on the present value of the net cash flows estimated over the life of the loan or guarantee. The difference between the outstanding principal of the loans and the present value of their net cash inflows is recognized as a subsidy cost allowance; the present value of estimated net cash outflows of the loan guarantees is recognized as a liability for loan guarantees. The subsidy expense for direct or guaranteed loans disbursed during the year is the present value of estimated net cash outflows for those loans or guarantees. A subsidy expense also is recognized for modifications made during the year to loans and guarantees outstanding and for reestimates made as of the end of the year to the subsidy allowances or loan guarantee liability for loans and guarantees outstanding.

Direct loans obligated and loan guarantees committed before FY 1992 are valued using the present-value method. Under the present-value method, the outstanding principal of direct loans is reduced by an allowance equal to the difference between the outstanding principal and the present value of the expected net cash flows. The liability for loan guarantees is the present value of expected net cash outflows due to the loan guarantees.

Inventories and Related Property

Inventories to be consumed in the production of goods for sale or in the provision of services for a fee are valued on the basis of historical cost using a first-in, first-out method. Commodities are valued at the lower of cost or net realizable value using a weighted average method.

Property, Plant and Equipment

Property, plant, and equipment (PP&E) are stated at cost less accumulated depreciation. Depreciation is determined using the straight-line method over the estimated useful lives of the assets. Useful lives for PP&E are disclosed in Note 9. Capitalization thresholds for personal property and real property are \$25,000, and \$100,000 for internal use software.

Pension and Other Retirement Benefits

Pension and other retirement benefits (primarily retirement health care benefits) expense is recognized at the time the employees' services are rendered. The expense is equal to the actuarial present value of benefits attributed by the pension plan's benefit formula, less the amount contributed by the employees. An imputed cost is recognized for the difference between the expense and contributions made by and for employees.

Other Post-employment Benefits

Other post-employment benefits expense for former or inactive (but not retired) employees is recognized when a future outflow or other sacrifice of resources is probable and measurable on the basis of events occurring on or before the reporting date. The liability for long-term other post-employment benefits is the present value of future payments.

Contingencies

Contingent liabilities are recognized when a past event or exchange transaction has occurred, a future outflow or other sacrifice of resources is probable and the future outflow or sacrifice of resources is measurable.

Limitations of the Financial Statements

The financial statements report the financial position and results of operations of the entity, pursuant to the requirements of 31 U.S.C. 3515(b).

While the statements have been prepared from the books and records of the entity in accordance with the formats prescribed by the Office of Management and Budget (OMB), they also are used to monitor and control budgetary resources, which are prepared from the same books and records.

The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity. Thus, liabilities cannot be liquidated without enabling legislation that provides resources to do so.

NOTE 2. NON-ENTITY ASSETS

Non-entity assets include proceeds from the sale of timber payable to Treasury, and employer contributions and payroll taxes withheld for agencies serviced by the National Finance Center.

	<u>FY 2004</u>	<u>FY 2003</u>
Intragovernmental:		
Fund balance with Treasury	\$ 243	\$ 801
Accounts Receivable	1	-
Subtotal Intragovernmental	<u>244</u>	<u>801</u>
With the Public:		
Cash and other monetary assets	81	76
Accounts receivable	80	107
Subtotal With the Public	<u>161</u>	<u>183</u>
Total non-entity assets	405	984
Total entity assets	121,409	117,121
Total assets	<u>\$ 121,814</u>	<u>\$ 118,105</u>

NOTE 3. FUND BALANCE WITH TREASURY

Other Fund Types include special, deposit, and clearing accounts. Clearing Account Balances including suspense accounts are awaiting disposition or reclassification. Borrowing Authority not yet Converted to Fund Balance represents un-obligated and obligated amounts recorded at year-end that will be funded by future borrowings.

	<u>FY 2004</u>	<u>FY 2003</u>
Fund Balances:		
Trust Funds	\$ 648	\$ 519
Revolving Funds	10,552	7,541
Appropriated Funds	27,584	27,385
Other Fund Types	704	1,005
Total	<u>39,488</u>	<u>36,450</u>
Status of Fund Balance with Treasury:		
Unobligated Balance:		
Available	12,190	10,277
Unavailable	11,669	10,454
Obligated Balance not yet Disbursed	20,579	20,508
Clearing Account Balances	299	779
Borrowing Authority not yet Converted to Fund Balance	(5,249)	(5,568)
Total	<u>\$ 39,488</u>	<u>\$ 36,450</u>

NOTE 4. CASH AND OTHER MONETARY ASSETS

In FY 2004, cash includes Federal crop insurance escrow amounts of \$83 million, funds held in escrow to pay property taxes and insurance for single-family housing borrowers of \$81 million, and \$1 million in other receipts.

In FY 2003, cash includes Federal crop insurance escrow amounts of \$100 million, funds held in escrow to pay property taxes and insurance for single-family housing borrowers of \$76 million, funds to be transferred out of \$30 million, loan repayment and certain other receipts of \$21 million, and interest-bearing deposits of \$14 million.

	<u>FY 2004</u>	<u>FY 2003</u>
Cash	<u>\$ 165</u>	<u>\$ 241</u>

NOTE 5. INVESTMENTS

FY 2004	<u>Amortization Method</u>	<u>Cost</u>	<u>Unamortized Premium/ (Discount)</u>	<u>Investments, Net</u>	<u>Market Value Disclosure</u>
Intragovernmental:					
Non-marketable					
Par value		\$ 52	\$ -	\$ 52	\$ -
Market-based	Straight Line	4	-	4	4
Total		<u>\$ 56</u>	<u>\$ -</u>	<u>\$ 56</u>	<u>\$ 4</u>
With the Public:					
AARC		\$ 15	-	\$ 15	\$ 15
Total		<u>\$ 15</u>	<u>\$ -</u>	<u>\$ 15</u>	<u>\$ 15</u>
FY 2003					
Intragovernmental:					
Non-marketable					
Par value		\$ 42	\$ -	\$ 42	\$ -
Market-based	Straight Line	3	-	3	3
Total		<u>\$ 45</u>	<u>\$ -</u>	<u>\$ 45</u>	<u>\$ 3</u>
With the Public:					
AARC		\$ 15	-	\$ 15	\$ 15
Total		<u>\$ 15</u>	<u>\$ -</u>	<u>\$ 15</u>	<u>\$ 15</u>

NOTE 6. ACCOUNTS RECEIVABLE, NET

During FY 2004, CCC collected funds from the U.S. Department of Transportation (DOT) and eliminated the related allowance of \$188 million. In FY 2003, CCC had recognized a receivable of \$613 million from the DOT for current and prior years' transportation costs in accordance with the Cargo Preference provisions of the Food Security Act. Since these costs were subject to management determination, an allowance of \$188 million was recognized.

FY 2004			
	Accounts Receivable, Gross	Allowance for Uncollectible Accounts	Accounts Receivable, Net
Intragovernmental	\$ 625	\$ -	\$ 625
With the Public	2,696	218	2,478
Total	\$ 3,321	\$ 218	\$ 3,103

FY2003			
	Accounts Receivable, Gross	Allowance for Uncollectible Accounts	Accounts Receivable, Net
Intragovernmental	\$ 835	\$ 189	\$ 646
With the Public	2,000	231	1,769
Total	\$ 2,835	\$ 420	\$ 2,415

NOTE 7. DIRECT LOANS AND GUARANTEES, NON-FEDERAL BORROWERS

Direct Loans

Direct loan obligation or loan guarantee commitments made pre-1992 and the resulting direct loans or loan guarantees are reported at net present value.

Direct loan obligations or loan guarantee commitments made post-1991, and the Federal Credit Reform Act of 1990 as amended governs the resulting direct loan or loan guarantees. The Act requires agencies to estimate the cost of direct loans and loan guarantees at present value for the budget. Additionally, the present value of the subsidy costs (i.e. interest rate differentials, interest subsidies, delinquencies and defaults, fee offsets and other cash flows) associated with direct loans and loan guarantees are recognized as a cost in the year the loan or loan guarantee is disbursed. The net present value of loans or defaulted guaranteed loans receivable at any point in time is the amount of the gross loan or defaulted guaranteed loans receivable less the present value of the subsidy at that time.

The net present value of Loans Receivable and Related Foreclosed Property, Net is not necessarily representative of the proceeds that might be expected if these loans were sold on the open market.

Loans Receivable and Related Foreclosed Property, Net at the end of FY 2004 was \$73,841 million compared to \$73,590 million at the end of FY 2003. Loans exempt from the Federal Credit Reform Act of 1990 represent \$2,092 million of the total compared to \$2,062 million in FY 2003. Table 1 illustrates the overall composition of the Department's credit program balance sheet portfolio by mission area and credit program for FY 2004 and 2003.

During the fiscal year, the gross outstanding balance of the direct loans obligated post-1991 is adjusted by the value of the subsidy cost allowance held against those loans. Current year subsidy expense, modifications and reestimates all contribute to the change of the subsidy cost allowance through the year. The subsidy cost allowance moved from \$6,654 million to \$6,256 million during FY 2004, a decrease of \$398 million. Table 2 shows the reconciliation of subsidy cost allowance balances from FY 2003 to FY 2004.

Total direct loan subsidy expense is a combination of subsidy expense for new direct loans disbursed in the current year, modifications to existing loans, and interest rate and technical reestimates to existing loans. Total direct loan subsidy expense in FY 2004 was negative \$131 million compared to \$57 million in FY 2003. Table 3 illustrates the breakdown of total subsidy expense for FY 2004 and 2003 by program.

Direct loan volume decreased from \$6,740 million in FY 2003 to \$6,430 million in FY 2004. Volume distribution between mission area and program is shown in Table 4.

Guaranteed Loans

Guaranteed loans are administered in coordination with conventional agricultural lenders for up to 95 percent of the principal loan amount. Under the guaranteed loan programs, the lender is responsible for servicing the borrower's account for the life of the loan. The Department, however, is responsible for ensuring borrowers meet certain qualifying criteria to be eligible and monitoring the lender's servicing activities. Borrowers interested in guaranteed loans must apply to a conventional lender, which then arranges for the guarantee with a Department agency. Estimated losses on loan and foreign credit guarantees are reported at net present value as Loan Guarantee Liability. Defaulted guaranteed loans are reported at net present value as Loans Receivable and Related Foreclosed Property, Net.

Guaranteed loans outstanding at the end of FY 2004 were \$34,160 million in outstanding principal and \$30,369 million in outstanding principal guaranteed, compared to \$33,573 and \$29,885 million, respectively at the end of FY 2003. Table 5 shows the outstanding balances by credit program.

During the fiscal year, the value of the guaranteed loans is adjusted by the value of the loan guarantee liability held against those loans. Current year subsidy expense, modification and reestimates all contribute to the change of the loan guarantee liability through the year. The loan guarantee liability is a combination of the liability for losses on pre-1992 guarantees and post-1991 guarantees. Table 6 shows that total liability moved from \$883 million to \$1,188 million during FY 2004, an increase of \$305 million. The post-1991 liability moved from \$877 million to \$1,183 million, an increase of \$306 million. Table 7 shows the reconciliation of loan guarantee liability post-1991 balances and the total loan guarantee liability.

Total guaranteed loan subsidy expense is a combination of subsidy expense for new guaranteed loans disbursed in the current year, modifications to existing loans, and interest rate and technical reestimates to existing loans. Total guaranteed loan subsidy expense in FY 2004 was negative \$312 million compared to \$158 million in FY 2003. Table 8 illustrates the breakdown of total subsidy expense for FY 2004 and 2003 by program.

Guaranteed loan volume increased from \$9,149 million in FY 2003 to \$10,721 million in FY 2004. Volume distribution between mission area and program is shown in Table 9.

Credit Program Discussion and Descriptions

The Department offers direct and guaranteed loans through credit programs in the FFAS mission area through the FSA and the CCC, and in the RD mission area.

The Farm and Foreign Agricultural Services (FFAS) Mission Area

The FFAS mission area helps keep America's farmers and ranchers in business as they face the uncertainties of weather and markets. FFAS delivers commodity, credit, conservation, disaster and emergency assistance programs that help strengthen and stabilize the agricultural economy. FFAS contributes to the vitality of the farm sector with programs that encourage the expansion of export markets for U.S. agriculture.

FSA offers direct and guaranteed loans to farmers who are temporarily unable to obtain private, commercial credit and nonprofit entities that are engaged in the improvement of the nation's agricultural community. Often, FSA borrowers are beginning farmers who cannot qualify for conventional loans due to insufficient financial resources. Additionally, the agency helps established farmers who have suffered financial setbacks from natural disasters, or have limited resources to maintain profitable farming operations. FSA officials also provide borrowers with supervision and credit counseling.

FSA's mission is to provide supervised credit. FSA works with each borrower to identify specific strengths and weaknesses in farm production and management, and provides alternatives to address weaknesses. FSA is able to provide certain loan servicing options to assist borrowers whose accounts are distressed or delinquent. These options include reamortization, restructuring, loan deferral, lowering interest rate, acceptance of easements, and debt write-downs. The eventual goal of FSA's farm credit programs is to graduate its borrowers to commercial credit.

CCC's foreign programs provide economic stimulus to both the U.S. and foreign markets, while also giving humanitarian assistance to the most-needy people throughout the world. CCC offers both guarantee credit and direct credit programs for buyers of U.S. exports, suppliers, and sovereign countries in need of food assistance.

CCC permits debtor nations to reschedule debt under the aegis of the Paris Club (The Club). The Club is an internationally recognized organization under the leadership of the French Ministry of Economics and Finance. Its sole purpose is to assess, on a case-by-case basis, liquidity problems faced by the world's most severely economically disadvantaged countries. The general premise of the Club's activities is to provide disadvantaged nations short-term liquidity relief to enable them to re-establish their credit worthiness. The Departments of State and Treasury lead the U.S. Delegation and negotiations for all U.S. Agencies.

Farm and Foreign Agricultural Service List of Programs

Farm Service Agency	Commodity Credit Corporation
Direct Farm Ownership	Guaranteed Sales Manager Credit Program
Direct Farm Operating	Supplier Credit Guarantee Program
Direct Emergency Loans	Facility Program Guarantee
Direct Indian Land Acquisition	P.L. 480 Title 1 Program
Direct Boll Weevil Eradication	Direct Farm Storage Facility
Direct Seed Loans to Producers	Direct Sugar Storage Facilities
Guaranteed Farm Operating Subsidized/Unsubsidized	
Agricultural Resource Demonstration Fund	
Bureau of Reclamation Loan Fund	
Guaranteed Farm Ownership Unsubsidized	

The Rural Development (RD) Mission Area

Each year, RD programs create or preserve tens of thousands of rural jobs and provide or improve the quality of rural housing. To leverage the impact of its programs, RD is working with State, local and Indian tribal Governments, as well as private and not-for-profit organizations and user-owned cooperatives.

Through its rural housing loan and grant programs, RD provides affordable housing and essential community facilities to rural communities. Rural housing programs help finance new or improved housing for moderate, low, and very low-income families each year. The programs also help rural communities finance, construct, enlarge or improve fire stations, libraries, hospitals and medical clinics, industrial parks, and other community facilities.

The Rural Business Program goal is to promote a dynamic business environment in rural America. RD partners with the private sector and community-based organizations to provide financial assistance and business planning. It also provides technical assistance to rural businesses and cooperatives, conducts research into rural economic issues, and provides cooperative educational materials to the public.

The Rural Utilities Program helps to improve the quality of life in rural America through a variety of loan programs for electric energy, telecommunications, and water and environmental projects. This program leverages scarce Federal funds with private capital for investing in rural infrastructure, technology and development of human resources.

RD programs provide certain loan servicing options to borrowers whose accounts are distressed or delinquent. These options include reamortization, restructuring, loan deferral, lowering interest rate, acceptance of easements and debt write-downs. The choice of servicing options depends on the loan program and the individual borrower.

Rural Development List of Programs

Rural Housing Program	Rural Business Program	Rural Utilities Program
Home Ownership Direct Loans	Business and Industry Direct Loans	Water and Environmental Direct Loans
Home Ownership Guaranteed Loans	Business and Industry Guaranteed Loans	Water and Environmental Guaranteed Loans
Home Improvement and Repair Direct Loans	Intermediary Relending Program Direct Loans	Electric Direct Loans
Home Ownership and Home Improvement and Repair Nonprogram Loans	Rural Economic Development Direct Loans	Electric Guaranteed Loans
Rural Housing Site Direct Loans		Telecommunications Direct Loans
Farm Labor Housing Direct Loans		Rural Telephone Bank
Rural Rental and Rural Cooperative Housing Loans		Federal Financing Bank-Telecommunications Guaranteed
Rental Housing Guaranteed Loans		Distance Learning and Telemedicine Direct
Multi-family Housing-Nonprogram-Credit Sales		Broadband Telecommunications Services
Community Facilities Direct Loans		
Community Facilities Guaranteed Loans		

Discussion of Administrative Expenses, Subsidy Costs and Subsidy Rates

Administrative Expenses

Consistent with the Federal Credit Reform Act of 1990 as amended, subsidy cash flows exclude direct Federal administrative expenses. Administrative expenses for FY 2004 and 2003 are shown in Table 10.

Reestimates, Default Analysis, and Subsidy Rates

The Federal Credit Reform Act of 1990 as amended governs the proprietary and budgetary accounting treatment of direct and guaranteed loans. The long-term cost to the Government for direct loans or loan guarantees is referred to as "subsidy cost." Under the act, subsidy costs for loans obligated beginning in FY 1992 are recognized at the net present value of projected lifetime costs in the year the loan is disbursed. Subsidy costs are revalued annually. Components of subsidy include interest subsidies, defaults, fee offsets, and other cash flows.

Based on sensitivity analysis conducted for each cohort or segment of a loan portfolio, the difference between the budgeted and actual interest for both borrower and Treasury remain the key components for the subsidy formulation and reestimate rates of many USDA direct programs. USDA uses the Government-wide interest rate projections provided by the Office of Management and Budget (OMB) in order to do its calculations and analysis.

The Inter-agency Country Risk Assessment System is a Federal interagency effort chaired by OMB under the authority of the Federal Credit Reform Act of 1990 as amended. The system provides standardized risk assessment and budget assumptions for all direct credits and credit guarantees provided by the Government, to foreign borrowers. Sovereign and non-sovereign lending risks are sorted into risk categories, each associated with a default estimate.

The CCC delinquent debt is estimated at 100-percent allowance. When the foreign borrower reschedules their debt and renews their commitment to repay CCC, the allowance is estimated at less than 100 percent.

Subsidy rates are used to compute each year's subsidy expenses as disclosed above. The subsidy rates disclosed in Tables 11 and 12 pertain only to the FY 2004 and 2003 cohorts. These rates cannot be applied to the direct and guaranteed loans disbursed during the current reporting year to yield the subsidy expense. The subsidy expense for new loans reported in the current year could result from disbursements of loans from both current year cohorts and prior-year cohorts. The subsidy expense reported in the current year also includes reestimates.

As a result of new guidance provided by the credit reform Treasury certificate training class, CCC chose to reflect interest on downward reestimates in the Statement of Changes in Net Position as other financing sources for FY 2004 and 2003, respectively. The remainder of USDA credit programs chose to reflect downward reestimates in earned revenue on the Statement of Net Cost. Both methodologies are accepted alternatives that have been promulgated by Treasury.

Foreclosed Property

Property is acquired largely through foreclosure and voluntary conveyance. Acquired properties associated with loans are reported at their market value at the time of acquisition. The projected future cash flows associated with acquired properties are used in determining the related allowance (at present value).

As of September 30, 2004 and 2003, foreclosed property consisted of 783 and 952 rural single-family housing dwellings, with an average holding period of 24 and 22 months, respectively. As of September 30, 2004 and 2003, FSA-Farm Loan Program properties consist primarily of 133 and 169 farms, respectively. The average holding period for these properties in inventory for FY 2004 and 2003 was 60 and 62 months, respectively. Certain properties can be leased to eligible individuals.

Non-performing Loans

Non-performing loans are defined as receivables that are in arrears by 90 or more days, or are on rescheduling agreements until such time two consecutive payments have been made following the rescheduling.

When RD, FSA and CCC calculate loan interest income, however, the recognition of revenue is deferred. Late interest is accrued on arrears.

Loan Modifications

The Debt Reduction Fund is used to account for CCC's "modified debt." Debt is considered to be modified if the original debt has been reduced or the interest rate of the agreement changed. In contrast, when debt is "rescheduled," only the date of payment is changed. Rescheduled debt is carried in the original fund until paid. All outstanding CCC modified debt is carried in the Debt Reduction Fund and is governed by the Federal Credit Reform Act of 1990 as amended.

During FY 2004, modified loans resulting in a reduction of principal and interest just less than \$1 billion with the remaining amount of debt transferred to CCC's Debt Reduction Fund.

During FY 2003, two debts were modified. This resulted in \$22 million and \$32 million reductions in principal and interest with the remaining amount of debt transferred from CCC's liquidating/financing fund to its Debt Reduction Fund.

Interest Credit

Approximately \$18,300 and \$18,600 million of RHS unpaid loan principal as of September 30, 2004, and 2003 were receiving interest credit, respectively. If those loans receiving interest credit had accrued interest at the full-unreduced rate, interest income would have been approximately \$1,100 million higher for FY 2004 and 2003.

Restructured Loans

At the end of FY 2004 and 2003, the RD portfolio contained approximately 88,000 and 96,000 restructured loans with an outstanding unpaid principal balance of \$2,500 and \$5,900 million, respectively.

Table 1. Total Loans Receivable and Related Foreclosed Property, Net

FY 2004

Direct Loans	Loans Receivable, Gross	Interest Receivable	Foreclosed Property	Present Value Allowance	Value of Assets Related to Direct Loans
Obligated Pre - 1992					
Foreign Loans	\$ 6,244	\$ 71	\$ -	\$ (2,930)	\$ 3,385
Farm Loans	2,809	171	28	(335)	2,673
Home Loans	13,215	124	17	(5,587)	7,769
Utility Loans	15,371	37	-	(1,938)	13,470
Community Loans	1,854	19	-	(289)	1,584
Business and Industry Loans	60	-	-	(28)	32
Total Pre - 1992	39,553	422	45	(11,107)	28,913
Obligated Post -1991					
Foreign Loans	3,007	34	-	(1,821)	1,220
Farm Loans	4,661	120	5	(610)	4,176
Home Loans	13,875	87	24	(2,066)	11,920
Utility Loans	17,014	7	-	(753)	16,268
Community Loans	6,009	63	-	(760)	5,312
Business and Industry Loans	524	2	-	(236)	290
Total Post - 1991	45,090	313	29	(6,246)	39,186
Total Direct Loan Program Receivables	84,643	735	74	(17,353)	68,099
Defaulted Guarantee Loans					
Pre - 1992					
Foreign Loans	4,709	21	(2,204)	-	2,526
Business and Industry Loans	5	1	-	-	6
Total Pre - 1992	4,714	22	(2,204)	-	2,532
Post - 1991					
Foreign Loans	1,794	27	(873)	-	948
Community Loans	4	-	-	-	4
Business and Industry Loans	176	-	-	(10)	166
Total Post - 1991	1,974	27	(873)	(10)	1,118
Total Defaulted Guarantee Loans	6,688	49	(3,077)	(10)	3,650
Loans Exempt from Credit Reform Act					
Commodity Loans	1,798	-	-	-	1,798
Other Foreign Receivables	294	-	-	-	294
Total Loans Exempt	2,092	-	-	-	2,092
Total Loans Receivable and Related Foreclosed Property, Net					\$ 73,841

Table 1. Total Loans Receivable and Related Foreclosed Property, Net

FY 2003

Direct Loans	Loans		Foreclosed Property	Present Value Allowance	Value of Assets Related to Direct Loans
	Receivable, Gross	Interest Receivable			
Obligated Pre - 1992					
Foreign Loans	\$ 7,545	\$ 75	\$ -	\$ (4,045)	\$ 3,575
Farm Loans	3,375	200	36	(821)	2,790
Home Loans	14,219	123	31	(5,801)	8,572
Utility Loans	17,581	8	-	(2,070)	15,519
Community Loans	2,127	19	-	(355)	1,791
Business and Industry Loans	64	-	-	(30)	34
Total Pre - 1992	44,911	425	67	(13,122)	32,281
Obligated Post -1991					
Foreign Loans	2,981	35	-	(1,747)	1,269
Farm Loans	4,741	129	6	(749)	4,127
Home Loans	13,435	68	30	(1,980)	11,553
Utility Loans	14,478	200	-	(1,162)	13,516
Community Loans	5,565	49	-	(809)	4,805
Business and Industry Loans	525	2	-	(199)	328
Total Post - 1991	41,725	483	36	(6,646)	35,598
Total Direct Loan Program Receivables	86,636	908	103	(19,768)	67,879
Defaulted Guarantee Loans					
Pre - 1992					
Foreign Loans	4,943	55	-	(2,203)	2,795
Business and Industry Loans	5	1	-	-	6
	<u>4,948</u>	<u>56</u>	<u>-</u>	<u>(2,203)</u>	<u>2,801</u>
Post - 1991					
Foreign Loans	1,800	28	-	(1,161)	667
Business and Industry Loans	189	2	-	(10)	181
Total Post - 1991	1,989	30	-	(1,171)	848
Total Defaulted Guarantee Loans	6,937	86	-	(3,374)	3,649
Loans Exempt from Credit Reform Act:					
Commodity Loans	1,644	119	-	(48)	1,715
Other Foreign Receivables	353	-	-	(6)	347
Total Loans Exempt	1,997	119	-	(54)	2,062
Total Loans Receivable and Related Foreclosed Property, Net					\$ 73,590

**Table 2. Schedule for Reconciling Subsidy Cost Allowance Balances (Post-1999)
Direct Loans**

	FY 2004	FY 2003
Beginning balance of the subsidy cost allowance	\$ 6,654	\$ 7,047
Add: Subsidy expense for direct loans disbursed during the year by component		
Interest rate differential costs	(83)	112
Default costs (net of recoveries)	211	234
Fees and other collections	(12)	(32)
Other subsidy costs	339	220
Total subsidy expense prior to adjustments and reestimates	455	534
Adjustments		
Loan modifications	142	58
Fees received	17	14
Loans written off	(405)	(163)
Subsidy allowance amortization	(317)	(198)
Other	437	(103)
Total subsidy cost allowance before reestimates	6,983	7,189
Add or subtract subsidy reestimates by component		
Interest rate reestimate	275	81
Technical/default reestimate	(1,002)	(616)
Total reestimates	(727)	(535)
Ending balance of the subsidy cost allowance	\$ 6,256	\$ 6,654

Table 3. Direct Loan Subsidy Expense by Program and Component

FY 2004

Direct Loan Programs	Interest		Fees and Other		Subtotal Subsidy	Total Modifications	Rate Re-estimates	Technical Re-estimates	Total Re-estimates	Total Subsidy Expense
	Differential	Defaults	Collections	Other						
P.L. 480, Title I	\$ 21	\$ 10	\$ -	\$ 3	\$ 34	\$ 141	\$ (3)	\$ (201)	\$ (204)	\$ (29)
Debt Reduction Fund	-	-	-	-	-	-	-	(118)	(118)	(118)
Farm Storage Facility Loan Program	(1)	1	-	-	-	-	2	7	9	9
Agriculture Credit Insurance Fund (ACIF)	(29)	162	-	(10)	123	-	(14)	(202)	(216)	(93)
Rural Community Facilities Fund	14	1	-	(1)	14	-	(13)	(1)	(14)	-
Rural Housing Insurance Fund	(161)	32	(12)	356	215	-	3	(23)	(20)	195
Rural Electrification Loans	(19)	3	-	(6)	(22)	-	352	(455)	(103)	(125)
Rural Telephone Loans	1	1	-	(1)	1	-	13	(40)	(27)	(26)
Rural Telephone Bank	1	-	-	-	1	-	(3)	(5)	(8)	(7)
Rural Water and Waste Disposal Loans	73	1	-	(3)	71	-	(67)	5	(62)	9
Rural Business and Industry Loans	-	-	-	-	-	-	5	37	42	42
Rural Development Loan Fund	13	-	-	-	13	-	(1)	(2)	(3)	10
Rural Economic Development Loans	4	-	-	-	4	-	(1)	(1)	(2)	2
Total Subsidy Expense, Direct Loans	\$ (83)	\$ 211	\$ (12)	\$ 338	\$ 454	\$ 141	\$ 273	\$ (999)	\$ (726)	\$ (131)

FY 2003

Direct Loan Programs	Interest		Fees and Other		Subtotal Subsidy	Total Modifications	Rate Re-estimates	Technical Re-estimates	Total Re-estimates	Total Subsidy Expense
	Differential	Defaults	Collections	Other						
P.L. 480, Title I	\$ 28	\$ 19	\$ -	\$ 3	\$ 50	\$ 58	\$ (1)	\$ 45	\$ 44	\$ 152
Debt Reduction Fund	-	-	-	-	-	-	-	(83)	(83)	(83)
Food for Progress	-	-	-	-	-	-	-	(81)	(81)	(81)
Farm Storage Facility Loan Program	-	1	-	-	1	-	-	(8)	(8)	(7)
Agriculture Credit Insurance Fund (ACIF)	(28)	185	-	(8)	149	-	(53)	(648)	(701)	(552)
Rural Community Facilities Fund	18	2	-	(1)	19	-	1	(9)	(8)	11
Rural Housing Insurance Fund	11	23	(32)	231	233	-	4	(192)	(188)	45
Rural Electrification Loans	(19)	4	-	(2)	(17)	-	94	359	453	436
Rural Telephone Loans	1	-	-	-	1	-	6	30	36	37
Rural Telephone Bank	1	-	-	-	1	-	-	(6)	(6)	(5)
Rural Water and Waste Disposal Loans	85	1	-	(3)	83	-	40	(37)	3	86
Rural Business and Industry Loans	-	-	-	-	-	-	(3)	10	7	7
Rural Development Loan Fund	12	-	-	-	12	-	(6)	3	(3)	9
Rural Economic Development Loans	3	-	-	-	3	-	-	(1)	(1)	2
Total Subsidy Expense, Direct Loans	\$ 112	\$ 235	\$ (32)	\$ 220	\$ 535	\$ 58	\$ 82	\$ (618)	\$ (536)	\$ 57

Table 4. Total Amount of Direct Loans Disbursed (Post-1991)

Direct Loans	<u>FY 2004</u>	<u>FY 2003</u>
Farm and Foreign Agricultural Services Mission Area		
P.L. 480, Title I	\$ 60	\$ 65
Farm Storage Facility Loan Program	61	44
Agriculture Credit Insurance Fund (ACIF)	894	1,084
Mission area total	<u>1,015</u>	<u>1,193</u>
Rural Development Mission Area		
Rural Community Facilities Fund	232	228
Rural Housing Insurance Fund	1,395	1,163
Distance Learning and Telemedicine Loans	58	44
Rural Electrification Loans	2,600	3,007
Rural Telephone Loans	319	256
Rural Telephone Bank	67	56
Rural Water and Waste Disposal Loans	700	754
Rural Business and Industry Loans	-	2
Rural Development Loan Fund	28	26
Rural Economic Development Loans	16	11
Mission area total	<u>5,415</u>	<u>5,547</u>
Total Direct Loans Disbursed	<u><u>\$ 6,430</u></u>	<u><u>\$ 6,740</u></u>

Table 5. Loan Guarantees Outstanding

	Pre - 1992 Outstanding Principal, Face Value	Post - 1991 Outstanding Principal, Face Value	Total Outstanding Principal, Face Value	Pre - 1992 Outstanding Principal, Guaranteed	Post - 1991 Outstanding Principal, Guaranteed	Total Outstanding Principal, Guaranteed
FY 2004						
Guaranteed Loans						
Farm and Foreign Agricultural Services Mission Area						
Agriculture Credit Insurance Fund (ACIF)	\$ 152	\$ 10,224	\$ 10,376	\$ 134	\$ 9,183	\$ 9,317
Export Credit Guarantee Programs	-	5,041	5,041	-	4,833	4,833
Mission area total	<u>152</u>	<u>15,265</u>	<u>15,417</u>	<u>134</u>	<u>14,016</u>	<u>14,150</u>
Rural Development Mission Area						
Rural Community Facilities Fund	-	437	437	-	375	375
Rural Housing Insurance Fund	9	13,549	13,558	8	12,194	12,202
Rural Electrification Loans	255	221	476	255	221	476
Rural Water and Waste Disposal Loans	-	33	33	-	27	27
Rural Business and Industry Loans	41	4,194	4,235	31	3,105	3,136
Rural Cooperative Development Fund	4	-	4	3	-	3
Mission area total	<u>309</u>	<u>18,434</u>	<u>18,743</u>	<u>297</u>	<u>15,922</u>	<u>16,219</u>
Total Guarantees Disbursed	<u>\$ 461</u>	<u>\$ 33,699</u>	<u>\$ 34,160</u>	<u>\$ 431</u>	<u>\$ 29,938</u>	<u>\$ 30,369</u>
FY 2003						
Guaranteed Loans						
Farm and Foreign Agricultural Services Mission Area						
Agriculture Credit Insurance Fund (ACIF)	\$ 201	\$ 10,090	\$ 10,291	\$ 178	\$ 9,061	\$ 9,239
Export Credit Guarantee Programs	-	4,820	4,820	-	4,657	4,657
Agriculture Research Conservation Demonstration (ARCD)	-	24	24	-	24	24
Mission area total	<u>201</u>	<u>14,934</u>	<u>15,135</u>	<u>178</u>	<u>13,742</u>	<u>13,920</u>
Rural Development Mission Area						
Rural Community Facilities Fund	-	373	373	-	319	319
Rural Housing Insurance Fund	12	13,420	13,432	10	12,078	12,088
Rural Electrification Loans	293	224	517	293	224	517
Rural Water and Waste Disposal Loans	-	29	29	-	23	23
Rural Business and Industry Loans	51	4,032	4,083	39	2,976	3,015
Rural Cooperative Development Fund	4	-	4	3	-	3
Mission area total	<u>360</u>	<u>18,078</u>	<u>18,438</u>	<u>345</u>	<u>15,620</u>	<u>15,965</u>
Total Guarantees Disbursed	<u>\$ 561</u>	<u>\$ 33,012</u>	<u>\$ 33,573</u>	<u>\$ 523</u>	<u>\$ 29,362</u>	<u>\$ 29,885</u>

Table 6. Liability for Loan Guarantees (Present Value Method for Pre-1992 Guarantees)

FY 2004	Liabilities for Losses on Pre- 1992 Guarantees Present Value	Liabilities for Loan Guarantees on Post- 1991 Guarantees Present Value	Total Liabilities for Loan Guarantees
Liability for Loan Guarantees			
Farm and Foreign Agricultural Services Mission Area			
Export Credit Guarantee Programs	\$ -	\$ 240	\$ 240
Agriculture Credit Insurance Fund (ACIF)	<u>2</u>	<u>162</u>	<u>164</u>
Total Mission area	<u>2</u>	<u>402</u>	<u>404</u>
Rural Development Mission Area			
Rural Community Facilities Fund	-	7	7
Rural Housing Insurance Fund	-	440	440
Rural Business and Industry Loans	<u>3</u>	<u>334</u>	<u>337</u>
Total Mission area	<u>3</u>	<u>781</u>	<u>784</u>
Total Liability for Loan Guarantees	<u>\$ 5</u>	<u>\$ 1,183</u>	<u>\$ 1,188</u>
FY 2003	Liabilities for Losses on Pre- 1992 Guarantees Present Value	Liabilities for Loan Guarantees on Post- 1991 Guarantees Present Value	Total Liabilities for Loan Guarantees
Liability for Loan Guarantees			
Farm and Foreign Agricultural Services Mission Area			
Export Credit Guarantee Programs	\$ -	\$ 22	\$ 22
Agriculture Credit Insurance Fund (ACIF)	<u>4</u>	<u>130</u>	<u>134</u>
Total Mission area	<u>4</u>	<u>152</u>	<u>156</u>
Rural Development Mission Area			
Rural Community Facilities Fund	-	1	1
Rural Housing Insurance Fund	-	399	399
Rural Business and Industry Loans	<u>2</u>	<u>325</u>	<u>327</u>
Total Mission area	<u>2</u>	<u>725</u>	<u>727</u>
Total Liability for Loan Guarantees	<u>\$ 6</u>	<u>\$ 877</u>	<u>\$ 883</u>

Table 7. Schedule for Reconciling Loan Guarantee Liability

	FY 2004	FY 2003
Beginning balance of the loan guarantee liability	\$ 876	\$ 1,034
Add: Subsidy expense for guaranteed loans disbursed during the year by component		
Interest rate differential costs	35	45
Default costs (net of recoveries)	481	339
Fees and other collections	(105)	(141)
Total of the above subsidy expense components	411	243
Adjustments		
Fees received	116	96
Interest supplements paid	(4)	(47)
Claim payments to lenders	(372)	(301)
Interest accumulation on the liability balance	31	48
Other	847	(115)
Ending balance of the subsidy cost allowance before reestimates	1,905	958
Add or subtract subsidy reestimates by component		
Interest rate reestimate	(202)	32
Technical/default reestimate	(520)	(114)
Total of the above reestimate components	(722)	(82)
Ending balance of the loan guarantee liability	\$ 1,183	\$ 876

Table 8. Guarantee Loan Subsidy Expense by Program and Component

FY 2004

	Interest		Fees and Other		Subtotal	Total Modifi- cations	Interest Rate Re- estimates	Technical Re- estimates	Total Re- estimates	Total Subsidy Expense
	Supplement	Defaults	Collections	Other						
Guaranteed Loan Programs										
Export Credit Guarantee Programs	\$ -	\$ 271	\$ (25)	\$ -	\$246	\$ -	\$ (259)	\$ (549)	\$ (808)	\$ (562)
Farm Operating—Unsubsidized	-	40	(8)	-	32	-	5	(25)	(20)	12
Farm Operating—Subsidized	27	9	(2)	-	34	-	1	-	1	35
Farm Ownership—Unsubsidized	-	15	(10)	-	5	-	3	(7)	(4)	1
Rural Community Facilities	-	-	(1)	-	(1)	-	-	13	13	12
Rural Housing Insurance Fund	8	90	(46)	-	52	-	40	(1)	39	91
Rural Business and Industry Loans	-	54	(12)	-	42	-	8	49	57	99
Total Loan Guarantee Subsidy Expense	\$ 35	\$ 479	\$ (104)	\$ -	\$410	\$ -	\$ (202)	\$ (520)	\$ (722)	\$ (312)

FY 2003

	Interest		Fees and Other		Subtotal	Total Modifi- cations	Interest Rate Re- estimates	Technical Re- estimates	Total Re- estimates	Total Subsidy Expense
	Supplement	Defaults	Collections	Other						
Guaranteed Loan Programs										
Export Credit Guarantee Programs	\$ -	\$ 93	\$ (8)	\$ -	\$ 85	\$ -	\$ 4	\$ (205)	\$ (201)	\$ (116)
Farm Operating—Unsubsidized	-	41	(9)	-	32	-	2	(21)	(19)	13
Farm Operating—Subsidized	39	14	(4)	-	49	-	(4)	(14)	(18)	31
Farm Ownership—Unsubsidized	-	20	(11)	-	9	-	4	(6)	(2)	7
Rural Community Facilities	-	-	(1)	-	(1)	-	-	(2)	(2)	(3)
Rural Housing Insurance Fund	6	129	(98)	-	37	-	13	58	71	108
Rural Business and Industry Loans	-	42	(11)	-	31	-	12	75	87	118
Total Loan Guarantee Subsidy Expense	\$ 45	\$ 339	\$ (142)	\$ -	\$242	\$ -	\$ 31	\$ (115)	\$ (84)	\$ 158

Table 9. Guaranteed Loans Disbursed

	FY 2004		FY 2003	
	Principal, Face Value Disbursed	Principal, Guaranteed Disbursed	Principal, Face Value Disbursed	Principal, Guaranteed Disbursed
Guaranteed Loans				
Farm and Foreign Agricultural Services Mission Area				
Export Credit Guarantee Programs	\$ 3,873	\$ 3,372	\$ 2,770	\$ 2,529
Agriculture Credit Insurance Fund (ACIF)	2,347	2,108	2,592	2,328
Total Mission area	<u>6,220</u>	<u>5,480</u>	<u>5,362</u>	<u>4,857</u>
Rural Development Mission Area				
Rural Community Facilities Fund	135	116	138	117
Rural Housing Insurance Fund	3,420	3,078	2,992	2,693
Rural Electrification Loans	18	18	-	-
Rural Water and Waste Disposal Loans	4	3	3	2
Rural Business and Industry Loans	924	725	654	513
Total Mission area	<u>4,501</u>	<u>3,940</u>	<u>3,787</u>	<u>3,325</u>
Total Guaranteed Loans Disbursed	<u>\$ 10,721</u>	<u>\$ 9,420</u>	<u>\$ 9,149</u>	<u>\$ 8,182</u>

Table 10. Administrative Expenses

	FY 2004	FY 2003
Direct Loan Programs		
P.L. 480, Title 1	\$ 2	\$ 2
Agriculture Credit Insurance Fund (ACIF)	283	277
Rural Development	282	256
Total	<u>\$ 567</u>	<u>\$ 535</u>
Guaranteed Loan Programs		
Export Credit Guarantee Programs	\$ 4	\$ 4
Rural Development	159	155
Total	<u>\$ 163</u>	<u>\$ 159</u>

Table 11. Subsidy Rates for Direct Loans (percentage)

FY 2004	Interest		Fees and Other		Total
	Differential	Defaults	Collections	Other	
Direct Loan Programs					
Farm Storage Facility Loan Program	(0.97)	1.62	(0.11)	0.68	1.22
P.L. 480, Title 1	42.49	24.53	-	11.88	78.90
Farm Operating	(3.05)	16.48	-	0.99	14.42
Farm Ownership	(6.48)	37.56	-	(9.00)	22.08
Emergency Disaster	2.15	18.10	-	(6.42)	13.83
Indian Land Acquisition	(1.02)	0.76	-	(0.52)	(0.78)
Boll Weevil Eradication	(6.73)	1.58	-	(0.92)	(6.07)
Community Facilities Loans	(0.48)	0.19	-	(0.42)	(0.71)
Section 502 Direct Single Family Housing	(19.23)	2.62	-	25.88	9.27
Section 504 Direct Housing Repair	25.08	2.59	-	(0.21)	27.46
Section 203 Credit Sales (SFH)	(21.54)	1.22	-	2.86	(17.46)
Section 514 Farm Labor Housing	42.74	0.03	-	(0.04)	42.73
Section 515 Rural Rental Housing	(20.70)	0.01	-	63.70	43.01
Section 524 Housing Site Development	(4.76)	3.37	-	1.36	(0.03)
Section 523 Self-Help Housing Land	0.13	3.22	-	(0.27)	3.08
Section 209 Credit Sales	(21.32)	0.07	-	65.45	44.20
Electric Municipal	(2.26)	0.03	-	(0.19)	(2.42)
FFB Electric	(1.35)	0.01	-	(0.65)	(1.99)
Direct Electric Hardship	(2.27)	0.03	-	(0.09)	(2.33)
Telephone Treasury	-	0.04	-	0.01	0.05
FFB Telephone	(1.04)	0.11	-	(0.92)	(1.85)
Telephone Hardship	(4.49)	0.02	-	0.03	(4.44)
Rural Telephone Bank	(4.29)	0.02	-	(0.05)	(4.32)
Direct Water and Waste Disposal	3.56	0.09	-	(0.32)	3.33
Intermediary Relending Program	43.27	-	-	-	43.27
Rural Economic Development	19.61	0.04	-	(1.04)	18.61
Electric Treasury	-	0.03	-	(0.09)	(0.06)
Broadband 4%	2.79	2.15	-	-	4.94
Broadband	-	2.28	-	(0.10)	2.18

FY 2003	Interest		Fees and Other		Total
	Differential	Defaults	Collections	Other	
Direct Loan Programs					
Farm Storage Facility Loan Program	(0.88)	2.27	(0.11)	-	1.28
P.L. 480, Title 1	47.24	22.04	-	5.83	75.11
Farm Operating	(4.34)	20.36	-	1.23	17.25
Farm Ownership	(8.17)	27.53	-	(7.75)	11.61
Emergency Disaster	8.48	15.24	-	(3.33)	20.39
Indian Land Acquisition	7.79	8.02	-	(6.86)	8.95
Boll Weevil Eradication	(9.56)	8.35	-	(1.49)	(2.70)
Community Facilities Loans	6.80	0.20	-	(0.76)	6.24
Modular Housing Loans	21.03	(0.10)	-	(3.01)	17.92
Section 502 Direct Single Family Housing	(12.90)	2.68	-	29.59	19.37
Section 504 Direct Housing Repair	28.98	2.27	-	(0.23)	31.02
Section 203 Credit Sales (SFH)	(16.51)	1.17	-	5.76	(9.58)
Section 514 Farm Labor Housing	48.64	0.07	-	0.31	49.02
Section 515 Rural Rental Housing	(13.18)	0.03	-	59.78	46.63
Section 524 Housing Site Development	(4.02)	3.92	-	1.19	1.09
Section 523 Self-Help Housing Land	1.15	3.72	-	(0.46)	4.41
Section 209 Credit Sales	(13.12)	0.03	-	59.77	46.68
Electric Municipal	4.46	-	-	(0.43)	4.03
FFB Electric	(1.26)	0.04	-	(0.60)	(1.82)
Direct Electric Hardship	5.84	-	-	(0.13)	5.71
Telephone Treasury	-	0.02	-	0.03	0.05
FFB Telephone	(1.09)	0.13	-	(1.40)	(2.36)
Telephone Hardship	1.71	-	-	-	1.71
Rural Telephone Bank	2.21	0.02	-	(0.85)	1.38
Direct Water and Waste Disposal	11.77	0.10	-	(0.53)	11.34
Intermediary Relending Program	48.32	-	-	(0.06)	48.26
Rural Economic Development	22.46	0.05	-	(1.15)	21.36
Electric Treasury	-	0.03	-	(0.07)	(0.04)
Distance Learning and Telemedicine	0.41	-	-	(1.56)	(1.15)
Broadband	-	5.21	-	(0.05)	5.16

Table 12. Subsidy Rates for Loan Guarantees (percentage)

FY 2004	Interest		Fees and Other		Total
	Differential	Defaults	Collections	Other	
Guaranteed Loan Programs					
Export Credit Guarantee Program	-	7.48	(0.66)	-	6.82
Farm Operating—Unsubsidized	-	4.23	(0.90)	-	3.33
Farm Operating—Subsidized	10.18	3.48	(0.89)	-	12.77
Farm Ownership—Unsubsidized	-	1.44	(0.90)	-	0.54
Rural Community Facilities Loans	-	0.23	(0.83)	-	(0.60)
Section 538 Multiple Family	9.61	0.56	(4.22)	-	5.95
Section 502 Single Family	-	3.07	(1.50)	-	1.57
NADBANK Loans	-	4.53	(1.59)	-	2.94
Business and Industry Loans	-	6.33	(1.48)	0.01	4.86
Electric	-	0.06	-	-	0.06
Water and Waste Disposal Loans	-	-	(0.90)	-	(0.90)
Local Television	-	8.96	(0.50)	-	8.46
Guaranteed & Broadband Loans	-	3.90	-	-	3.90
Section 502 Single Family- Refinance	-	0.79	(0.50)	-	0.29

FY 2003	Interest		Fees and Other		Total
	Differential	Defaults	Collections	Other	
Guaranteed Loan Programs					
Export Credit Guarantee Program	-	7.64	(0.68)	-	6.96
Farm Operating—Unsubsidized	-	4.07	(0.90)	-	3.17
Farm Operating—Subsidized	9.31	3.38	(0.89)	-	11.80
Farm Ownership—Unsubsidized	-	1.64	(0.89)	-	0.75
Rural Community Facilities Loans	-	0.28	(0.82)	-	(0.54)
Section 538 Multiple Family	8.22	-	(3.72)	-	4.50
Section 502 Single Family	-	2.72	(2.00)	-	0.72
NADBANK Loans	-	6.15	(1.59)	-	4.56
Business and Industry Loans	-	5.45	(1.48)	-	3.97
Electric	-	0.08	-	-	0.08
Water and Waste Disposal Loans	-	-	(0.81)	-	(0.81)
Section 502 Single Family - Refinance	-	0.68	(0.50)	-	0.18

NOTE 8. INVENTORY AND RELATED PROPERTY, NET

In FY 2003, the Departmental Working Capital Fund began recognizing inventory of supplies to be consumed in the production of goods for sale or in the provision of services for a fee. The inventory mainly consists of copier paper, toner and other office supplies purchased in bulk. In FY 2003, the FS changed its method of accounting for operating material and supplies. Previously, FS had capitalized operating materials and supplies when purchased and recognized an expense when consumed in normal operations. Under the new accounting method, operating materials and supplies are expensed when purchased.

Commodity inventory is restricted for the purpose of alleviating distress caused by natural disasters, providing emergency food assistance in developing countries and providing price support and stabilization. Commodity donations and loan forfeitures are estimated to be \$645 and \$25 million in FY 2005, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	FY 2004		FY 2003	
		\$		\$
Inventories		<u>1</u>		<u>2</u>
Commodities:	Volume	Amount	Volume	Amount
	(in millions)		(in millions)	
Corn (In Bushels):				
On hand at the beginning of the year	16	29	18	33
Acquired during the year	19	52	20	57
Disposed of during the year				
Sales	(22)	(58)	(11)	(31)
Donations	-	(1)	(11)	(31)
Other	(1)	-	-	1
On hand at the end of the year	<u>12</u>	<u>22</u>	<u>16</u>	<u>29</u>
Wheat (In Bushels):				
On hand at the beginning of the year	81	290	102	364
Acquired during the year	56	240	84	392
Disposed of during the year				
Sales	(51)	(221)	(65)	(280)
Donations	(4)	(16)	(39)	(193)
Other	(1)	(2)	(1)	7
On hand at the end of the year	<u>81</u>	<u>291</u>	<u>81</u>	<u>290</u>
Nonfat Dry Milk (In Pounds):				
On hand at the beginning of the year	1,440	1,294	1,332	1,279
Acquired during the year	359	288	634	512
Disposed of during the year				
Sales	(381)	(344)	(269)	(257)
Donations	(436)	(388)	(253)	(262)
Other	(321)	(256)	(4)	22
On hand at the end of the year	<u>661</u>	<u>594</u>	<u>1,440</u>	<u>1,294</u>
Sugar (In Pounds):				
On hand at the beginning of the year	-	-	514	101
Acquired during the year	32	8	-	-
Disposed of during the year				
Sales	-	-	(462)	(92)
Other	-	-	(52)	(9)
On hand at the end of the year	<u>32</u>	<u>8</u>	<u>-</u>	<u>-</u>
Tobacco (In Pounds):				
On hand at the beginning of the year	96	278	225	599
Acquired during the year	-	-	-	1
Disposed of during the year				
Sales	(2)	(4)	-	-
Other	(93)	(272)	(129)	(322)
On hand at the end of the year	<u>1</u>	<u>2</u>	<u>96</u>	<u>278</u>
Other:				
On hand at the beginning of the year		93		109
Acquired during the year		871		4,023
Disposed of during the year				
Sales		(689)		(3,804)
Donations		(239)		(244)
Other		(3)		9
On hand at the end of the year		<u>33</u>		<u>93</u>
Allowance for losses		(809)		(1,708)
Total Commodities		<u>141</u>		<u>276</u>
Total Inventory and Related Property, Net		<u>\$ 142</u>		<u>\$ 278</u>

NOTE 9. GENERAL PROPERTY, PLANT AND EQUIPMENT, NET

During FY 2004 the Department implemented the Corporate Property Automated Information System (CPAIS). CPAIS tracks and manages real property assets including owned, leased and General Services Administration (GSA)-assigned property. It serves as the subsidiary ledger for owned property by recording the acquisition, depreciation and disposal of property.

Prior to the CPAIS implementation, depreciation calculations were made based on the actual date an asset was placed into service. CPAIS utilizes the mid-year convention methodology for calculation of depreciation. Additionally, the implementation of CPAIS standardizes the useful life tables for adding structures and their improvements to the system. The useful life table methodology for depreciation calculation is consistent with GSA and OMB standards.

As a result of these changes, an additional \$73 million of depreciation was recorded in the current fiscal year.

In FY 1995–1999 the construction costs of the George Washington Carver Center (GWCC) (a USDA owned building) and the renovations and improvements to the South Building (a GSA-owned building) were expensed. In FY 2004, \$83 million was recorded to capitalize GWCC for \$55 million, and leasehold improvements for the South Building of \$28 million. Accumulated amortization for the building and leasehold improvements of \$23 million was recorded, and prior year expensed costs for the 2 buildings of \$60 million were reversed. An additional \$25 million in depreciation was recorded for the 2 buildings as a result of the conversion to CPAIS.

FY 2004	Useful Life (Years)	Cost	Accumulated Depreciation	Net Book Value
Land and Land Rights		\$ 76	\$ -	\$ 76
Improvements to Land	10 - 50	4,917	2,480	2,437
Construction-in-Progress		438	-	438
Buildings, Improvements and Renovations	15 - 30	1,766	983	783
Other Structures and Facilities	15 - 50	1,544	1,092	452
Equipment	5 - 20	1,842	1,378	464
Assets Under Capital Lease	3 - 20	40	17	23
Leasehold Improvements	10	46	26	20
Internal-Use Software	5 - 8	335	163	172
Internal-Use Software in Development		43	-	43
Other General Property, Plant and Equipment	5 - 15	6	-	6
Total		<u>\$ 11,053</u>	<u>\$ 6,139</u>	<u>\$ 4,914</u>

FY 2003	Useful Life (Years)	Cost	Accumulated Depreciation	Net Book Value
Land and Land Rights		\$ 77	\$ -	\$ 77
Improvements to Land	10 - 50	4,872	2,375	2,497
Construction-in-Progress		320	-	320
Buildings, Improvements and Renovations	15 - 30	1,681	859	822
Other Structures and Facilities	15 - 50	1,516	1,048	468
Equipment	5 - 20	1,937	1,402	535
Assets Under Capital Lease	3 - 20	41	17	24
Leasehold Improvements	10	12	8	4
Internal-Use Software	5 - 8	264	130	134
Internal-Use Software in Development		32	-	32
Other General Property, Plant and Equipment	5 - 15	6	-	6
Total		<u>\$ 10,758</u>	<u>\$ 5,839</u>	<u>\$ 4,919</u>

NOTE 10. OTHER ASSETS

In FY 2004 and 2003, other assets include investments of \$35 million in trust for loan asset sales.

	FY 2004	FY 2003
Intragovernmental:		
Advances to Others	\$ 1	\$ 4
Prepayments	-	3
Subtotal Intragovernmental	<u>1</u>	<u>7</u>
With the Public:		
Advances to Others	51	107
Prepayments	1	1
Other Assets	37	37
Subtotal With the Public	<u>89</u>	<u>145</u>
Total Other Assets	<u>\$ 90</u>	<u>\$ 152</u>

NOTE 11. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

In FY 2004 and 2003, other liabilities not covered by budgetary resources includes accrued rental payments under the Conservation Reserve Program (CRP) of \$1,663 and \$1,634 million, unfunded leave of \$526 and \$524 million, and contract dispute claims payable to Treasury's Judgment Fund of \$7 million and \$192 million, respectively. Estimated losses on insurance claims were covered by budgetary resources in FY 2004 due to sufficient premium received. FY 2003 includes estimated losses on insurance claims of \$1,400 million not covered by budgetary resources.

	FY 2004	FY 2003
Intragovernmental:		
Other	\$ 168	\$ 346
Subtotal Intragovernmental	<u>168</u>	<u>346</u>
With the Public:		
Federal employee and veterans' benefits	836	940
Environmental and disposal liabilities	23	8
Benefits due and payable	36	-
Other	2,634	3,847
Total With the Public	<u>3,529</u>	<u>4,795</u>
Total liabilities not covered by budgetary resources	<u>3,697</u>	<u>5,141</u>
Total liabilities covered by budgetary resources	103,133	110,522
Total liabilities	<u>\$ 106,830</u>	<u>\$ 115,663</u>

NOTE 12. DEBT

	Beginning Balance	Net Borrowing	Ending Balance
FY 2004			
Intragovernmental:			
Debt to the Treasury	\$ 53,440	\$ (6,547)	\$ 46,893
Debt to the Federal Financing Bank	22,700	(540)	22,160
	<u>76,140</u>	<u>(7,087)</u>	<u>69,053</u>
Agency Debt:			
Held by the Public	80	(79)	1
Total Debt	<u>\$ 76,220</u>	<u>\$ (7,166)</u>	<u>\$ 69,054</u>
FY 2003			
Intragovernmental:			
Debt to the Treasury	\$ 53,555	\$ (115)	\$ 53,440
Debt to the Federal Financing Bank	22,379	321	22,700
	<u>75,934</u>	<u>206</u>	<u>76,140</u>
Agency Debt:			
Held by the Public	84	(4)	80
Total Debt	<u>\$ 76,018</u>	<u>\$ 202</u>	<u>\$ 76,220</u>

NOTE 13. ENVIRONMENTAL AND DISPOSAL LIABILITIES

USDA is subject to the Comprehensive Environmental Response, Compensation, and Liability Act, the Clean Water Act, and the Resource Conservation and Recovery Act for cleanup of hazardous waste. FS and CCC estimate the liability for total cleanup costs for sites known to contain hazardous waste to be \$8 million and \$15 million in FY 2004, and \$8 and \$13 million in FY 2003, respectively, based on actual cleanup costs at similar sites. These estimates will change as new sites are discovered, remedy standards change and new technology is introduced.

NOTE 14. OTHER LIABILITIES

As of September 30, 2004, and 2003, other liabilities include estimated losses on crop insurance claims of \$2,320 million and \$2,803 million respectively; stock payable to RTB borrowers of \$1,343 million and \$1,309 million respectively; amounts payable to Treasury’s General Fund due to subsidy downward reestimates of \$399 million and \$1,454 million respectively; crop insurance premium subsidy deficiency reserve of \$420 million and \$342 million respectively; and underwriting gains on crop insurance due companies of \$784 million and \$167 million respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FY 2004	Non-Current	Current	Total
Intragovernmental:			
Other Accrued Liabilities	\$ 19	\$ 582	\$ 601
Employer Contributions and Payroll Taxes	1	35	36
Unfunded FECA Liability	39	124	163
Advances from Others	3	15	18
Liability for Deposit Funds, Clearing Accounts	(1)	83	82
Resources Payable to Treasury	-	17,469	17,469
Custodial Liability	34	59	93
Other Liabilities	-	399	399
Subtotal Intragovernmental	<u>95</u>	<u>18,766</u>	<u>18,861</u>
With the Public:			
Other Accrued Liabilities	11	5,997	6,008
Accrued Funded Payroll and Leave	2	37	39
Unfunded Leave	31	495	526
Other Unfunded Employment Related Liability	-	43	43
Advances from Others	-	41	41
Deferred Credits	-	309	309
Liability for Deposit Funds, Clearing Accounts	20	614	634
Contingent Liabilities	1	9	10
Capital Lease Liability	-	23	23
Accounts Payable from Canceled Appropriations	1	-	1
Custodial Liability	-	16	16
Other Liabilities	1,361	3,618	4,979
Subtotal With the Public	<u>1,427</u>	<u>11,202</u>	<u>12,629</u>
Total Other Liabilities	<u>\$ 1,522</u>	<u>\$ 29,968</u>	<u>\$ 31,490</u>
FY 2003			
	Non-Current	Current	Total
Intragovernmental:			
Other Accrued Liabilities	\$ 16	\$ 1,030	\$ 1,046
Employer Contributions and Payroll Taxes	-	26	26
Unfunded FECA Liability	41	123	164
Advances from Others	2	21	23
Liability for Deposit Funds, Clearing Accounts	1	186	187
Resources Payable to Treasury	-	16,981	16,981
Custodial Liability	41	(14)	27
Other Liabilities	1	1,463	1,464
Subtotal Intragovernmental	<u>102</u>	<u>19,816</u>	<u>19,918</u>
With the Public:			
Other Accrued Liabilities	6	5,790	5,796
Accrued Funded Payroll and Leave	(2)	33	31
Unfunded Leave	29	495	524
Other Unfunded Employment Related Liability	-	427	427
Advances from Others	7	30	37
Deferred Credits	-	256	256
Liability for Deposit Funds, Clearing Accounts	24	904	928
Contingent Liabilities	9	9	18
Capital Lease Liability	-	23	23
Accounts Payable from Canceled Appropriations	5	-	5
Custodial Liability	-	128	128
Other Liabilities	1,327	3,361	4,688
Subtotal With the Public	<u>1,405</u>	<u>11,456</u>	<u>12,861</u>
Total Other Liabilities	<u>\$ 1,507</u>	<u>\$ 31,272</u>	<u>\$ 32,779</u>

NOTE 15. LEASES

USDA activities based in the Washington D.C. area are located in General Services Administration (GSA) leased facilities and USDA-owned buildings. The USDA Headquarters complex (Whitten Building, South Building and Cotton Annex) is a Government-owned facility, which is part of the GSA Federal Buildings Inventory. As the result of a 1998 Agreement between GSA and USDA, a moratorium was placed on the rental billings for the Headquarters complex beginning in FY 1999.

Pursuant to the agreement, USDA retains that portion of GSA rental payments and makes it available for the operation, maintenance and repair of the building. It also expends such funds directly for the operation, maintenance or repair of the building or facility. At current market rate, the estimated yearly rental payment for the above-mentioned space would be \$54 million. This agreement remains in effect, and as result, USDA activities located in the Headquarters complex are not billed for rental costs.

USDA has undertaken major projects to improve and maintain some of these buildings that are over 60 years old and in need of repair. In FY 2003, USDA received an appropriation to perform these major improvements for this modernization program of \$34 million.

FY 2004

Capital Leases:

Summary of Assets Under Capital Leases:

Land and Building	\$	40
Accumulated Amortization		17

Future Payments Due:

Fiscal Year	Land & Buildings
2005	11
2006	11
2007	11
2008	10
2009	10
After 5 Years	88
Total Future Lease Payments	141
Less: Imputed Interest	38
Less: Executory Costs	48
Less: Lease Renewal Options	32
Net Capital Lease Liability	<u>\$ 23</u>

Lease liabilities covered by budgetary resources \$ 23

Operating Leases:

Future Payments Due:

Fiscal Year	Land & Buildings	Machinery & Equipment	Totals
2005	101	1	102
2006	93	1	94
2007	85	1	86
2008	75	-	75
2009	67	-	67
After 5 Years	360	-	360
Total Future Lease Payments	<u>\$ 781</u>	<u>\$ 3</u>	<u>\$ 784</u>

FY 2003

Capital Leases:

Land and Building	\$	41
Accumulated Amortization		17

Future Payments Due:

Fiscal Year	Land & Buildings
2004	11
2005	11
2006	11
2007	11
2008	10
After 5 Years	97
Total Future Lease Payments	151
Less: Imputed Interest	41
Less: Executory Costs	24
Less: Lease Renewal Options	63
Net Capital Lease Liability	<u>\$ 23</u>

Lease liabilities covered by budgetary resources \$ 23

Operating Leases:

Future Payments Due:

Fiscal Year	Land & Buildings	Machinery & Equipment	Totals
2004	85	1	86
2005	74	1	75
2006	67	-	67
2007	61	-	61
2008	53	-	53
After 5 Years	331	-	331
Total Future Lease Payments	<u>\$ 671</u>	<u>\$ 2</u>	<u>\$ 673</u>

NOTE 16. COMMITMENTS AND CONTINGENCIES

USDA is subject to various claims and contingencies related to lawsuits as well as commitments under contractual and other commercial obligations.

For cases in which payment has been deemed probable and for which the amount of potential liability has been estimated, \$10 million and \$19 million has been accrued in the financial statements as of September 30, 2004, and 2003, respectively.

No amounts have been accrued in the financial statements for claims where the amount or probability of judgment is uncertain. The Department's potential liability for these claims ranges from \$475 million to \$514 million and \$211 million as of September 30, 2004, and 2003, respectively.

In FY 2004 and 2003, commitments under contractual and other commercial obligations were estimated to be \$66,000 million and \$52,000 million respectively. These consist of \$32,000 million and \$20,000 million in rental payments under the CRP, \$2,000 million and \$3,000 million in loan guarantees, and \$18,000 million and \$15,000 million in direct loans, respectively. Additionally, undelivered orders were \$14,000 million for FY 2004 and 2003.

RD has determined that no adequate funds were accrued to address future maintenance costs for the multiple family housing portfolio for 2003. For the next 5 years, approximately 4,250 properties and 85,000 apartment units will need general modernization. Costs for this process are expected in the hundreds of millions of dollars.

In FY 2003, one of the FCIC's reinsured companies, American Growers Insurance Company (AGIC) was placed under an order of supervision by the Nebraska Department of Insurance. FCIC is working with the Nebraska Department of Insurance and AGIC management to ensure that all outstanding policy claims will be paid and service to producers will continue. Approximately \$580 million of the estimated \$3,000 million losses on insurance claims for the 2002 crop year were related to business written by AGIC. While additional costs may be incurred by FCIC for other administrative costs of AGIC, they are not quantifiable at this time.

NOTE 17. SUBORGANIZATION PROGRAM COSTS/PROGRAM COSTS BY SEGMENT

FY 2004	FNCS	FFAS	NRE	RD	REE	MRP	FSIS	DO	Inter-Mission Area Elimination	Total
Program Costs:										
Intragovernmental Gross Costs:										
Benefit Program Costs	\$ 16	\$ 170	\$ 478	\$ 68	\$ 110	\$ 94	\$ 109	\$ 47	\$ -	\$ 1,092
Imputed Costs	64	198	365	98	96	114	82	27	(415)	\$ 629
Reimbursable Costs	48	293	788	69	42	130	43	255	(477)	1,191
Borrowing Interest Expense	-	598	-	3,104	-	-	-	-	-	3,702
Other	-	(183)	1	-	1	-	-	(3)	-	(184)
Total Intragovernmental Gross Costs	128	1,076	1,632	3,339	249	338	234	326	(892)	6,430
Less: Intragovernmental Earned Revenues	1	410	181	349	97	27	8	396	(476)	993
Intragovernmental Net Costs	127	666	1,451	2,990	152	311	226	(70)	(416)	5,437
Gross Costs With the Public:										
Grants	44,301	11,790	1,231	1,692	1,082	56	45	-	-	60,197
Loan Cost Subsidies	-	(1,016)	-	300	-	-	-	(1)	-	(717)
Indemnities	-	2,829	(3)	(8)	1	40	-	2	-	2,861
Commodity Program Costs	613	2,276	-	-	-	-	-	-	-	2,889
Stewardship Land Acquisition	-	26	87	-	-	-	-	-	-	113
Other	142	839	4,996	423	1,389	1,781	684	638	-	10,892
Total Gross Costs with the Public	45,056	16,744	6,311	2,407	2,472	1,877	729	638	-	76,234
Less: Earned Revenues from the Public	17	2,728	554	3,620	36	545	118	29	-	7,647
Net Costs with the Public	45,039	14,016	5,757	(1,213)	2,436	1,332	611	609	-	68,587
Net Cost of Operations (Notes 17, 18 & 19)	\$ 45,166	\$ 14,682	\$ 7,208	\$ 1,777	\$ 2,588	\$ 1,643	\$ 837	\$ 537	\$ (416)	\$ 74,022
FY 2003	FNCS	FFAS	NRE	RD	REE	MRP	FSIS	DO	Inter-Mission Area Elimination	Total
Program Costs:										
Intragovernmental Gross Costs:										
Benefit Program Costs	\$ 16	\$ 162	\$ 444	\$ 64	\$ 101	\$ 98	\$ 105	\$ 44	\$ -	\$ 1,034
Imputed Costs	60	179	338	95	86	111	79	25	(392)	581
Reimbursable Costs	42	155	479	64	59	1,579	38	212	(428)	2,200
Borrowing Interest Expense	-	692	-	3,186	-	-	-	-	-	3,878
Other	-	193	-	-	-	(1)	(1)	4	-	195
Total Intragovernmental Gross Costs	118	1,381	1,261	3,409	246	1,787	221	285	(820)	7,888
Less: Intragovernmental Earned Revenues	2	419	356	322	39	16	3	344	(428)	1,073
Intragovernmental Net Costs	116	962	905	3,087	207	1,771	218	(59)	(392)	6,815
Gross Costs With the Public:										
Grants	40,537	19,016	848	1,530	1,055	71	41	-	-	63,098
Loan Cost Subsidies	-	(1,633)	-	855	-	-	-	-	-	(778)
Indemnities	-	3,768	12	8	1	59	-	-	-	3,848
Commodity Program Costs	798	5,769	-	-	-	-	-	-	-	6,567
Stewardship Land Acquisition	-	48	191	-	-	-	-	-	-	239
Other	161	2,296	5,635	2,257	1,345	1,241	697	595	-	14,227
Total Gross Costs with the Public	41,496	29,264	6,686	4,650	2,401	1,371	738	595	-	87,201
Less: Earned Revenues from the Public	54	5,572	492	3,998	28	504	108	11	-	10,767
Net Costs with the Public	41,442	23,692	6,194	652	2,373	867	630	584	-	76,434
Net Cost of Operations (Notes 17, 18 & 19)	\$ 41,558	\$ 24,654	\$ 7,099	\$ 3,739	\$ 2,580	\$ 2,638	\$ 848	\$ 525	\$ (392)	\$ 83,249

NOTE 17. SUBORGANIZATION PROGRAM COSTS/PROGRAM COSTS BY SEGMENT**Food, Nutrition and Consumer Service**

FY 2004	Child Nutrition	Food Stamp	Food Donations	Women, Infants, and Children	Commodity Assistance	Total
Program Costs						
Intragovernmental Gross Costs						
Benefit Program Costs	\$ -	\$ -	\$ -	\$ -	\$ 16	\$ 16
Imputed Costs	-	-	-	-	64	64
Reimbursable Costs	11	23	5	1	8	48
Total Intragovernmental Gross Costs	11	23	5	1	88	128
Less: Intragovernmental Earned Revenue	-	-	-	-	1	1
Intragovernmental Net Costs	11	23	5	1	87	127
Gross Costs With the Public						
Grants	10,941	28,372	26	4,865	97	44,301
Commodity Program Costs	347	130	47	-	89	613
Other	15	16	2	2	107	142
Total Gross Costs with the Public	11,303	28,518	75	4,867	293	45,056
Less: Earned Revenues from the Public	-	17	-	-	-	17
Net Costs with the Public	11,303	28,501	75	4,867	293	45,039
Net Cost of Operations	\$ 11,314	\$ 28,524	\$ 80	\$ 4,868	\$ 380	\$ 45,166
FY 2003						
Program Costs						
Intragovernmental Gross Costs						
Benefit Program Costs	\$ -	\$ -	\$ 16	\$ -	\$ -	\$ 16
Imputed Costs	-	-	60	-	-	60
Reimbursable Costs	5	21	15	1	-	42
Total Intragovernmental Gross Costs	5	21	91	1	-	118
Less: Intragovernmental Earned Revenue	-	-	2	-	-	2
Intragovernmental Net Costs	5	21	89	1	-	116
Gross Costs With the Public						
Grants	10,375	25,431	85	4,553	93	40,537
Commodity Program Costs	534	152	45	-	67	798
Other	17	25	117	1	1	161
Total Gross Costs with the Public	10,926	25,608	247	4,554	161	41,496
Less: Earned Revenues from the Public	-	55	(1)	-	-	54
Net Costs with the Public	10,926	25,553	248	4,554	161	41,442
Net Cost of Operations	\$ 10,931	\$ 25,574	\$ 337	\$ 4,555	\$ 161	\$ 41,558

NOTE 17. SUBORGANIZATION PROGRAM COSTS/PROGRAM COSTS BY SEGMENT

Farm and Foreign Agricultural Services

FY 2004	Commodity Operations	Income Support	Conservation Programs	Foreign Programs	Farm Loan Programs	Crop Insurance	Other	Intra-Mission Area Elimination	Total
Program Costs									
Intragovernmental Gross Costs									
Benefit Program Costs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6	\$ 164	\$ -	\$ 170
Imputed Costs	40	766	175	11	-	11	194	(999)	198
Reimbursable Costs	-	2	12	21	283	43	(13)	(55)	293
Borrowing Interest Expense	(1)	96	17	207	277	-	2	-	598
Other	4	-	-	(187)	-	-	-	-	(183)
Total Intragovernmental Gross Costs	43	864	204	52	560	60	347	(1,054)	1,076
Less: Intragovernmental Earned Revenue	6	7	-	122	136	-	191	(52)	410
Intragovernmental Net Costs	37	857	204	(70)	424	60	156	(1,002)	666
Gross Costs With the Public									
Grants	-	9,235	2,068	306	4	-	177	-	11,790
Loan Cost Subsidies	-	10	-	(988)	(38)	-	-	-	(1,016)
Indemnities	-	-	-	-	-	2,829	-	-	2,829
Commodity Program Costs	2,276	-	-	-	-	-	-	-	2,276
Stewardship Land Acquisition	-	-	26	-	-	-	-	-	26
Other	(899)	63	(6)	(120)	(319)	981	1,139	-	839
Total Gross Costs with the Public	1,377	9,308	2,088	(802)	(353)	3,810	1,316	-	16,744
Less: Earned Revenues from the Public	776	114	1	616	457	745	19	-	2,728
Net Costs with the Public	601	9,194	2,087	(1,418)	(810)	3,065	1,297	-	14,016
Net Cost of Operations	\$ 638	\$ 10,051	\$ 2,291	\$ (1,488)	\$ (386)	\$ 3,125	\$ 1,453	\$ (1,002)	\$ 14,682
FY 2003									
Program Costs									
Intragovernmental Gross Costs:	\$ -		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Benefit Program Costs	-	-	-	-	-	6	156	-	162
Imputed Costs	31	711	143	8	15	11	159	(899)	179
Reimbursable Costs	-	79	38	(17)	278	32	161	(416)	155
Borrowing Interest Expense	13	136	19	179	343	-	2	-	692
Other	5	-	-	188	-	-	-	-	193
Total Intragovernmental Gross Costs	49	926	200	358	636	49	478	(1,315)	1,381
Less: Intragovernmental Earned Revenue	7	8	-	99	221	-	481	(397)	419
Intragovernmental Net Costs	42	918	200	259	415	49	(3)	(918)	962
Gross Costs With the Public									
Grants	-	16,123	1,984	695	4	-	211	-	19,017
Loan Cost Subsidies	-	(7)	-	(1,121)	(505)	-	-	-	(1,633)
Indemnities	-	-	-	-	-	3,768	-	-	3,768
Commodity Program Costs	5,770	-	-	-	-	-	-	-	5,770
Stewardship Land Acquisition	-	-	48	-	-	-	-	-	48
Other	(55)	83	(7)	(553)	773	844	1,210	-	2,295
Total Gross Costs with the Public	5,715	16,116	2,025	(979)	272	4,612	1,421	-	29,265
Less: Earned Revenues from the Public	3,212	102	(1)	491	660	1,072	36	-	5,572
Net Costs with the Public	2,503	16,014	2,026	(1,470)	(388)	3,540	1,385	-	23,693
Net Cost of Operations	\$ 2,545	\$ 17,015	\$ 2,226	\$ (1,211)	\$ 27	\$ 3,589	\$ 1,382	\$ (918)	\$ 24,655

NOTE 17. SUBORGANIZATION PROGRAM COSTS/PROGRAM COSTS BY SEGMENT

Natural Resources and Environment

FY 2004	National Forests and Grasslands	Forest Research	State and Private Forestry	Wildland Fire Management	Working Capital Fund	Natural Resources Conservation	Intra-Mission Area Elimination	Total
Program Costs								
Intragovernmental Gross Costs								
Benefit Program Costs	\$ 337	\$ 1	\$ -	\$ 11	\$ 1	\$ 128	\$ -	\$ 478
Imputed Costs	243	-	-	-	-	122	-	365
Reimbursable Costs	385	39	122	188	(121)	177	(2)	788
Other	1	-	-	-	-	-	-	1
Total Intragovernmental Gross Costs	966	40	122	199	(120)	427	(2)	1,632
Less: Intragovernmental Earned Revenue	78	24	7	10	2	62	(2)	181
Intragovernmental Net Costs	888	16	115	189	(122)	365	-	1,451
Gross Costs With the Public								
Grants	709	2	169	11	-	340	-	1,231
Indemnities	(10)	-	-	6	-	1	-	(3)
Stewardship Land Acquisition	87	-	-	-	-	-	-	87
Other	1,628	296	126	1,467	221	1,258	-	4,996
Total Gross Costs with the Public	2,414	298	295	1,484	221	1,599	-	6,311
Less: Earned Revenues from the Public	413	2	-	52	71	16	-	554
Net Costs with the Public	2,001	296	295	1,432	150	1,583	-	5,757
Net Cost of Operations	2,889	312	410	1,621	28	1,948	-	7,208
FY 2003								
FY 2003	National Forests and Grasslands	Forest Research	State and Private Forestry	Wildland Fire Management	Working Capital Fund	Natural Resources Conservation	Intra-Mission Area Elimination	Total
Program Costs								
Intragovernmental Gross Costs								
Benefit Program Costs	\$ 315	\$ 1	\$ -	\$ 9	\$ 1	\$ 118	\$ -	\$ 444
Imputed Costs	229	-	-	-	-	109	-	338
Reimbursable Costs	297	24	13	202	(145)	90	(2)	479
Total Intragovernmental Gross Costs	841	25	13	211	(144)	317	(2)	1,261
Less: Intragovernmental Earned Revenue	130	48	9	128	-	43	(2)	356
Intragovernmental Net Costs	711	(23)	4	83	(144)	274	-	905
Gross Costs With the Public								
Grants	421	6	237	7	-	177	-	848
Indemnities	10	-	-	1	-	1	-	12
Stewardship Land Acquisition	191	-	-	-	-	-	-	191
Other	2,036	280	130	1,733	347	1,109	-	5,635
Total Gross Costs with the Public	2,658	286	367	1,741	347	1,287	-	6,686
Less: Earned Revenues from the Public	286	28	1	104	62	11	-	492
Net Costs with the Public	2,372	258	366	1,637	285	1,276	-	6,194
Net Cost of Operations	\$ 3,083	\$ 235	\$ 370	\$ 1,720	\$ 141	\$ 1,550	\$ -	\$ 7,099

NOTE 17. SUBORGANIZATION PROGRAM COSTS/PROGRAM COSTS BY SEGMENT

Rural Development

FY 2004	Mortgage Credit	Housing Assistance	Area and Regional Development	Energy Supply Conservation	Agricultural Research	Total
Program Costs						
Intragovernmental Gross Costs						
Benefit Program Costs	\$ 41	\$ 4	\$ 18	\$ 5	\$ -	\$ 68
Imputed Costs	60	6	25	7	-	98
Reimbursable Costs	42	4	18	5	-	69
Borrowing Interest Expense	856	-	562	1,686	-	3,104
Total Intragovernmental Gross Costs	999	14	623	1,703	-	3,339
Less: Intragovernmental Earned Revenue	128	1	147	73	-	349
Intragovernmental Net Costs	871	13	476	1,630	-	2,990
Gross Costs With the Public						
Grants	-	875	815	-	2	1,692
Loan Cost Subsidies	275	10	168	(153)	-	300
Indemnities	(5)	-	(2)	(1)	-	(8)
Other	273	29	188	(67)	-	423
Total Gross Costs with the public	543	914	1,169	(221)	2	2,407
Less: Earned Revenues from the Public	1,280	-	624	1,716	-	3,620
Net Costs with the Public	(737)	914	545	(1,937)	2	(1,213)
Net Cost of Operations	\$ 134	\$ 927	\$ 1,021	\$ (307)	\$ 2	\$ 1,777
FY 2003						
Program Costs						
Intragovernmental Gross Costs:						
Benefit Program Costs	\$ 39	\$ 4	\$ 17	\$ 4	\$ -	\$ 64
Imputed Costs	58	5	25	7	-	95
Reimbursable Costs	39	4	16	5	-	64
Borrowing Interest Expense	892	-	586	1,708	-	3,186
Total Intragovernmental Gross Costs	1,028	13	644	1,724	-	3,409
Less: Intragovernmental Earned Revenue	101	1	142	78	-	322
Intragovernmental Net Costs	927	12	502	1,646	-	3,087
Gross Costs With the Public						
Grants	1	793	732	-	4	1,530
Loan Cost Subsidies	153	2	226	474	-	855
Indemnities	5	-	2	1	-	8
Other	1,217	27	601	412	-	2,257
Total Gross Costs with the Public	1,376	822	1,561	887	4	4,650
Less: Earned Revenues from the Public	1,482	-	607	1,909	-	3,998
Net Costs with the Public	(106)	822	954	(1,022)	4	652
Net Cost of Operations	\$ 821	\$ 834	\$ 1,456	\$ 624	\$ 4	\$ 3,739

NOTE 17. SUBORGANIZATION PROGRAM COSTS/PROGRAM COSTS BY SEGMENT

Research, Education and Economics

FY 2004	Agricultural Research	Economic Research	National Agricultural Statistics	Cooperative State Research Education and Extension	Intra-Mission Area Elimination	Total
Program Costs						
Intragovernmental Gross Costs						
Benefit Program Costs	\$ 88	\$ 5	\$ 12	\$ 5	\$ -	\$ 110
Imputed Costs	64	9	15	8	-	96
Reimbursable Costs	21	13	14	20	(26)	42
Other	-	1	-	-	-	1
Total Intragovernmental Gross Costs	173	28	41	33	(26)	249
Less: Intragovernmental Earned Revenue	61	2	16	44	(26)	97
Intragovernmental Net Costs	112	26	25	(11)	-	152
Gross Costs With the Public						
Grants	19	1	-	1,062	-	1,082
Indemnities	1	-	-	-	-	1
Other	1,181	52	115	41	-	1,389
Total Gross Costs with the Public	1,201	53	115	1,103	-	2,472
Less: Earned Revenues from the Public	24	-	3	9	-	36
Net Costs with the Public	1,177	53	112	1,094	-	2,436
Net Cost of Operations	\$ 1,289	\$ 79	\$ 137	\$ 1,083	\$ -	\$ 2,588
FY 2003						
Program Costs						
Intragovernmental Gross Costs:						
Benefit Program Costs	\$ 80	\$ 5	\$ 11	\$ 5	\$ -	\$ 101
Imputed Costs	56	8	14	8	-	86
Reimbursable Costs	40	18	24	34	(57)	59
Total Intragovernmental Gross Costs	176	31	49	47	(57)	246
Less: Intragovernmental Earned Revenue	71	3	12	10	(57)	39
Intragovernmental Net Costs	105	28	37	37	-	207
Gross Costs With the Public						
Grants	30	2	-	1,023	-	1,055
Indemnities	1	-	-	-	-	1
Other	1,102	51	115	77	-	1,345
Total Gross Costs with the Public	1,133	53	115	1,100	-	2,401
Less: Earned Revenues from the Public	11	(1)	3	15	-	28
Net Costs with the Public	1,122	54	112	1,085	-	2,373
Net Cost of Operations	\$ 1,227	\$ 82	\$ 149	\$ 1,122	\$ -	\$ 2,580

NOTE 17. SUBORGANIZATION PROGRAM COSTS/PROGRAM COSTS BY SEGMENT

Marketing and Regulatory Programs

			Grain Inspection, Packers and Stockyards	Intra-Mission Area Elimination	Total
FY 2004					
	Agricultural Marketing	Animal and Plant Health Inspection			
Program Costs					
Intragovernmental Gross Costs					
Benefit Program Costs	\$ 27	\$ 63	\$ 4	\$ -	\$ 94
Imputed Costs	27	77	10	-	114
Reimbursable Costs	32	101	5	(8)	130
Total Intragovernmental Gross Costs	86	241	19	(8)	338
Less: Intragovernmental Earned Revenue	2	31	2	(8)	27
Intragovernmental Net Costs	84	210	17	-	311
Grants	4	52	-	-	56
Indemnities	-	40	-	-	40
Other	836	888	57	-	1,781
Total Gross Costs with the Public	840	980	57	-	1,877
Less: Earned Revenues from the Public	178	332	35	-	545
Net Costs with the Public	662	648	22	-	1,332
Net Cost of Operations	\$ 746	\$ 858	\$ 39	\$ -	\$ 1,643
FY 2003					
	Agricultural Marketing	Animal and Plant Health Inspection	Grain Inspection, Packers and Stockyards	Intra-Mission Area Elimination	Total
Program Costs					
Intragovernmental Gross Costs:					
Benefit Program Costs	\$ 25	\$ 63	\$ 10	\$ -	\$ 98
Imputed Costs	23	79	9	-	111
Reimbursable Costs	1,486	100	3	(10)	1,579
Other	-	(1)	-	-	(1)
Total Intragovernmental Gross Costs	1,534	241	22	(10)	1,787
Less: Intragovernmental Earned Revenue	6	18	2	(10)	16
Intragovernmental Net Costs	1,528	223	20	-	1,771
Gross Costs With the Public					
Grants	4	67	-	-	71
Indemnities	-	59	-	-	59
Other	236	960	45	-	1,241
Total Gross Costs with the Public	240	1,086	45	-	1,371
Less: Earned Revenues from the Public	172	301	31	-	504
Net Costs with the Public	68	785	14	-	867
Net Cost of Operations	\$ 1,596	\$ 1,008	\$ 34	\$ -	\$ 2,638

NOTE 18. OTHER GROSS COSTS WITH THE PUBLIC

In FY 2004, other costs of \$624 million include the following: risk management program delivery (\$863 million), interest expense subsidy (\$846 million), other interest expense (\$366 million), adjustments to allowance for bad debt expense (\$2,525 million), other services including depreciation and assets below the capitalization threshold (\$1,458 million) and receivable for program overpayments (\$384 million).

In FY 2003, other costs of \$4,495 million include the following; risk management program delivery (\$729 million), interest expense subsidy (\$1,604 million), interest expense (\$141 million), adjustments to allowance for bad debt expense (\$617 million), other services including depreciation and assets below the capitalization threshold (\$1,404 million).

Object Class:	<u>FY 2004</u>	<u>FY 2003</u>
Personnel Compensation and Benefits	\$ 6,724	\$ 6,727
Travel and Transportation	357	366
Rent, Communications, and Utilities	302	270
Printing and Reproduction	3	4
Advisory and Assistance Services	94	170
Operation and Maintenance	1,230	1,567
Research and Development	627	596
Supplies and Materials	931	32
Other	624	4,495
Total Other Gross Costs with the Public	<u>\$ 10,892</u>	<u>\$ 14,227</u>

NOTE 19. GROSS COST AND EARNED REVENUE BY BUDGET FUNCTIONAL CLASSIFICATION

FY 2004

Budget Functional Classification:

	Gross Cost	Earned Revenue	Net Cost
150 International Affairs	\$ (177)	\$ 295	\$ (472)
270 Energy	1,473	1,790	(317)
300 Natural Resources and Environment	7,525	731	6,794
350 Agriculture	67,534	3,516	64,018
370 Commerce and Housing Credit	1,542	1,408	134
450 Community and Regional Development	1,815	771	1,044
550 Health	958	123	835
600 Income Security	1,558	3	1,555
800 General Government	436	6	430
950 Undistributed Offsetting Receipts	1	-	1
Total	<u>\$ 82,665</u>	<u>\$ 8,643</u>	<u>\$ 74,022</u>

Intragovernmental Gross Cost and Earned Revenue by Budget Functional Classification:

	Gross Cost	Earned Revenue	Net Cost
270 Energy	\$ 1,702	\$ 74	\$ 1,628
300 Natural Resources and Environment	1,637	182	1,455
350 Agriculture	1,210	452	758
370 Commerce and Housing Credit	999	128	871
450 Community and Regional Development	625	147	478
550 Health	234	8	226
600 Income Security	23	2	21
Total	<u>\$ 6,430</u>	<u>\$ 993</u>	<u>\$ 5,437</u>

FY 2003

Budget Functional Classification:

	Gross Cost	Earned Revenue	Net Cost
150 International Affairs	\$ (159)	\$ 199	\$ (358)
270 Energy	2,611	1,987	624
300 Natural Resources and Environment	7,339	759	6,580
350 Agriculture	76,763	6,363	70,400
370 Commerce and Housing Credit	2,404	1,582	822
450 Community and Regional Development	2,251	750	1,501
500 Education, Training, Employment, and Social Services	(8)	-	(8)
550 Health	954	108	846
600 Income Security	2,326	1	2,325
800 General Government	608	91	517
Total	<u>\$ 95,089</u>	<u>\$ 11,840</u>	<u>\$ 83,249</u>

Intragovernmental Gross Cost and Earned Revenue by Budget Functional Classification:

	Gross Cost	Earned Revenue	Net Cost
150 International Affairs	\$ -	\$ -	\$ -
270 Energy	1,724	79	1,645
300 Natural Resources and Environment	1,268	352	916
350 Agriculture	1,522	388	1,134
370 Commerce and Housing Credit	1,028	101	927
450 Community and Regional Development	646	142	504
550 Health	221	3	218
600 Income Security	1,479	2	1,477
800 General Government	-	6	(6)
Total	<u>\$ 7,888</u>	<u>\$ 1,073</u>	<u>\$ 6,815</u>

NOTE 20. PRIOR PERIOD ADJUSTMENTS

In FY 2004, USDA corrected its FY 2003 financial statements as follows:

FS corrected errors in amounts for alignment of budgetary and proprietary account relationships in various special and trust funds; unsupported balances in various suspense and deposit clearing funds; Fund Balance with Treasury and associated custodial liability; and certain revenue transactions.

FNS, NRCS, and APHIS corrected errors in amounts for improper recognition of appropriations used.

RMA corrected errors in amounts for FY 2003 obligations and obligated balances carried forward from FY 2002. Additionally, RMA changed its accounting policy for funds held in escrow for crop insurance losses.

CCC corrected errors in amounts for intragovernmental costs previously recorded as costs with the public.

The Department corrected errors in amounts recorded for non-USDA disbursements from the Payroll Accounting System for agencies serviced by the NFC.

The effects of these corrections and certain reclassifications made to conform to the current year presentation are reflected in the schedules as follows:

CONSOLIDATED BALANCE SHEET
As of September 30, 2003
(in millions)

	AS PREVIOUSLY REPORTED						AS RESTATED	
	2003	USDA	RMA	NRCS	APHIS	FNS	FS	2003
Assets:								
Intragovernmental:								
Fund Balance with Treasury (Note 3)	\$ 36,480	\$ -	\$ -	\$ -	\$ -	\$ -	(30)	\$ 36,450
Investments (Note 5)	45	-	-	-	-	-	-	45
Accounts Receivable, Net (Note 6)	666	-	-	-	-	-	(20)	646
Other (Note 10)	7	-	-	-	-	-	-	7
Total Intragovernmental	37,198	-	-	-	-	-	(50)	37,148
Cash and Other Monetary Assets (Note 4)	141	-	100	-	-	-	-	241
Investments (Note 5)	15	-	-	-	-	-	-	15
Accounts Receivable, Net (Note 6)	1,755	-	-	-	-	-	14	1,769
Loans Receivable and Related Foreclosed Property, Net (Note 7)	73,590	-	-	-	-	-	-	73,590
Inventory and Related Property, Net (Note 8)	278	-	-	-	-	-	-	278
General Property, Plant, and Equipment, Net (Note 9)	4,919	-	-	-	-	-	-	4,919
Other (Note 10)	245	-	(100)	-	-	-	-	145
Total Assets (Note 2)	\$118,141	\$ -	\$ -	\$ -	\$ -	\$ -	(36)	\$118,105
Liabilities:								
Intragovernmental								
Accounts Payable	1,206	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	1,206
Debt (Note 12)	76,140	-	-	-	-	-	-	76,140
Other (Note 14)	19,942	-	-	-	-	-	(24)	19,918
Total Intragovernmental	97,288	-	-	-	-	-	(24)	97,264
Accounts Payable	3,614	-	-	-	-	-	-	3,614
Loan Guarantee Liability (Note 7)	883	-	-	-	-	-	-	883
Debt Held by the Public (Note 12)	80	-	-	-	-	-	-	80
Federal Employee and Veterans Benefits	-	940	-	-	-	-	-	940
Environmental and Disposal Liabilities (Note 13)	21	-	-	-	-	-	-	21
Other (Note 14 & 15)	13,860	(940)	-	-	-	-	(59)	12,861
Total Liabilities (Note 11)	115,746	-	-	-	-	-	(83)	115,663
Commitments and Contingencies (Note 16)								
Net Position:								
Unexpended Appropriations	16,810	-	-	478	311	4,761	(168)	22,192
Cumulative Results of Operations	(14,415)	-	-	(478)	(311)	(4,761)	215	(19,750)
Total Net Position	2,395	-	-	-	-	-	47	2,442
Total Liabilities and Net Position	\$ 118,141	\$ -	\$ -	\$ -	\$ -	\$ -	(36)	\$ 118,105

CONSOLIDATED STATEMENT OF NET COST
For the Year Ended September 30, 2003
(in millions)

Program Costs:	AS PREVIOUSLY REPORTED				AS RESTATED 2003
	2003	USDA	FS	CCC	
Intragovernmental Gross Costs:	\$ 7,707	(7,707)			
Benefit Program Costs	-	1,034			\$ 1,034
Imputed Costs	-	581			581
Reimbursable Costs	-	2,200			2,200
Borrowing Interest Expense	-	3,878			3,878
Other	-	7		188	195
Total Intragovernmental Gross Costs	7,707	(7)	-	188	7,888
Less: Intragovernmental Earned Revenues	1,089		(16)		1,073
Intragovernmental Net Costs	6,618	(7)	16	188	6,815
Gross Costs With the Public:					
Grants	63,099	(1)			63,098
Loan Cost Subsidies	(778)				(778)
Indemnities	3,848				3,848
Commodity Program Costs	6,568	(1)			6,567
Stewardship Land Acquisition	239				239
Other (Note 18)	14,396	(22)	41	(188)	14,227
Total Gross Costs with the Public	87,372	(24)	41	(188)	87,201
Less: Earned Revenues from the Public	10,799	(30)	(2)		10,767
Net Costs with the Public	76,573	6	43	(188)	76,434
Net Cost of Operations (Notes 17 & 19)	\$ 83,191	(1)	59	-	\$ 83,249

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
For the Year Ended September 30, 2003
(in millions)

	AS PREVIOUSLY REPORTED 2003		USDA		NRCS		APHIS		FNS		FS		AS RESTATED 2003	
	Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations
Beginning Balances	\$ (5,443)	\$ 26,196	744	\$ (577)									\$ (14,699)	\$ 25,619
Prior Period Adjustments (Note 20)	744	(577)	(744)	577	-	-	-	-	-	-	258	(153)	258	(153)
Beginning Balances, as adjusted	(4,699)	25,619	-	-	-	-	-	-	-	-	258	(153)	(4,441)	25,466
Budgetary Financing Sources:														
Appropriations Received	-	76,572	-	-	-	-	-	-	-	-	-	-	-	76,572
Appropriations Transfer In (Out)	-	(219)	-	-	-	-	-	-	-	-	-	-	-	(219)
Other Adjustments (recissions, etc.)	(16)	(4,812)	1	-	-	-	-	-	-	-	-	(1)	(16)	(4,813)
Appropriations Used	80,373	(80,350)	(2)	-	(478)	478	(311)	311	(4,761)	4,761	16	(14)	74,837	(74,814)
Nonexchange Revenue	6	-	-	-	-	-	-	-	-	-	-	-	6	-
Donations and Forfeitures of Cash	35	-	1	-	-	-	-	-	-	-	-	-	36	-
Transfers In (Out) without Reimbursement	3,790	-	-	-	-	-	-	-	-	-	-	-	3,790	-
Other Financing Sources:														
Donations and Forfeitures of Property	1	-	-	-	-	-	-	-	-	-	-	-	1	-
Transfers In (Out) without Reimbursement	(2,019)	-	-	-	-	-	-	-	-	-	-	-	(2,019)	-
Imputed Financing from Costs Absorbed by Others	581	-	-	-	-	-	-	-	-	-	-	-	581	-
Other	724	-	(1)	-	-	-	-	-	-	-	-	-	723	-
Total Financing Sources	83,475	(8,809)	(1)	-	(478)	478	(311)	311	(4,761)	4,761	16	(15)	77,940	(3,274)
Net Cost of Operations	(83,191)		1		-						(59)		(83,249)	
Ending Balances	\$ (14,415)	\$ 16,810	-	\$ 0	(478)	\$ 478	(311)	\$ 311	(4,761)	\$ 4,761	215	\$ (168)	\$ (19,750)	\$ 22,192

COMBINED STATEMENT OF BUDGETARY RESOURCES
For the Year Ended September 30, 2003
(in millions)

	AS PREVIOUSLY REPORTED 2003		USDA		RMA	FS	AS RESTATED 2003	
	Budgetary	Non-Budgetary Financing Accounts	Budgetary	Non-Budgetary Financing Accounts	Budgetary	Budgetary	Budgetary	Non-Budgetary Financing Accounts
Budgetary Resources:								
Budget Authority:								
Appropriations Received	\$ 83,967	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 83,967	\$ -
Borrowing Authority (Note 22 & 23)	49,343	10,257	-	-	-	-	49,343	10,257
Net Transfers	(189)	-	-	-	-	-	(189)	-
Unobligated Balances:								
Beginning of Period (Note 24)	18,627	5,264	-	-	1,170	(9)	19,788	5,264
Net Transfers, Actual	(439)	-	-	-	-	(14)	(453)	-
Spending Authority From Offsetting Collections:								
Earned								
Collected	24,301	7,721	-	1	-	1	24,302	7,722
Change in Receivables from Federal Sources	1,596	62	-	-	-	6	1,602	62
Change in Unfilled Customer Orders								
Advances Received	289	-	-	-	-	-	289	-
Without Advances from Federal Sources	47	57	-	(1)	-	-	47	56
Recoveries of Prior Year Obligations	3,854	437	(1)	-	-	12	3,865	437
Permanently not Available	(57,168)	(4,275)	1	-	-	-	(57,167)	(4,275)
Total Budgetary Resources	\$ 124,228	\$ 19,523	\$ -	\$ -	\$ 1,170	\$ (4)	\$ 125,394	\$ 19,523
Status of Budgetary Resources:								
Obligations Incurred (Note 21):								
Direct	70,628	13,721	-	-	1,167	145	71,940	13,721
Reimbursable	36,758	-	-	-	-	(66)	36,692	-
Unobligated Balance:								
Apportioned	5,832	5,343	11	-	3	4	5,850	5,343
Exempt from Apportionment	328	1	-	-	-	-	328	1
Other Available	9	-	-	-	-	-	9	-
Unobligated Balance not Available	10,673	458	(11)	-	-	(87)	10,575	458
Total Status of Budgetary Resources	\$ 124,228	\$ 19,523	\$ -	\$ -	\$ 1,170	\$ (4)	\$ 125,394	\$ 19,523
Relationship of Obligations to Outlays:								
Obligated Balance, Net, Beginning of Period (Note 24)	\$ 19,211	\$ 13,762	\$ -	\$ -	\$ (1,054)	\$ 23	\$ 18,180	\$ 13,762
Obligations Incurred	-	-	-	-	1,167	79	108,632	13,721
Less:								
Recoveries of Prior Year Obligations	-	-	-	-	-	12	3,865	437
Change from Federal Sources	-	-	-	-	-	6	1,649	118
Obligated Balance, Net, End of Period:								
Accounts Receivable	(2,645)	(170)	-	-	-	(6)	(2,651)	(170)
Unfilled Customer Orders from Federal Sources	(313)	(732)	-	-	-	-	(313)	(732)
Undelivered Orders	14,143	15,351	-	-	-	135	14,278	15,351
Accounts Payable	9,830	422	-	-	97	(47)	9,880	422
Total Obligated Balance, Net, End of Period	\$ 21,015	\$ 14,871	\$ -	\$ -	\$ 97	\$ 82	\$ 21,194	\$ 14,871
Disbursements	100,262	12,058	(176)	(1)	16	2	100,104	12,057
Collected and Advances Received	(24,590)	(7,721)	-	(1)	-	(1)	(24,591)	(7,722)
Outlays	75,672	4,337	(176)	(2)	16	1	75,513	4,335
Less: Offsetting Receipts	1,550	1,293	213	(1)	-	-	1,763	1,292
Net Outlays	\$ 74,122	\$ 3,044	\$ (389)	\$ (1)	\$ 16	\$ 1	\$ 73,750	\$ 3,043

CONSOLIDATED STATEMENT OF FINANCING
For the Year Ended September 30, 2003
(in millions)

	AS PREVIOUSLY REPORTED 2003	USDA	RMA	APHIS	CCC	FS	AS RESTATED 2003
Resources Used to Finance Activities:							
Budgetary Resources Obligated							
Obligations Incurred	\$ 121,107	\$ -	\$ 1,167	\$ -	\$ -	\$ 79	\$ 122,353
Less: Spending authority from offsetting collections and recoveries	38,364	(1)	-	-	-	19	38,382
Obligations net of offsetting collections and recoveries	82,743	1	1,167	-	-	60	83,971
Less: Offsetting receipts	2,843	212	-	-	-	-	3,055
Net Obligations	79,900	(211)	1,167	-	-	60	80,916
Other Resources							
Donations and forfeitures of property	1	-	-	-	-	-	1
Transfers In(Out) without reimbursement	(2,019)	-	-	-	-	-	(2,019)
Imputed financing from costs absorbed by others	581	-	-	-	-	-	581
Other	724	(1)	-	-	-	-	723
Net other resources used to finance activities	(713)	(1)	-	-	-	-	(714)
Total resources used to finance activities	79,187	(212)	1,167	-	-	60	80,202
Resources Used to Finance Items not Part of the Net Cost of Operations:							
Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided	400	-	-	-	-	133	533
Resources that fund expenses recognized in prior periods	2,354	2	-	-	-	-	2,356
Budgetary offsetting collections and receipts that do not affect net cost of operations							
Credit program collections which increase liabilities for loan guarantees or allowances for subsidy	(14,829)	-	-	-	-	-	(14,829)
Other	(11,835)	1	-	203	-	(70)	(11,701)
Resources that finance the acquisition of assets	28,477	-	-	-	322	-	28,799
Other resources or adjustments to net obligated resources that do not affect net cost of operations	2,644	(3)	-	-	-	-	2,641
Total resources used to finance items not part of the net cost of operations	7,211	-	-	203	322	63	7,799
Total resources used to finance the net cost of operations	71,976	(212)	1,167	(203)	(322)	(3)	72,403
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:							
Components Requiring or Generating Resources in Future Periods:							
Increase in annual leave liability	42	-	-	-	-	-	42
Increase in environmental and disposal liability	1	-	-	-	-	-	1
Upward/Downward reestimates of credit subsidy expense	(315)	-	-	-	-	-	(315)
Decrease in exchange revenue receivable from the public	597	(1)	177	-	-	(15)	758
Other	2,839	212	(1,344)	437	-	(3)	2,141
Total components of Net Cost of Operations that will require or generate resources in future periods (Note 28)	3,164	211	(1,167)	437	-	(18)	2,627
Components not Requiring or Generating Resources:							
Depreciation and amortization	522	-	-	-	-	-	522
Revaluation of assets or liabilities	(38)	-	-	-	322	-	284
Other	7,567	-	-	(234)	-	80	7,413
Total components of Net Cost of Operations that will not require or generate resources	8,051	-	-	(234)	322	80	8,219
Total components of Net Cost of Operations that will not require or generate resources in the current period	11,215	211	(1,167)	203	322	62	10,846
Net Cost of Operations	\$ 83,191	(1)	-	-	-	59	\$ 83,249

NOTE 21. APPORTIONMENT CATEGORIES OF OBLIGATIONS INCURRED

FY 2004	Direct	Reimbursable	Total
Apportionment by Fiscal Quarter	\$69,234	\$ 891	\$ 70,125
Apportionment for Special Activities	19,897	26,702	46,599
Exempt from Apportionment	1,036	49	1,085
Total Obligations Incurred	<u>\$90,167</u>	<u>\$ 27,642</u>	<u>\$ 117,809</u>

FY 2003	Direct	Reimbursable	Total
Apportionment by Fiscal Quarter	\$60,440	\$ 1,561	\$ 62,001
Apportionment for Special Activities	23,826	35,113	58,939
Exempt from Apportionment	1,395	18	1,413
Total Obligations Incurred	<u>\$85,661</u>	<u>\$ 36,692</u>	<u>\$ 122,353</u>

NOTE 22. AVAILABLE BORROWING AUTHORITY, END OF PERIOD

Available borrowing authority at September 30, 2004, and 2003 was \$38,828 and \$27,133 million, respectively.

NOTE 23. TERMS OF BORROWING AUTHORITY USED

The Secretary of Agriculture has the authority to make and issue notes to the Secretary of Treasury for the purpose of discharging obligations for RD's insurance funds and CCC's nonreimbursed realized losses and debt related to foreign assistance programs. The permanent indefinite borrowing authority includes both interest bearing and non-interest notes. These notes are drawn upon daily when disbursements exceed deposits. Notes payable under the permanent indefinite borrowing authority have a one-year term. On January 1 of each year, USDA refinances its outstanding borrowings, including accrued interest, at that month's borrowing rate.

Additionally, USDA has permanent indefinite borrowing authority for the foreign assistance and export credit programs to finance disbursements on post-credit reform, direct credit obligations and credit guarantees. In accordance with the Federal Credit Reform Act of 1990 as amended, USDA borrows from Treasury on October 1, for the entire fiscal year, based on annual estimates of the difference between the amount appropriated (subsidy) and the amount to be disbursed to the borrower. Repayment under this agreement may be, in whole or in part, prior to maturity by paying the principal amount of the borrowings plus accrued interest to the date of repayment. Interest is paid on these borrowings based on weighted average interest rates for the cohort, to which the borrowings are associated. Interest is earned on the daily balance of uninvested funds in the credit reform financing funds maintained at Treasury. The interest income is used to reduce interest expense on the underlying borrowings.

USDA has authority to borrow from the Federal Financing Bank (FFB) and private investors in the form of Certificates of Beneficial Ownership (CBO) or loans executed directly between the borrower and FFB with an unconditional USDA repayment guarantee. CBOs outstanding with the FFB and private investors generally are secured by unpaid loan principal balances. CBOs outstanding are related to pre-credit reform loans and no longer used for program financing.

FFB's CBOs are repaid as they mature. They are not related to any particular group of loans. Borrowings made to finance loans directly between the borrower and FFB mature and are repaid as the related group of loans

become due. Interest rates on the related group of loans are equal to interest rates on FFB borrowings, except in those situations where an FFB funded loan is restructured and the terms of the loan are modified.

While prepayments can be made on Treasury borrowings without a penalty; they cannot be made on FFB CBOs without a penalty.

Funds also may be borrowed from private lending agencies and others. USDA reserves a sufficient amount of its borrowing authority to purchase, at any time, all notes and other obligations evidencing loans made by agencies and others. All bonds, notes, debentures and similar obligations issued by the Department are subject to approval by the Secretary of the Treasury. Reservation of borrowing authority for these purposes has not been required for many years.

NOTE 24. ADJUSTMENTS TO BEGINNING BALANCE OF BUDGETARY RESOURCES

In FY 2004 and 2003, RMA corrected errors in amounts previously reported. The effect of these corrections increased obligated and unobligated balances \$97 million and \$3 million, respectively in FY 2004. It also decreased obligated and increased unobligated balances \$1,054 million and \$1,170 million, respectively, in FY 2003.

In FY 2004 and 2003, FS corrected errors in amounts previously reported. The effect of these corrections was to increase obligated and decreased unobligated balances by \$82 million, respectively, in FY 2004. It also increased obligated and decreased unobligated balances \$227 million and \$379 million, respectively, in FY 2003.

In FY 2003, FNS corrected errors in amounts previously reported. The effect of these corrections decreased obligated and increased unobligated balances \$532 million and \$460 million, respectively.

	FY 2004		FY 2003	
	Obligated	Unobligated	Obligated	Unobligated
Beginning balances	\$ 35,886	\$ 22,644	\$ 33,300	\$ 23,801
Adjustments	179	(80)	(1,358)	1,251
Beginning balances, as adjusted	<u>\$ 36,065</u>	<u>\$ 22,564</u>	<u>\$ 31,942</u>	<u>\$ 25,052</u>

NOTE 25. PERMANENT INDEFINITE APPROPRIATIONS

USDA has permanent indefinite appropriations available to fund 1) subsidy costs incurred under credit reform programs, 2) certain costs of the crop insurance program, and 3) certain costs associated with FS programs.

The permanent indefinite appropriations for credit reform mainly are available to finance any disbursements incurred under the liquidating accounts. These appropriations become available pursuant to standing provisions of law without further action by Congress after transmittal of the budget for the year involved. While they are treated as permanent the first year they become available and in succeeding years, they are not stated as specific amounts but are determined by specified variable factors, such as cash needs for liquidating accounts and information about the actual performance of a cohort or estimated changes in future cash flows of the cohort in the program accounts.

The permanent indefinite appropriation for the crop insurance program is used to cover premium subsidy, delivery expenses, losses in excess of premiums and research and delivery costs.

The permanent indefinite appropriation for FS programs are used to fund Recreation Fee Collection Costs, Brush Disposal, License programs, Smokey Bear and Woodsy Owl, Restoration of Forest Lands and Improvements, Roads and Trails for States, National Forest Fund, Timber Roads, Purchaser Elections, Timber Salvage Sales and Operations, and Maintenance of Quarters. Each of these permanent indefinite appropriations is funded by receipts made available by law, and is available until expended.

NOTE 26. LEGAL ARRANGEMENTS AFFECTING USE OF UNOBLIGATED BALANCES

Unobligated budget authority is the difference between the obligated balance and the total unexpended balance. It represents that portion of the unexpended balance unencumbered by recorded obligations. Appropriations are provided on an annual, multi-year and no-year basis. An appropriation expires on the last day of its period of availability and is no longer available for new obligations. Unobligated balances retain their fiscal-year identity in an expired account for an additional five fiscal years. The unobligated balance remains available to make legitimate obligation adjustments, i.e., to record previously unrecorded obligations and make upward adjustments in previously underestimated obligations for five years. At the end of the fifth year, the authority is canceled. Thereafter, the authority is unavailable for any purpose.

Any information about legal arrangements affecting the use of the unobligated balance of budget authority is specifically stated by program and fiscal year in the appropriation language or in the alternative provisions section at the end of the appropriations act.

NOTE 27. DIFFERENCES BETWEEN THE STATEMENT OF BUDGETARY RESOURCES AND THE BUDGET OF THE UNITED STATES GOVERNMENT

The differences between the FY 2003 Statement of Budgetary Resources and the FY 2003 actual numbers presented in the FY 2005 Budget of the United States Government (Budget) are summarized below.

The Budget excludes expired accounts that are no longer available for new obligations. Audit adjustments were made subsequent to the Budget submission. Disbursements from the payroll accounting system were included erroneously in outlays. The Budget excludes resources of the crop insurance fund related to the reclassification of amounts held in escrow and certain adjustments to obligated balances made subsequent to the Budget submission. Unavailable collections for the Native American Institution Endowment Fund were included as budgetary resources in the Statement of Budgetary Resources.

The Budget includes the Milk Market Orders Assessment Fund. Employees of the Milk Market Administrators participate in the Federal retirement system even though these funds are unavailable for use by the Department. Other items mainly consist of balances in suspense accounts and differences due to rounding that are excluded from the Budget.

A comparison between the FY 2004 Statement of Budgetary Resources and the FY 2004 actual numbers presented in the FY 2006 Budget cannot be performed as the FY 2006 Budget is not yet available. The FY 2006 Budget is expected to be published in February 2005 and will be available from the Government Printing Office.

FY 2003

	<u>Budgetary Resources</u>	<u>Outlays</u>
Combined Statement of Budgetary Resources	\$ 144,917	\$ 79,848
Reconciling Items:		
Expired accounts	(9,605)	(251)
Audit adjustments	371	(3)
Payroll Accounting System	-	177
Crop Insurance Fund	(1,166)	(15)
Native American Institution Endowment Fund	(53)	(8)
Milk Market Orders Assessment Fund	40	2
Other	47	29
Budget of the United States Government	<u>\$ 134,551</u>	<u>\$ 79,779</u>

NOTE 28. RELATIONSHIP BETWEEN LIABILITIES NOT COVERED BY BUDGETARY RESOURCES ON THE BALANCE SHEET AND THE CHANGE IN COMPONENTS REQUIRING OR GENERATING RESOURCES IN FUTURE PERIODS

The change in liabilities not covered by budgetary resources should be the same as the change in components requiring or generating resources in future periods. This excludes other components requiring or generating resources in future periods that are reported separately. The components requiring or generating resources in future periods as reported on the Statement of Financing differ from the components requiring or generating resources in future periods. They are reflected below for the portion of liabilities not covered by budgetary resources.

	<u>FY 2004</u>	<u>FY 2003</u>
Current year liabilities not covered by budgetary resources, as disclosed in Note 11	\$ 3,697	\$ 5,141
Prior year liabilities not covered by budgetary resources	(5,141)	(4,314)
Increase (Decrease) in liabilities not covered by budgetary resources	(1,444)	827
Upward/Downward Reestimates of Credit Subsidy Expense	(341)	(315)
Decrease in Exchange Revenue Receivable from the Public	534	758
Other	3,080	1,357
Components requiring or generating resources in future periods, as reported on the Statement of Financing	<u>\$ 1,829</u>	<u>\$ 2,627</u>

NOTE 29. DESCRIPTION OF TRANSFERS THAT APPEAR AS A RECONCILING ITEM ON THE STATEMENT OF FINANCING

Allocation transfers that appear as reconciling items on the Statement of Financing include funds received from the U.S. Department of Labor for training underemployed youths, the U.S. Department of Transportation for maintenance and upkeep of Federal highways traversing National Forest System lands, the Appalachian Regional Commission and Economic Development Administration for accounting services, and funds transferred to the Agency for International Development for transportation in connection with foreign commodity donations.

NOTE 30. INCIDENTAL CUSTODIAL COLLECTIONS

The majority of custodial collections represents National Forest Fund receipts from the sale of timber and other forest products. The balance represents miscellaneous general fund receipts, such as collections on accounts receivable related to canceled year appropriations, civil monetary penalties and interest, and commercial fines and penalties. Custodial collection activities are considered immaterial and incidental to the mission of the Department.

Revenue Activity:	FY 2004	FY 2003
Sources of Collections:		
Miscellaneous	\$ 62	\$ 134
Total Cash Collections	62	134
Accrual Adjustments	9	(13)
Total Custodial Revenue	71	121
Disposition of Collections:		
Transferred to Others:		
Treasury	(7)	(10)
States and Counties	(52)	(22)
(Increase)/Decrease in Amounts Yet to be Transferred	(12)	(87)
Retained by the Reporting Entity	-	(2)
Net Custodial Activity	\$ -	\$ -

NOTE 31. DEDICATED COLLECTIONS

The FS recognizes the following funds as dedicated collections. These funds finance the enhancement and maintenance of National Forest System lands including reforestation. Donations are handled on the cash basis and all other collections are accounted for on the accrual basis. Financial information for all significant dedicated collections is shown below. Following the financial information is the related descriptive narrative for each of the significant dedicated collection funds.

Dedicated Collections
As of and for the year ended September 30, 2004
(in millions)

	Cooperative Work	Land Acquisition	Payments to States, National Forest Fund	Timber Salvage Sales	Fee, Operations and Maintenance of Recreation Facilities	Timber Roads, Purchaser Election	Expenses, Brush Disposal	Recreation Fee Demonstration Program	Roads and Trails for States, National Forest Fund	Reforestation Trust Fund	Other Funds	Total
ASSETS												
Fund Balance with Treasury	\$ 472	\$ 99	\$ 131	\$ 98	\$ 93	\$ 61	\$ 56	\$ 42	\$ 26	\$ 26	\$ 59	\$ 1,163
Investments	-	-	-	-	-	-	-	-	-	-	4	4
Accounts Receivable, Net	2	-	-	1	-	-	-	2	-	-	9	14
General Property, Plant & Equipment, Net	16	48	2	1	-	2	-	3	15	-	3	90
TOTAL ASSETS	\$ 490	\$ 147	\$ 133	\$ 100	\$ 93	\$ 63	\$ 56	\$ 47	\$ 41	\$ 26	\$ 75	\$ 1,271
LIABILITIES												
Accounts Payable	\$ (1)	\$ -	\$ 1	\$ (2)	\$ -	\$ -	\$ -	\$ 1	\$ 1	\$ -	\$ -	\$ -
Other Liabilities	49	2	63	7	12	-	-	2	2	3	5	145
TOTAL LIABILITIES	48	2	64	5	12	-	-	3	3	3	5	145
Total Net Position	442	145	69	95	81	63	56	44	38	23	70	1,126
TOTAL LIABILITIES AND NET POSITION	\$ 490	\$ 147	\$ 133	\$ 100	\$ 93	\$ 63	\$ 56	\$ 47	\$ 41	\$ 26	\$ 75	\$ 1,271
CHANGE IN NET POSITION												
Beginning Balances	\$ 300	\$ 76	\$ 53	\$ 56	\$ 81	\$ 28	\$ 35	\$ 28	\$ 38	\$ 26	\$ 44	\$ 765
Prior Period Adjustments	-	-	-	-	-	-	-	-	1	-	2	3
Beginning Balances, as adjusted	300	76	53	56	81	28	35	28	39	26	46	768
Budgetary Financing Sources:												
Other Adjustments (rescissions, etc.)	-	(1)	-	-	-	-	-	-	-	-	-	(1)
Donations and Forfeitures of Cash	-	-	-	-	-	-	-	-	-	-	1	1
Transfers -in/out without Reimbursement	154	163	93	35	-	35	20	14	13	29	14	570
Total Financing Sources	154	162	93	35	-	35	20	14	13	29	15	570
Net Cost of Operations	12	93	77	(4)	-	-	(1)	(2)	14	32	(9)	212
ENDING BALANCES	\$ 442	\$ 145	\$ 69	\$ 95	\$ 81	\$ 63	\$ 56	\$ 44	\$ 38	\$ 23	\$ 70	\$ 1,126

Dedicated Collections
As of and for the year ended September 30, 2003
(in millions)

	Cooperative Work	Land Acquisition	Payments to States, National Forest Fund	Timber Salvage Sales	Fee, Operations and Maintenance of Recreation Facilities	Timber Roads, Purchaser Election	Expenses, Brush Disposal	Recreation Fee Demonstration Program	Roads and Trails for States, National Forest Fund	Reforestation Trust Fund	Other Funds	Total
ASSETS												
Fund Balance with Treasury	\$ 325	\$ 32	\$ 104	\$ 52	\$ 89	\$ 27	\$ 33	\$ 25	\$ 29	\$ 28	\$ 46	\$ 790
Investments	-	-	-	-	-	-	-	-	-	-	3	3
Accounts Receivable, Net	8	-	-	6	-	-	1	1	-	-	3	19
General Property, Plant & Equipment, Net	13	48	-	1	-	1	1	2	13	-	1	80
TOTAL ASSETS	\$ 346	\$ 80	\$ 104	\$ 59	\$ 89	\$ 28	\$ 35	\$ 28	\$ 42	\$ 28	\$ 53	\$ 892
LIABILITIES												
Accounts Payable	\$ (1)	\$ 2	\$ -	\$ (2)	\$ -	\$ -	\$ -	\$ -	\$ 1	\$ -	\$ 2	\$ 2
Other Liabilities	47	2	51	5	8	-	-	-	2	2	5	122
TOTAL LIABILITIES	46	4	51	3	8	-	-	-	3	2	7	124
Total Net Position	300	76	53	56	81	28	35	28	39	26	46	768
TOTAL LIABILITIES AND NET POSITION	\$ 346	\$ 80	\$ 104	\$ 59	\$ 89	\$ 28	\$ 35	\$ 28	\$ 42	\$ 28	\$ 53	\$ 892
CHANGE IN NET POSITION												
Beginning Balances	\$ 213	\$ 59	\$ (116)	\$ 90	\$ 81	\$ 8	\$ 38	\$ 26	\$ 2	\$ 30	\$ 9	\$ 440
Prior Period Adjustments	(16)	(1)	116	(14)	-	-	(2)	(1)	(11)	(1)	6	76
Beginning Balances, as adjusted	197	58	-	76	81	8	36	25	(9)	29	15	516
Budgetary Financing Sources:												
Donations and Forfeitures of Cash	-	-	-	-	-	-	-	-	-	-	1	1
Transfers -in/out without Reimbursement	129	176	107	(5)	-	8	-	-	16	30	21	482
Other Financing Sources:												
Transfers-in/out without Reimbursement	-	-	-	(1)	-	-	-	-	-	-	(1)	(2)
Total Financing Sources	129	176	107	(6)	-	8	-	-	16	30	21	481
Net Cost of Operations	26	158	54	14	-	(12)	1	(3)	(32)	33	(10)	229
ENDING BALANCES	\$ 300	\$ 76	\$ 53	\$ 56	\$ 81	\$ 28	\$ 35	\$ 28	\$ 39	\$ 26	\$ 46	\$ 768

REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION

USDA has stewardship responsibility for certain resources entrusted to it that do not meet the criteria for recognition in the financial statements. Information about these resources is important to understanding USDA's mission, operations and financial condition at the date of the financial statements and in subsequent periods. While costs of these stewardship-type resources are treated as expenses in the financial statements in the year the costs are incurred, these costs and resultant resources are intended to provide long-term benefits to the public. They are included as required supplementary stewardship reporting to highlight their long-term benefit nature and to demonstrate accountability over them.

Stewardship resources are categorized into two major groups as follows:

STEWARDSHIP PROPERTY, PLANT AND EQUIPMENT

Stewardship PP&E consists of assets whose physical properties resemble those of general PP&E that are traditionally capitalized in financial statements. However, due to the nature of these assets, (1) valuation would be difficult and (2) matching costs with specific periods would not be meaningful. Stewardship PP&E includes heritage assets and stewardship land.

Heritage Assets

Category	FY 2003 (Sites)	Condition
Total Heritage Assets	310,611	Poor to fair
Eligible for the National Register of Historic Places	58,669	Poor to fair
Listed on the National Register	3,380	Fair
Sites with Structures Listed on the National Register	1,870	Poor to fair
National Historic Landmarks	18	Fair to good

FS estimates that more than 300,000 heritage assets are on land that it manages. Assets held at museums and universities are managed by those entities. This information was estimated from the nine FS regions and annual U.S. Department of the Interior report to Congress. Some of these assets are listed on the National Register of Historic Places, and others are designated as National Historic Landmarks. The FS heritage resource specialists on the 155 national forests maintain separate inventories of heritage assets. Most assets not used for administrative or public purposes receive no annual maintenance. A long-term methodology to assess the extent and condition of these assets better is being formulated to comply with Executive Order 13287, Preserve America. While a module in the agency's Real Property Management Infrastructure System (INFRA) has been developed and implemented for heritage assets, the Healthy Forests Initiative and competing budget priorities, however, have prevented full population of the database. Heritage assets include the following:

Historic Structures

Constructed works consciously created to serve some human purpose. They include buildings, monuments, logging and mining camps, and ruins.

National Historic Landmarks

Includes sites, buildings or structures that possess exceptional value in commemorating or illustrating the history of the United States. They also demonstrate exceptional value or quality in illustrating and interpreting the heritage of the United States. The Secretary of the Interior is the official designator of National Historic Landmarks.

National Register of Historic Places

Includes properties, buildings and structures significant in U.S. history, architecture, archaeology and the cultural foundation of the Nation.

Eligible for the National Register

Those sites formally determined as eligible for the National Register through the Keeper of the National Register or documented by consultation with State Historic Preservation Offices.

Acquisition and Withdrawal of Heritage Assets

FS generally does not construct heritage assets, although in some circumstances important site-structural components may be rehabilitated or reconstructed into viable historic properties to provide forest visitors with use and interpretation. While heritage assets can be acquired through the procurement process, this rarely occurs. Normally, heritage assets are part of the land acquisition and inventory process. Withdrawal occurs through land exchange or natural disasters.

Stewardship Land

Description	FY 2004 Balance	Additions (+)	Withdrawals (-)	FY 2003 Balance
National Forest System Land (In acres):				
National Forests	144,076,791	233,515	-	143,843,276
National Forests Wilderness Areas	34,953,370	124,868	-	34,828,502
National Forests Primitive Areas	173,762	-	-	173,762
National Wild and Scenic River Areas	950,906	2,907	-	947,999
National Recreation Areas	2,911,239	-	-	2,911,239
National Scenic-Research Areas	137,130	58	-	137,072
National Game Refuges and Wildlife Preserve Areas	1,198,099	-	-	1,198,099
National Monument Areas	3,833,941	-	-	3,833,941
National Grasslands	3,839,543	376	-	3,839,167
Purchase Units	370,026	10,675	-	359,351
Land Utilization Projects	1,876	-	-	1,876
Other Areas	450,637	236	-	450,401
Total National Forest System Land	192,897,320	372,635	-	192,524,685
Conservation Easements (In acres):				
Commodity Credit Corporation				
Wetlands Reserve Program	1,262,119	162,784	-	1,099,335
Natural Resources Conservation Service				
Emergency Wetlands Reserve Program	92,159	-	-	92,159
Emergency Watershed Protection Program	94,099	-	-	94,099
Total Conservation Easements	1,448,377	162,784	-	1,285,593
Description	FY 2003 Balance	Additions (+)	Withdrawals (-)	FY 2002 Balance
National Forest System Land (In acres):				
National Forests	143,843,276	46,593	-	143,796,683
National Forests Wilderness Areas	34,828,502	39,194	-	34,789,308
National Forests Primitive Areas	173,762	-	-	173,762
National Wild and Scenic River Areas	947,999	1,621	-	946,378
National Recreation Areas	2,911,239	875	-	2,910,364
National Scenic-Research Areas	137,072	1,257	-	135,815
National Game Refuges and Wildlife Preserve Areas	1,198,099	-	-	1,198,099
National Monument Areas	3,833,941	-	(6,641)	3,840,582
National Grasslands	3,839,167	2,590	-	3,836,577
Purchase Units	359,351	2,298	-	357,053
Land Utilization Projects	1,876	-	-	1,876
Other Areas	450,401	-	(860)	451,261
Total National Forest System Land	192,524,685	94,428	(7,501)	192,437,758
Conservation Easements (In acres):				
Commodity Credit Corporation				
Wetlands Reserve Program	1,099,335	127,655	-	971,680
Natural Resources Conservation Service				
Emergency Wetlands Reserve Program	92,159	-	-	92,159
Emergency Watershed Protection Program	94,099	6,079	-	88,020
Total Conservation Easements	1,285,593	133,734	-	1,151,859

National Forest System

FS manages more than 192 million acres of public land. Most of this acreage is classified as stewardship land. Stewardship land is valued for its environmental resources, recreational and scenic value, cultural and paleontological resources, vast open spaces, and resource commodities and revenue provided to the Federal Government, States and counties. The National Forest System (NFS) is comprised of the following:

National Forests

A unit formerly established and permanently set aside and reserved for National Forest purposes. The following categories of NFS lands have been set aside for specific purposes in designated areas:

- National Forests Wilderness Areas: Areas designated by Congress as part of the National Wilderness Preservation System.
- National Forests Primitive Areas: Areas designated by the Chief of the Forest Service as primitive areas. They are administered in the same manner as wilderness areas, pending studies to determine sustainability as a component of the National Wilderness Preservation System.
- National Wild and Scenic River Areas: Areas designated by Congress as part of the National Wild and Scenic River System.
- National Recreation Areas: Areas established by Congress for the purpose of assuring and implementing the protection and management of public outdoor recreation opportunities.
- National Scenic-Research Areas: Areas established by Congress to provide use and enjoyment of certain ocean headlands, ensure protection and encourage the study of the areas for research and scientific purposes.
- National Game Refuges and Wildlife Preserve Areas: Areas designated by Presidential Proclamation or by Congress for the protection of wildlife.
- National Monument Areas: Areas including historic landmarks, historic and prehistoric structures, and other objects for historic or scientific interest, declared by Presidential Proclamation or by Congress.

National Grasslands

A unit designated by the Secretary of Agriculture and permanently held by the USDA under Title III of the Bankhead-Jones Tenent Act.

Purchase Units

A unit of land designated by the Secretary of Agriculture or previously approved by the National Forest Reservation Commission for purposes of Weeks Law acquisition. The law authorizes the Federal Government to purchase lands for stream-flow protection and maintain the acquired lands as national forests.

Land Utilization Projects

A unit reserved and dedicated by the Secretary of Agriculture for forest and range research and experimentation.

Other Areas

Areas administered by FS that are excluded from the above.

Condition of NFS Lands

FS monitors the condition of NFS lands based on information compiled by two national inventory and monitoring programs. Annual inventories of forest status and trends are conducted by the Forest Inventory and Analysis Program in 48 States covering 70 percent of the forested lands of the U.S. The Forest Health Monitoring Program is active in 50 States. It provides surveys and evaluations of forest health conditions and trends. While most of the 149 million acres of forestland on NFS lands continue to produce valuable benefits (i.e. clean air, clean water, habitat for wildlife, and products for human use), significant portions are at risk to pest outbreaks and/or catastrophic fires.

About 33 million acres of NFS forestland are at risk to future mortality from insects and diseases (based on the current Insect and Disease Risk Map). Nearly 73 million acres of NFS forestland are prone to catastrophic fire based on current condition and departure from historic fire regimes (Fire Regimes 1&2 and Condition Classes 2&3). Based on these 2 maps, approximately 9.5 million acres are at risk to both pest-caused mortality and fire. Invasive species of insects, diseases and plants continue to impact our native ecosystems by causing mortality to, or displacement of native vegetation. The National Fire Plan has enhanced our efforts to prevent and suppress future fires adequately and restore acres that are at risk. Risk to fires was reduced by fuel hazard treatments on 1.4 million acres of NFS lands in FY 2003. Insect and disease prevention and suppression treatments were completed on 1.5 million acres of NFS lands in FY 2003.

Conservation Easements

Wetlands Reserve Program

The Wetlands Reserve Program (WRP) is a voluntary program established to restore, protect, and enhance wetlands on agricultural land. Participants in the program may sell a conservation easement or enter into a cost-share restoration agreement with CCC/NRCS to restore and protect wetlands. The landowner voluntarily limits the future use of the land, yet retains private ownership. The program provides many benefits for the entire community, such as better water quality, enhanced habitat for wildlife, reduced soil erosion, reduced flooding, and better water supply.

To be eligible for WRP, land must be restorable and suitable for wildlife benefits. Once land is enrolled in the program, the landowner continues to control access to the land—and may lease it—for hunting, fishing and other undeveloped recreational activities. Once enrolled, the land is monitored to ensure compliance with program requirements. At any time, a landowner may request the evaluation of additional activities (such as cutting hay, grazing livestock or harvesting wood products) to determine if there are other compatible uses for the site. Compatible uses are allowed if it is fully consistent with the protection and enhancement of the wetland. The condition of the land is immaterial as long as the easement on the land meets the eligibility requirements of the program.

CCC/NRCS records an expense for the acquisition cost of purchasing easements plus any additional costs, such as closing transactions, survey and restoration costs. Easements either can be permanent or have a 30-year duration. In exchange for establishing a permanent easement, the landowner receives payment up to the agricultural value of the land and 100 percent of the restoration costs for restoring the wetlands. The 30-year easement payment is 75 percent of what would be provided for a permanent easement on the same site, and 75 percent of the restoration cost.

Withdrawals from the program are rare. The Secretary of Agriculture has the authority to terminate contracts with agreement from the landowner. The termination could occur after an assessment of the effect on public interest, and following a 90-day notification period of the U.S. House and Senate Agriculture Committees.

Emergency Wetlands Reserve Program

The Emergency Wetlands Reserve Program (EWRP) administered by NRCS was established as part of the emergency restoration package following the flooding of the Mississippi River and its tributaries in 1993. EWRP provides landowners an alternative to restoring agricultural production lands that were previously wetlands. The program is patterned after WRP. Participants in the program sell a conservation easement to USDA to restore and protect wetlands. The landowner voluntarily limits the future use of the land, yet retains private ownership.

To be eligible, the land must have been damaged by a natural disaster and be restorable as a wetland. Once the land is enrolled in the program, the landowner continues to control access to the land. The land is monitored to ensure that the wetland is in compliance with contract requirements, including compatible uses, such as recreational activities or grazing livestock.

Easements purchased under this program meet the definition of stewardship land. NRCS records an expense for the acquisition cost of purchasing easements plus any additional costs such as closing, survey and restoration

costs. Easements purchased under EWRP are permanent in duration. In exchange for establishing a permanent easement, the landowner receives payment based on agricultural value of the land, a geographic land payment cap or the landowner offer. Easement values are assessed on pre-disaster conditions. The landowner may receive up to 100 percent of restoring the wetland. There are no provisions in the easement to terminate the purchase.

Emergency Watershed Protection Program

The Emergency Watershed Protection Program (EWP) Floodplain Easements is administered by NRCS. A floodplain easement is purchased on flood prone lands to provide a more permanent solution to repetitive disaster assistance payments. The purchase is also designed to achieve greater environmental benefits where the situation warrants when the affected landowner is willing to participate in the easement approach. The easement is to restore, protect, manage, maintain and enhance the functions of wetlands, riparian areas, conservation buffer strips and other lands.

Easements purchased under this program meet the definition of stewardship land. NRCS records an expense for the acquisition cost of purchasing easements plus any additional costs such as closing, survey and restoration costs. Easements purchased under EWP are permanent. In exchange for establishing a permanent easement, the landowner receives payment based on agricultural value of the land, a geographic land payment cap or the landowner offer. Easement values are assessed on pre-disaster conditions. The landowner may receive up to 100 percent of the installation and maintenance of land treatment measures deemed necessary and desirable to achieve the purposes of the easement effectively. The easements provide permanent restoration of the natural floodplain hydrology as an alternative to traditional attempts to restore damaged levees, lands and structures. There are no provisions in the easement to terminate the purchase.

STEWARDSHIP INVESTMENTS

Stewardship investments are substantial investments made by the Federal Government to benefit the Nation. These investments are not physical assets owned by the Federal Government. Such investments are measured in terms of expenses incurred for non-Federal physical property, human capital, and research and development.

Stewardship Investments (in millions)

	FY 2004 Expense	FY 2003 Expense	FY 2002 Expense	FY 2001 Expense	FY 2000 Expense
Non-Federal Physical Property:					
Food and Nutrition Service					
Food Stamp Program	\$ 36	\$ 39	\$ -	\$ 41	\$ 28
Special Supplemental Nutrition Program	8	16	-	18	29
Cooperative State Research, Education, and Extension Service					
Extension 1890 Facilities Program	15	15	14	12	12
Total Non-Federal Property	<u>\$ 59</u>	<u>\$ 70</u>	<u>\$ 14</u>	<u>\$ 71</u>	<u>\$ 69</u>
Human Capital:					
Cooperative State Research, Education, and Extension Service					
Higher Education and Extension Programs	\$ 502	\$ 511	\$ 532	\$ 479	\$ 466
Food and Nutrition Service					
Food Stamp Program	75	99	-	57	156
Forest Service					
Job Corps Program	106	118	104	101	94
Agricultural Research Service					
National Agricultural Library	21	21	20	21	19
Risk Management Agency					
Risk Management Education	7	4	-	-	1
Total Human Capital	<u>\$ 711</u>	<u>\$ 753</u>	<u>\$ 656</u>	<u>\$ 658</u>	<u>\$ 736</u>
Research and Development:					
Agricultural Research Service					
Plant Sciences	\$ -	\$ 394	\$ 384	\$ 324	\$ 296
Commodity Conversion and Delivery	-	185	182	194	172
Animal Sciences	-	194	102	146	133
Soil, Water, and Air Sciences	-	110	100	98	89
Human Nutrition	83	78	80	77	72
Integration of Agricultural Systems	-	43	40	34	31
Collaborative Research Program	5	6	11	11	-
Product Quality/Value Added	104	-	-	-	-
Livestock Production	82	-	-	-	-
Crop Production	194	-	-	-	-
Food Safety	96	-	-	-	-
Livestock Protection	64	-	-	-	-
Crop Protection	183	-	-	-	-
Environmental Stewardship	216	-	-	-	-
Homeland Security	21	-	-	-	-
Cooperative State Research, Education, and Extension Service					
Land-grant University System	610	601	542	495	476
Forest Service	312	233	227	200	255
Economic Research Service					
Economic and Social Science	71	69	67	66	64
National Agricultural Statistics Service					
Statistical	5	5	5	4	4
Total Research and Development	<u>\$ 2,046</u>	<u>\$ 1,918</u>	<u>\$ 1,740</u>	<u>\$ 1,649</u>	<u>\$ 1,592</u>

Non-Federal Physical Property

Food and Nutrition Service

FNS' non-Federal physical property consists of computer systems and other equipment obtained by the State and local governments to administer the Food Stamp Program (FSP). The total FSP expense for ADP Equipment & Systems has been reported as of the date of FNS' financial statements. FNS' non-Federal physical property also consists of computer systems and other equipment obtained by the State and local Governments to administer the Special Supplemental Nutrition Program for Women, Infants and Children.

Cooperative State Research, Education and Extension Service

The Extension 1890 Facilities Program supports the renovation of existing buildings and the construction of new facilities that permit faculty, students and communities to benefit fully from the partnership between USDA and the historically African-American land-grant universities.

Human Capital

Cooperative State Research, Education and Extension Service

The higher education programs include graduate fellowship grants, competitive challenge grants, Secondary/2-year Post Secondary grants, Hispanic serving institutions education grants, a multicultural scholars program, a Native American institutions program, a Native American institutions endowment fund, an Alaska Native Serving and Native Hawaiian Serving institutions program and a capacity-building program at the 1890 institutions. These programs enable universities to broaden their curricula, increase faculty development and student research projects, and increase the number of new scholars recruited in the food and agriculture sciences. CSREES also supports extension-related work at 1862 and 1890 land-grant institutions throughout the country through formula and competitive programs. CSREES supported the Outreach and Assistance for Disadvantaged Farmers Program for the first time in FY 2003. The purpose is to enhance the ability of minority and small farmers and ranchers to operate farming or ranching enterprises independently to assure adequate income and maintain reasonable lifestyles.

Food and Nutrition Service

FNS' human capital consists of employment and training (E&T) for the FSP. The E&T requires recipients of food stamp benefits to participate in an employment and training program as a condition to food stamp eligibility.

Outcome data for the E&T program is only available through the third quarter. As of this period, FNS' E&T program has placed 685,400 work registrants subject to the 3-month FSP participation limit. It also has declared 1,626,783 work registrants not subject to the limit in either job search, job training, job workfare, education or work experience.

Forest Service

The FS' Job Corps Civilian Conservation (Job Corps) Centers, in coordination with the National Parks Service, Fish and Wildlife Service, and Bureau of Reclamation, celebrated its 40th anniversary. The anniversary's theme was, "40 Years of Empowering Youth and Enhancing Communities and Natural Resources." Secretary of Agriculture Ann Veneman was the keynote speaker.

The anniversary event highlighted that, in the last 40 years, all the Job Corps Centers combined have contributed an appraised value of work of approximately \$1.5 billion in community projects, community and public structures, natural resources and fighting wildland fires. Some of the anniversary events were a presentation of the 40th anniversary video, the unveiling of the Job Corps Wall of Names (erected at the entrance of the Schenck Job Corps Center), visits to the Lyndon B. Johnson (the first Forest Service Job Corps Center) and the Oconaluftee Job Corps Centers, and remarks by past and present staff, center directors and students.

In partnership with the U.S. Department of Labor (DOL), the FS operates 18 Job Corps Centers. Job Corps is the only Federal residential employment and education training program for economically challenged young people ages 16 to 24. The program is designed to provide young adults with the skills necessary to become employable, independent, and productive citizens. It is administered in a structured, coeducational, residential environment that provides education, vocational and life-skills training, counseling, medical care, work experience, placement assistance and follow-up, recreational opportunities, and bi-weekly monetary stipends. Job Corps students choose from a wide variety of careers, such as urban forestry, heavy equipment operations and maintenance, business, clerical, carpentry, culinary arts, painting, cement and brick masonry, welding, auto mechanics, health services, building and apartment maintenance, warehousing, and plastering.

Job Corps is funded from DOL annually on a program year. The fiscal year is from July 1 to June 30. During Job Corps' FY 2004, accomplishments included the following:

- 8,133 participants received 3,780 placements with an average starting hourly wage of \$8.41, 32 cents more than the DOL national average;
- Approximately 1,857 female students received training in nontraditional vocations;
- 617 students received high school diplomas, and 1,438 students obtained general equivalency diplomas;
- Approximately 3,000 Job Corps students and staff assisted the agency in its firefighting efforts; and
- Students accomplished conservation work on NFS lands appraised at \$17.4 million.

Since 1964, FS' Job Corps Centers have trained and educated more than 235,000 young men and women. The agency is actively pursuing the transfer of two U.S. Department of Interior's Fish and Wildlife Job Corps Centers and their personnel to FS.

Agricultural Research Service

As the Nation's primary source for agricultural information, the National Agricultural Library (NAL) has a mission to increase the availability and utilization of agricultural information for researchers, educators, policymakers, consumers of agricultural products, and the public. The NAL is one of the world's largest and most accessible agricultural research libraries and plays a vital role in supporting research, education and applied agriculture.

NAL was created as the USDA library in 1862. It became a national library in 1962. One of four national libraries of the U.S. (with the Library of Congress, the National Library of Medicine and the National Library of Education), it is also the coordinator for a national network of State land-grant and USDA field libraries. In its international role, the NAL serves as the U.S. center for the international agricultural information system, coordinating and sharing resources and enhancing global access to agricultural data. The NAL collection of more than 3.5 million items and its leadership role in information services and technology applications combine to make it the foremost agricultural library in the world.

Risk Management Agency

In response to the Secretary's 1996 Risk Management Education (RME) initiative, and as mandated by the Federal Agricultural Improvement and Reform Act of 1996, FCIC has formed new partnerships with CSREES, the Commodity Futures Trading Commission, the USDA National Office of Outreach, Economic Research Service, and private industry. The partnerships are designed to leverage the Federal Government's funding of its RME program by using both public and private organizations to help educate their members in agricultural risk management. The RME effort was launched in 1997 with a Risk Management Education Summit that raised awareness of the tools and resources needed by farmers and ranchers to manage their risks. RMA built on this foundation during fiscal year 2003 by expanding State and Regional education partnerships. It also encouraged the development of information and technology decision aids, supported the National Future Farmers of America (FFA) Foundation with an annual essay contest facilitating local training workshops and supported cooperative agreements with educational and outreach organizations.

During FY 2004 and FY 2003, the RME worked toward the goals by funding risk management sessions, most of which targeted producers directly. The number of producers reached through these sessions is approximately 46,000 in FY 2004 and 62,000 in FY 2003. Additionally, some training sessions helped those who work with producers, such as lenders, agricultural educators, and crop insurance agents, better understand those areas of risk management with which they may be unfamiliar. Total RME obligations incurred by the FCIC were approximately \$9.8 million for fiscal year 2004 and \$9.4 million for fiscal year 2003. The following table summarizes the RME initiatives since fiscal year 2000:

	2004	2003	2002	2001	2000
	(dollars in millions)				
RME Obligations	\$ 10	9	6	5	1
Number of producers attending RME sessions	46,000	62,000	50,000	50,000	30,000

One of the directives of the Agricultural Risk Protection Act (ARPA) is to step up the FCIC's educational and outreach efforts in certain areas of the country that have been underserved historically by the Federal Crop Insurance Program. The Secretary determined that 15 states met the underserved criteria. These states are Maine, Massachusetts, Connecticut, Wyoming, New Jersey, New York, Delaware, Nevada, Pennsylvania, Vermont, Maryland, Utah, Rhode Island, New Hampshire and West Virginia.

Research and Development

Agricultural Research Service

ARS is the principal in-house research agency of USDA. Its mission is to conduct research to develop the following program activities:

Plant Sciences

The research emphasis is on increasing the productivity and quality of crop plants, and improving the competitiveness of agricultural products in domestic and world markets. The research involves developing improved production practices and methods for reducing crop losses caused by weeds, diseases, insects and other pests. The research also includes broadening the germplasm resources of plants and beneficial organisms to ensure genetic diversity for improving productivity.

Commodity Conversion and Delivery

The research program focuses on maximizing the use of agricultural products in domestic and international markets. New agricultural products and processes are developed along with technologies for reducing or eliminating post harvest losses caused by pests, spoilage, and physical and environmental damage. Also, research is conducted on food safety to reduce pathogens, naturally occurring toxicants, mycotoxins, and chemical residues in the food supply.

Animal Sciences

The research program places primary emphasis on increasing the productivity of animals and the quality of animal products. The research involves increasing the genetic capacity of animals for production, improving the efficiency of reproduction, improving animal nutrition and feed efficiency, and controlling or preventing losses from pathogens, diseases, parasites and insect pests. Additionally, the research includes the development of systems and technologies to manage and utilize animal wastes better.

Soil, Water, and Air Sciences

The research program is directed to managing and conserving the Nation's soil, water and air resources to maintain a stable and productive agriculture. The research focuses on developing technologies and systems to conserve water and protect its quality, enhance soil quality, reduce erosion and improve air quality. The effects of global change are also researched.

Human Nutrition

The research program emphasizes promoting optimum human health and well being through improved nutrition. Research is directed to defining the nutrient requirements of humans at all stages of the life cycle. The research also focuses on determining the nutrient content of agricultural products and processed foods consumed, and establishing the bioavailability of their nutrients.

Integration of Agricultural Systems

The research integrates scientific knowledge of agricultural production, processing and marketing into systems that optimize resources management and facilitate the transfer of technology to users.

Collaborative Research Program

Funds from the U.S. Agency for International Development allow USDA to provide short-term scientific exchanges with the new independent states of the former Soviet Union. The plan is designed to develop market-based agricultural systems necessary to meet the food needs of their populations. It also focuses on developing

and strengthening trade linkages between their countries and related agribusiness and agricultural enterprise in the U.S.

Product Quality/Value Added

ARS research enhances the economic viability and competitiveness of U.S. agriculture by maintaining the quality of harvested agricultural commodities or enhancing their marketability. It also expands domestic and global market opportunities through the development of value-added food and non-food products and processes, and reduces the Nation's dependence on foreign oil and improving the environment by developing alternate energy sources and increasing the use of agricultural crops as feedstocks for biofuels.

Livestock Production

ARS conducts research that develops biotechnological methods to use animal germplasm and associated genetic and genomic repositories and databases to ensure an abundant and safe food supply of animal products. Research also provides the knowledge to scientifically assess farm animal well being, reduce animal stress, increase animal health and improve the international competitiveness and sustainability of United States aquaculture.

Crop Production

ARS safeguards and utilizes plant, microbial and insect germplasm associated genetic and genomic databases, and bioinformatic tools to ensure an abundant, safe and inexpensive supply of food, feed, fiber, ornamentals and industrial products. The agency conducts fundamental research on plants that form the basis for greater crop productivity and efficiency, better product quality and safety, improved protection against pests and diseases, and sustainable practices that maintain environmental quality.

Food Safety

ARS research provides the means to ensure that the food supply is safe for consumers, and that food and feed meet foreign and domestic regulatory requirements. Research also focuses on the reduction of the hazards of both introduced and naturally occurring toxicants in foods and feed. These toxicants include pathogenic bacteria, viruses, parasites, chemical contaminants, mycotoxins produced by fungi growing on plants, and naturally occurring toxins produced by plants.

Livestock Protection

ARS produces the knowledge and technology to reduce the economic losses from infectious, genetic and metabolic diseases of livestock and poultry. This work also helps eliminate the losses to animal production and products caused by arthropod diseases and arthropod borne trauma. An arthropod disease refers to one transmitted via the bite or feces of a mite, tick or other insect. The research also reduces the risk to humans of arthropod borne zoonotic diseases, enhances the safety of animal products and increases the quality of life for humans.

Crop Protection

ARS provides the knowledge to reduce the losses caused by plant diseases by defining practices that are effective and affordable, and maintain environmental quality. Research also provides the technology to manage pest populations below economic damage thresholds. It does this by integrating by the integration of environmentally compatible strategies that are based on an increased understanding of the pest's biology and ecology.

Environmental Stewardship

Forest, rangeland and pasture ecosystems provide a number of goods and services that are critical to maintaining a healthy and livable environment. Among these are clean water, clean air, productive soils, carbon storage, biodiversity, scenic vistas and recreational opportunities. Additionally, they are an important source of food, fiber and forest products. Even though these systems are managed less intensively than conventional farmlands, sound scientific management is very important. Intensively managed croplands, in addition to providing food and fiber, play a critical role in determining air, water and soil quality. Sound scientific

management of productive croplands should lead to the sustainability high levels of soil, air, and water quality and benefit both agricultural production and the environment.

The NAL also provides support to ARS' research programs.

Cooperative State Research, Education, and Extension Service Program (CSREES)

CSREES participates in a nationwide land-grant university system of agriculture related research and program planning and coordination between State institutions and USDA. It assists in maintaining cooperation among the State institutions, and between the State institutions and their Federal research partners. CSREES administers grants and formula payments to State institutions to supplement State and local funding for agriculture research.

Forest Service (FS)

FS Research and Development (R&D) provides reliable, science-based information that is incorporated into natural resource decision making. Responsibilities include developing new technology and then adapting and transferring this technology to facilitate more effective resource management. Some major research areas include the following:

- Vegetation management and protection;
- Wildlife, fish, watershed and air;
- Resource valuation and use research; and
- Forest Resources inventory and monitoring.

Research staff is involved in all areas of the FS, supporting agency goals by providing more efficient and effective methods where applicable.

A representative summary of FY 2004 accomplishments include the following:

- 250 new interagency agreements and contracts;
- 445 interagency agreements and contracts continued;
- 1,539 articles published in journals;
- 2,419 articles published in all other publications;
- 8 patents granted; and
- 27 rights to inventions established.

Economic Research Service

ERS provides economic and other social science research and analysis for public and private decisions on agriculture, food, natural resources, and rural America. Research results and economic indicators on these important issues are fully disseminated through published and electronic reports and articles; special staff analyses, briefings, presentations, and papers; databases; and individual contacts. ERS' objective information and analysis helps public and private decision makers attain the goals that promote agricultural competitiveness, food safety and security, a well-nourished population, environmental quality, and a sustainable rural economy.

National Agricultural Statistics Service

Statistical research and service are conducted to improve the statistical methods and related technologies used in developing U.S. agricultural statistics. The highest priority of the research agenda is to aid the NASS estimation program through development of better estimators at lower cost and with less respondent burden. This means greater efficiency in sampling and data collection coupled with higher quality data upon which to base the official estimates. Additionally, new products for data users are being developed with the use of technologies such as remote sensing and geographic information systems. Continued service to users will be increasingly dependent upon methodological and technological efficiencies.

REQUIRED SUPPLEMENTARY INFORMATION

STATEMENT OF BUDGETARY RESOURCES

FY 2004	FFAS		RD		FNCS	FSIS	MRP	NRE	REE	DO	Total	
	Budgetary	Non Budgetary Financing Accounts	Budgetary	Non Budgetary Financing Accounts	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Non Budgetary Financing Accounts
Budgetary Resources:												
Budget Authority:												
Appropriations Received	\$ 30,166	\$ -	\$ 3,457	\$ -	\$ 42,592	\$ 788	\$ 7,232	\$ 7,106	\$ 2,466	\$ 509	\$ 94,316	\$ -
Borrowing Authority (Note 21 & 22)	29,004	2,876	2	8,480	-	-	-	-	-	-	29,006	11,356
Net Transfers	(1,771)	-	3	-	4,715	(1)	(4,569)	1,603	12	8	-	-
Unobligated Balances:												
Beginning of Period (Note 23)	3,431	4,411	2,298	1,391	8,077	65	583	1,406	669	233	16,762	5,802
Net Transfers, Actual	(2)	-	-	-	-	-	(195)	4	-	-	(193)	-
Spending Authority From Offsetting Collections:												
Earned												
Collected	16,083	2,576	5,853	4,943	84	124	185	505	120	508	23,462	7,519
Change in Receivables from Federal Sources	(653)	150	(16)	(4)	-	(2)	(12)	(11)	12	10	(672)	146
Change in Unfilled Customer Orders												
Advances Received	943	-	-	-	2	-	-	(10)	-	-	935	-
Without Advances from Federal Sources	(3)	(2)	-	(95)	-	-	-	5	10	77	99	(97)
Recoveries of Prior Year Obligations	2,328	91	309	543	468	93	351	629	1,005	73	5,256	634
Permanently not Available	(41,590)	(2,028)	(2,981)	(2,348)	(2,369)	(20)	(8)	(59)	(30)	(8)	(47,065)	(4,376)
Total Budgetary Resources	\$ 37,936	\$ 8,074	\$ 8,925	\$ 12,910	\$ 53,569	\$ 1,047	\$ 3,567	\$ 11,888	\$ 4,264	\$ 1,410	\$ 121,906	\$ 20,984

REQUIRED SUPPLEMENTARY INFORMATION

FY 2004	FFAS		RD		FNCS	FSIS	MRP	NRE	REE	DO	Total	
	Budgetary	Non Budgetary Financing Accounts	Budgetary	Non Budgetary Financing Accounts	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Non Budgetary Financing Accounts
Status of Budgetary Resources:												
Obligations Incurred (Note 20):												
Direct	\$ 8,835	\$ 3,563	\$ 4,665	\$ 11,096	\$ 45,783	\$ 847	\$ 2,395	\$ 8,813	\$ 3,565	\$ 605	\$ 75,508	\$ 14,659
Reimbursable	25,563	-	509	-	18	146	281	323	202	600	27,642	-
Unobligated Balance:												
Apportioned	2,949	4,488	396	1,433	619	1	335	1,514	428	154	6,396	5,921
Exempt from Apportionment	3	6	-	-	-	-	524	5	16	3	551	6
Other Available												
Unobligated Balance not Available	586	17	3,355	381	7,149	53	32	533	53	48	11,809	398
Total Status of Budgetary Resources	37,936	8,074	8,925	12,910	53,569	1,047	3,567	11,888	4,264	1,410	12,1906	20,984
Relationship of Obligations to Outlays:												
Obligated Balance, Net, Beginning of Period (Note 23)	6,429	482	6,916	14,389	2,796	88	495	2,789	1,582	99	21,194	14,871
Obligations Incurred	34,398	3,563	5,174	11,096	45,801	993	2,676	9,136	3,767	1,205	103,150	14,659
Less:												
Recoveries of Prior Year Obligations	2,328	91	309	543	468	93	351	629	1,005	73	5,256	634
Change from Federal Sources	(656)	148	(16)	(99)	-	(2)	(12)	4	22	87	(573)	49
Obligated Balance, Net, End of Period:												
Accounts Receivable	(1,437)	(316)	(78)	-	-	(22)	(39)	(268)	(62)	(72)	(1,978)	(316)
Unfilled Customer Orders from Federal Sources	(5)	(16)	-	(619)	-	-	-	(121)	(105)	(181)	(412)	(635)
Undelivered Orders	2,234	188	6,320	17,547	531	92	478	2,641	1,804	253	14,353	17,735
Accounts Payable	5,280	352	285	-	2,517	31	98	679	76	81	9,047	352
Total Obligated Balance, Net, End of Period	6,072	208	6,527	16,928	3,048	101	537	2,931	1,713	81	21,010	17,136
Disbursements	33,083	3,598	5,270	8,113	45,081	889	2,295	8,361	2,609	1,063	98,651	11,711
Collected and Advances Received	(17,026)	(2,576)	(5,853)	(4,943)	(86)	(124)	(185)	(495)	(120)	(508)	(24,397)	(7,519)
Outlays	16,057	1,022	(583)	3,170	44,995	765	2,110	7,866	2,489	555	74,254	4,192
Less: Offsetting Receipts	995	600	387	-	-	3	141	385	17	-	1,928	600
Net Outlays	\$ 15,062	\$ 422	\$ (197)	\$ 3,170	\$ 44,995	\$ 762	\$ 1,969	\$ 7,481	\$ 2,472	\$ 555	\$ 72,326	\$ 3,592

FY 2003	FFAS		RD		FNCS	FSIS	MRP	NRE	REE	DO	Total	
	Budgetary	Non Budgetary Financing Accounts	Budgetary	Non Budgetary Financing Accounts	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Non Budgetary Financing Accounts
Budgetary Resources:												
Budget Authority:												
Appropriations Received	\$ 25,338	\$ -	\$ 3,545	\$ -	\$ 37,148	\$ 763	\$ 7,074	\$ 6,873	\$ 2,667	\$ 559	\$ 83,967	-
Borrowing Authority (Note 21& 22)	49,343	2,881	-	7,376	-	-	-	-	-	-	49,343	10,257
Net Transfers	(2,091)	-	82	-	4,819	-	(4,299)	1,326	(30)	4	(189)	-
Unobligated Balances:												
Beginning of Period (Note 23)	3,647	4,188	1,487	1,076	12,216	58	626	1,001	562	191	19,788	5,264
Net Transfers, Actual	(316)	-	-	-	-	-	-	(129)	(9)	-	(453)	-
Spending Authority From Offsetting Collections:												
Earned												
Collected	16,248	3,250	6,382	4,472	101	106	171	785	111	398	24,302	7,722
Change in Receivables from Federal Sources	1,467	58	69	4	-	1	(8)	88	(18)	3	1,602	62
Change in Unfilled Customer Orders												
Advances Received	292	-	-	-	-	-	(1)	(1)	(1)	-	289	-
Without Advances from Federal Sources	2	8	-	48	-	-	-	(50)	18	77	47	56
Recoveries of Prior Year Obligations	1,416	91	183	346	470	80	282	365	978	81	3,865	437
Temporarily not Available Pursuant to Public Law												
Permanently not Available	(48,413)	(2,408)	(4,101)	(1,867)	(4,572)	(5)	(14)	(33)	(25)	(4)	(57,167)	(4,275)
Total Budgetary Resources	<u>\$ 46,934</u>	<u>\$ 8,068</u>	<u>\$ 7,657</u>	<u>\$ 11,455</u>	<u>\$ 50,182</u>	<u>\$ 1,003</u>	<u>\$ 3,831</u>	<u>\$ 10,225</u>	<u>\$ 4,253</u>	<u>\$ 1,309</u>	<u>\$ 125,394</u>	<u>\$ 19,523</u>

REQUIRED SUPPLEMENTARY INFORMATION

FY 2003	FFAS		RD		FNCS	FSIS	MRP	NRE	REE	DO	Total	
	Budgetary	Non Budgetary Financing Accounts	Budgetary	Non Budgetary Financing Accounts	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Non Budgetary Financing Accounts
Status of Budgetary Resources:												
Obligations Incurred (Note 20):												
Direct	\$ 8,999	\$ 3,658	\$ 4,872	\$ 10,063	\$ 42,044	\$ 836	\$ 3,053	\$ 8,117	\$ 3,427	\$ 592	\$ 71,940	\$ 13,721
Reimbursable	34,504	-	487	-	61	102	195	701	158	484	36,692	-
Unobligated Balance:												
Apportioned	2,772	4,300	317	1,043	760	28	317	956	555	145	5,850	5,343
Exempt from Apportionment	11	1	-	-	-	1	246	35	32	3	328	1
Other Available	9	-	-	-	-	-	-	-	-	-	9	-
Unobligated Balance not Available	639	109	1,981	349	7,317	36	20	416	81	85	10,575	458
Total Status of Budgetary Resources	46,934	8,068	7,657	11,455	50,182	1,003	3,831	10,225	4,253	1,309	125,394	9,523
Relationship of Obligations to Outlays:												
Obligated Balance, Net, Beginning of Period (Note 23)	4,883	604	6,774	13,158	2,354	73	325	2,172	1,494	105	18,180	13,762
Obligations Incurred	43,503	3,658	5,359	10,063	42,105	938	3,248	8,818	3,585	1,076	108,632	13,721
Less:												
Recoveries of Prior Year Obligations	1,416	91	193	346	470	80	282	365	978	81	3,865	437
Change from Federal Sources	1,469	66	69	52	-	1	(8)	38	-	80	1,649	18
Obligated Balance, Net, End of Period:												
Accounts Receivable	(2,091)	(166)	(94)	(4)	-	(24)	(50)	(279)	(50)	(63)	(2,651)	(170)
Unfilled Customer Orders from Federal Sources	(8)	(8)	-	(714)	-	-	-	(106)	(96)	(103)	(313)	(732)
Undelivered Orders	2,552	246	6,599	15,105	436	91	478	2,243	1,669	210	14,278	15,351
Accounts Payable	5,976	420	411	2	2,360	21	67	931	59	55	9,880	422
Total Obligated Balance, Net, End of Period	6,429	482	6,916	14,389	2,796	88	495	2,789	1,582	99	21,914	14,871
Disbursements	39,072	3,623	4,955	8,434	41,193	842	2,804	7,798	2,519	921	100,104	12,057
Collected and Advances Received	(16,541)	(3,250)	(6,382)	(4,472)	(101)	(106)	(170)	(784)	(110)	(398)	(24,591)	(7,722)
Outlays	22,531	373	(1,427)	3,962	41,092	736	2,634	7,014	2,409	523	75,513	4,335
Less: Offsetting Receipts	353	1,292	791	-	-	3	43	439	34	-	1,763	1,292
Net Outlays	\$ 22,178	\$ (919)	\$ (2,218)	\$ 3,962	\$ 41,092	\$ 733	\$ 2,491	\$ 6,575	\$ 2,375	\$ 523	\$ 73,750	\$ 3,043

DEFERRED MAINTENANCE

FY 2004	Cost to Return to Acceptable Condition	Cost of Critical Maintenance	Cost of Non-critical Maintenance
Asset Class			
Forest Service			
Roads, Bridges, and Major Culverts	\$ 5,280	\$ 774	\$ 4,506
Buildings	462	129	333
Developed Recreation Sites	178	52	126
Dams	29	10	19
Range Structures	464	464	-
Wildlife, Fish, and Threatened and Endangered Species Structures	6	4	2
Trails	107	37	70
Heritage Assets	10	5	5
Total Forest Service	\$ 6,536	\$ 1,475	\$ 5,061

FY 2003	Cost to Return to Acceptable Condition	Cost of Critical Maintenance	Cost of Non-critical Maintenance
Asset Class			
Forest Service			
Roads, Bridges, and Major Culverts	\$ 3,851	\$ 696	\$ 3,155
Buildings	421	128	293
Developed Recreation Sites	189	55	134
Dams	29	10	19
Range Structures	490	490	-
Wildlife, Fish, and Threatened and Endangered Species Structures	5	3	2
Trails	120	42	78
Heritage Assets	83	45	38
Total Forest Service	\$ 5,188	\$ 1,469	\$ 3,719

Deferred maintenance is scheduled maintenance delayed until a future period. Deferred maintenance represents a cost that the government has elected not to fund and, therefore, the costs are not reflected in the financial statements. Maintenance is defined to include preventative maintenance, normal repairs, replacement of parts and structural components, and other activities needed to preserve the asset so that it continues to provide acceptable service and achieve its expected life. It excludes activities aimed at expanding the capacity of an asset or otherwise upgrading it to service needs different from, or significantly greater than, those originally intended. Deferred maintenance is reported for general PP&E, stewardship assets, and heritage assets. It also is reported separately for critical and non-critical amounts of maintenance needed to return each class of asset to its acceptable operating condition.

FS uses condition surveys to estimate deferred maintenance on all major classes of PP&E. There is no deferred maintenance for fleet vehicles and computers that are managed through the Agency’s working capital fund. Each fleet vehicle is maintained according to schedule. The cost of maintaining the remaining classes of equipment is expensed.

Condition of Administrative Facilities

The condition of administrative facilities ranges from poor to good. Approximately half of these buildings are obsolete or in poor condition needing major repair or renovation. Approximately one fourth is in fair condition and the remaining in good condition.

Condition of Dams

The overall condition of dams is below acceptable. The condition of dams is acceptable when current design standards are met and no deficiencies that threaten the safety of the structure or public are detected.

Condition of General Property, Plant and Equipment

The standards for acceptable operating condition for various classes of general PP&E, stewardship and heritage assets are:

Buildings

Comply with the National Life Safety Code, the Forest Service Health and Safety Handbook, and the Occupational Safety Health Administration as determined by condition surveys.

Roads and Bridges

Conditions of the National Forest System Road system are measured by various standards that include applicable regulations for the Highway Safety Act developed by the Federal Highway Administration, best management practices for road construction and maintenance developed by the Environmental Protection Agency and the states to implement the non-point source provisions of the Clean Water Act, road management objectives developed through the forest planning process prescribed by the National Forest Management Act, and the requirements of FS manuals and handbooks.

Developed Recreation Sites

This category includes campgrounds, trailheads, trails, wastewater facilities, interpretive facilities, and visitor centers. All developed sites are managed in accordance with Federal laws and regulations (CFR 36). Detailed management guidelines are contained in the Forest Service Manual (FSM 2330, Publicly Managed Recreation Opportunities) and regional and forest level user guides. Standards of quality for developed recreation sites were developed under the meaningful measures system and established for the following categories: health and cleanliness, settings, safety and security, responsiveness, and the condition of facility.

Range Structures

The condition assessment is based on: 1) a determination by knowledgeable range specialists or other district personnel that the structure performs as intended, and 2) a determination through the use of a protocol system to assess conditions based on age. A long-range methodology is used to gather this data.

Dams

Managed according to Forest Service Manual 7500, Water Storage and Transmission, and Forest Service Handbook 7509.11, Dams Management as determined by condition surveys.

Wildlife, Fish and Threatened and Endangered Species Structures

Field biologists at the forest used their professional judgment to determine deferred maintenance. Deferred maintenance was considered as upkeep that had not occurred on a regular basis. The amount was considered critical if resource damage or species endangerment would likely occur if maintenance was deferred much longer.

Trails

Trails are managed according to Federal law and regulations (CFR 36). More specific direction is contained in the Forest Service Manual (FSM 2350, Trail, River, and Similar Recreation Opportunities) and the Forest Service Trails Management Handbook (FSH 2309.18).

Heritage Assets

These assets include archaeological sites that require determinations of National Register of Historic Places status, National Historic Landmarks, and significant historic properties. Some heritage assets may have historical significance, but their primary function within the agency is as visitation or recreation sites and, therefore, may not fall under the management responsibility of the heritage program.

INTRAGOVERNMENTAL AMOUNTS

Assets

FY 2004	Fund		Accounts	Other
	Balance with Treasury	Investments	Receivable	
Trading Partner (Code)				
Unidentified (00)	\$ -	\$ -	\$ 143	\$ (5)
Department of Interior (14)	-	-	29	-
Department of Justice (15)	-	-	1	-
Department of Labor (16)	-	-	-	-
Department of the Navy (17)	-	-	1	-
U.S. Postal Service (18)	-	-	-	6
Department of State (19)	-	-	-	-
Department of the Treasury (20)	39,488	56	10	-
Department of the Army (21)	-	-	10	-
Office of Personnel Management (24)	-	-	2	-
General Services Administration (47)	-	-	7	-
Federal Deposit Insurance Corporation (51)	-	-	-	-
Department of Transportation (69)	-	-	298	-
Department of Homeland Security (70)	-	-	9	-
Agency for International Development (72)	-	-	54	-
Department of Health and Human Services (75)	-	-	-	-
Department of Energy (89)	-	-	2	-
U.S. Army Corps of Engineers (96)	-	-	1	-
Office of the Secretary of Defense-Defense Agencies (97)	-	-	12	-
Treasury General Fund (99)	-	-	46	-
Total Assets	\$ 39,488	\$ 56	\$ 625	\$ 1

FY 2003	Fund		Accounts	Other
	Balance with Treasury	Investments	Receivable	
Trading Partner (Code)				
Unidentified (00)	\$ -	\$ 4	\$ 47	\$ 5
Department of Interior (14)	-	-	9	-
Department of Justice (15)	-	-	1	-
Department of Labor (16)	-	-	4	-
Department of the Navy (17)	-	-	1	-
U.S. Postal Service (18)	-	-	1	3
Department of State (19)	-	-	(1)	-
Department of the Treasury (20)	36,450	41	67	-
Department of the Army (21)	-	-	7	-
Office of Personnel Management (24)	-	-	1	-
General Services Administration (47)	-	-	6	-
Federal Deposit Insurance Corporation (51)	-	-	1	-
Department of Transportation (69)	-	-	428	(1)
Department of Homeland Security (70)	-	-	7	-
Agency for International Development (72)	-	-	33	-
Department of Health and Human Services (75)	-	-	13	-
Department of Energy (89)	-	-	3	-
U.S. Army Corps of Engineers (96)	-	-	1	-
Office of the Secretary of Defense-Defense Agencies (97)	-	-	10	-
Treasury General Fund (99)	-	-	7	-
Total Assets	\$ 36,450	\$ 45	\$ 646	\$ 7

Liabilities

	Accounts Payable	Debt	Resources Payable to Treasury	Other
FY 2004				
Trading Partner (Code)				
Unidentified (00)	\$ 4	\$ -	\$ -	\$ 205
Architect of the Capitol (01)	-	-	-	(5)
Government Printing Office (04)	-	-	-	-
Department of Commerce (13)	-	-	-	3
Department of Interior (14)	-	-	-	129
Department of Justice (15)	-	-	-	22
Department of Labor (16)	-	-	-	166
Department of the Navy (17)	-	-	-	-
U.S. Postal Service (18)	-	-	-	1
Department of State (19)	-	-	-	(4)
Department of the Treasury (20)	1	69,053	-	20
Department of the Army (21)	-	-	-	5
Office of Personnel Management (24)	-	-	-	39
General Services Administration (47)	-	-	-	21
Tennessee Valley Authority (64)	-	-	-	1
Environmental Protection Agency (68)	-	-	-	1
Department of Transportation (69)	-	-	-	1
Department of Homeland Security (70)	-	-	-	-
Agency for International Development (72)	804	-	-	1
Department of Health and Human Services (75)	-	-	-	30
Department of Energy (89)	-	-	-	1
U.S. Army Corps of Engineers (96)	-	-	-	(133)
Office of the Secretary of Defense-Defense Agencies (97)	-	-	-	1
Treasury General Fund (99)	-	-	17,469	887
Total Liabilities	\$ 809	\$ 69,053	\$ 17,469	\$ 1,392

	Accounts Payable	Debt	Resources Payable to Treasury	Other
FY 2003				
Trading Partner (Code)				
Unidentified (00)	\$ 4	\$ -	\$ -	\$ 289
Architect of the Capitol (01)	-	-	-	-
Government Printing Office (04)	-	-	-	(2)
Department of Commerce (13)	-	-	-	2
Department of Interior (14)	-	-	-	17
Department of Justice (15)	-	-	-	24
Department of Labor (16)	-	-	-	186
Department of the Navy (17)	-	-	-	(1)
U.S. Postal Service (18)	-	-	-	-
Department of State (19)	-	-	-	(4)
Department of the Treasury (20)	-	76,140	-	242
Department of the Army (21)	-	-	-	4
Office of Personnel Management (24)	-	-	-	28
General Services Administration (47)	-	-	-	22
Tennessee Valley Authority (64)	-	-	-	-
Environmental Protection Agency (68)	-	-	-	-
Department of Transportation (69)	-	-	-	-
Department of Homeland Security (70)	-	-	-	1
Agency for International Development (72)	1,202	-	-	4
Department of Health and Human Services (75)	-	-	-	-
Department of Energy (89)	-	-	-	-
U.S. Army Corps of Engineers (96)	-	-	-	(100)
Office of the Secretary of Defense-Defense Agencies (97)	-	-	-	1
Treasury General Fund (99)	-	-	16,981	2,224
Total Liabilities	\$ 1,206	\$ 76,140	\$ 16,981	\$ 2,937

Earned Revenue

	<u>FY 2004</u>	<u>FY 2003</u>
Earned Revenue:		
Trading Partner (Code)		
Unidentified (00)	\$ 14	\$ (2)
Library of Congress (03)	1	1
General Accounting Office (05)	1	1
Executive Office of the President (11)	1	1
Department of Commerce (13)	6	6
Department of Interior (14)	60	80
Department of Justice (15)	19	16
Department of Labor (16)	19	27
Department of the Navy (17)	2	2
U.S. Postal Service (18)	1	1
Department of State (19)	4	4
Department of the Treasury (20)	631	658
Department of the Army (21)	28	19
Office of Personnel Management (24)	3	2
Smithsonian Institution (33)	-	1
Department of Veterans Affairs (36)	-	1
General Services Administration (47)	50	53
Federal Deposit Insurance Corporation (51)	1	2
Department of the Air Force (57)	1	(4)
Environmental Protection Agency (68)	6	7
Department of Transportation (69)	15	20
Department of Homeland Security (70)	15	114
Agency for International Development (72)	67	9
Small Business Administration (73)	1	-
Department of Health and Human Services (75)	9	5
National Aeronautics and Space Administration (80)	1	2
Department of Housing and Urban Development (86)	1	2
Department of Energy (89)	5	17
Independent Agencies (95)	1	-
U.S. Army Corps of Engineers (96)	17	15
Office of the Secretary of Defense-Defense Agencies (97)	13	13
Total Earned Revenue	<u>\$ 993</u>	<u>\$ 1,073</u>

Cost to Generate Earned Revenue

	<u>FY 2004</u>	<u>FY 2003</u>
Functional Classification		
350 Agriculture	\$ 709	\$ 630
Total Cost to Generate Revenue	<u>\$ 709</u>	<u>\$ 630</u>

Cost

	FY 2004	FY 2003
Trading Partner (Code)		
Unidentified (00)	\$ 102	\$ 1,461
Library of Congress (03)	1	1
Government Printing Office (04)	25	17
General Accounting Office (05)	11	21
Department of Commerce (13)	84	109
Department of Interior (14)	11	15
Department of Justice (15)	102	153
Department of Labor (16)	2	7
Department of the Navy (17)	10	19
U.S. Postal Service (18)	31	36
Department of State (19)	3,914	3,927
Department of the Treasury (20)	7	7
Department of the Army (21)	1,639	1,502
Office of Personnel Management (24)	6	10
Social Security Administration (28)	4	1
Department of Veterans Affairs (36)	487	384
General Services Administration (47)	1	1
Office of Special Counsel (62)	1	1
Tennessee Valley Authority (64)	9	199
Environmental Protection Agency (68)	(7)	(39)
Department of Transportation (69)	(188)	-
Department of Homeland Security (70)	1	-
Department of Health and Human Services (75)	134	24
National Aeronautics and Space Administration (80)	4	6
Department of Energy (89)	9	7
Department of Education (91)	1	1
Federal Mediation and Conciliation Service (93)	-	1
Independent Agencies (95)	-	1
U.S. Army Corps of Engineers (96)	18	8
Office of the Secretary of Defense-Defense Agencies (97)	11	5
Treasury General Fund (99)	-	3
Total Cost	\$ 6,430	\$ 7,888

Non-exchange Revenue

	FY 2004		FY 2003	
	Transfers- In	Transfers- Out	Transfers- In	Transfers- Out
Trading Partner (Code)				
Unidentified (00)	\$ 395	\$ (376)	\$ 2,189	\$ (1,843)
Department of Commerce (13)	-	(80)	3	-
Department of Interior (14)	131	(13)	-	-
Department of Justice (15)	1	-	-	-
Department of Labor (16)	100	(1)	108	-
Department of State (19)	5	-	6	-
Department of the Treasury (20)	-	-	-	-
Appalachian Regional Commission (46)	16	-	16	-
Department of Transportation (69)	12	-	-	-
Department of Homeland Security (70)	30	(194)	-	(151)
Agency for International Development (72)	-	(696)	-	(1,196)
Department of Health and Human Services (75)	-	-	58	-
Independent Agencies (95)	3	-	-	-
Treasury General Fund (99)	5,930	(3,991)	6,954	(4,592)
Total Non-exchange Revenue	\$ 6,623	\$ (5,351)	\$ 9,334	\$ (7,782)

Segment Information

The Departmental Working Capital Fund and the FS Working Capital Fund are not reported separately in the consolidated financial statements. The following information summarizes the working capital funds' financial condition and results of operations as of and for the fiscal years ending September 30, 2004, and 2003.

FY 2004	Departmental Working Capital Fund	Forest Service Working Capital Fund	Total Working Capital Funds
Condensed Information			
Fund Balance	\$ 109	\$ 139	\$ 248
Accounts Receivable	29	3	32
Property, Plant, and Equipment	52	242	294
Other Assets	1	-	1
Total Assets	\$ 191	\$ 384	\$ 575
Liabilities and Net Position			
Accounts Payable	\$ 2	\$ 1	\$ 3
Other Liabilities	77	24	101
Unexpended Appropriations	87	9	96
Cumulative Results of Operations	25	350	375
Total Liabilities and Net Position	\$ 191	\$ 384	\$ 575
	Cost of Goods and Services Provided	Related Exchange Revenue	Excess of Costs Over Exchange Revenue
Product or Business Line			
Departmental Working Capital Fund:			
Finance and Management	\$ 257	\$ 250	\$ 7
Communications	11	11	-
Information Technology	96	97	(1)
Administration	34	33	1
Executive Secretariat	3	3	-
Total Departmental Working Capital Fund	401	394	7
Forest Service Working Capital Fund:			
Other	263	238	25
Total Working Capital Funds	\$ 664	\$ 632	\$ 32

FY 2003	Departmental Working Capital Fund	Forest Service Working Capital Fund	Total Working Capital Funds
Condensed Information			
Fund Balance	\$ 86	\$ 134	\$ 220
Accounts Receivable	17	1	18
Property, Plant, and Equipment	47	275	322
Other Assets	4	-	4
Total Assets	\$ 154	\$ 410	\$ 564
Liabilities and Net Position			
Accounts Payable	\$ 2	\$ 1	\$ 3
Other Liabilities	55	34	89
Unexpended Appropriations	44	-	44
Cumulative Results of Operations	53	375	428
Total Liabilities and Net Position	\$ 154	\$ 410	\$ 564
	Cost of Goods and Services Provided	Related Exchange Revenue	Excess of Costs Over Exchange Revenue
Product or Business Line			
Departmental Working Capital Fund:			
Finance and Management	\$ 222	\$ 203	\$ 19
Communications	6	6	-
Information Technology	89	87	2
Administration	33	28	5
Executive Secretariat	2	2	-
Total Departmental Working Capital Fund	352	326	26
Forest Service Working Capital Fund:			
Other	369	224	145
Total Working Capital Funds	\$ 721	\$ 550	\$ 171

Departmental Working Capital Fund

Services provided by the Departmental Working Capital Fund include the following:

- Administrative and Supply Services;
- Video, Teleconferencing, Graphic and Exhibit Services;
- Payroll, Accounting and Administrative Services and Thrift Saving Plan Support;
- ADP Services, Application Development and Telecommunications Services; and
- Executive correspondence control and tracking.

Major customers of the fund are the FS and the Thrift Investment Board.

Forest Service Working Capital Fund

Services provided by FS Working Capital Fund include the following:

- Fleet services, rental and maintenance;
- Aircraft services, operation and maintenance;
- Supply services; and
- Computer services.

Major customers of the fund are FS units.

V. REPORT OF THE OFFICE OF INSPECTOR GENERAL



U.S. Department of Agriculture

Office of Inspector General
Financial & IT Operations

Audit Report

U.S. Department of Agriculture's Consolidated Financial Statements for Fiscal Years 2004 and 2003

Report No. 50401-53-FM
November 2004



UNITED STATES DEPARTMENT OF AGRICULTURE
OFFICE OF INSPECTOR GENERAL
Washington, D.C. 20250



DATE:

REPLY TO

ATTN OF: 50401-53-FM

SUBJECT: U.S. Department of Agriculture's Consolidated Financial Statements for Fiscal Years 2004 and 2003

TO: Patricia E. Healy
Acting Chief Financial Officer
Office of the Chief Financial Officer

ATTN: Kathy Donaldson
Agency Liaison Officer
Office of the Chief Financial Officer

This report presents the results of our audit of the U.S. Department of Agriculture's consolidated financial statements for the fiscal years ending September 30, 2004 and 2003. The report contains an unqualified opinion and the results of our assessment of the Department's internal control structure and compliance with laws and regulations.

In accordance with Departmental Regulation 1720-1, please furnish a reply within 60 days describing the corrective action taken or planned, including the timeframes, on our recommendations. Please note that the regulation requires a management decision to be reached on all findings and recommendations within a maximum of 6 months from report issuance.

We appreciate the courtesies and cooperation extended to us during the audit.

Phyllis K. Fong
Inspector General

Executive Summary

U.S. Department of Agriculture's Consolidated Financial Statements for Fiscal Years 2004 and 2003 (Report No. 50401-53-FM)

Purpose

Our audit objectives were to determine whether (1) the consolidated financial statements present fairly, in all material respects, in accordance with generally accepted accounting principles, the assets, liabilities, and net position; net costs; changes in net position; budgetary resources; and reconciliation of net costs to budgetary obligations, (2) the internal control objectives were met, (3) the Department complied with laws and regulations for those transactions and events that could have a material effect on the consolidated financial statements, and (4) the information in the Performance and Accountability Report was materially consistent with the information in the consolidated financial statements.

We conducted our audit at the financial offices of various U.S. Department of Agriculture (USDA) agencies and the Office of the Chief Financial Officer (OCFO) located in Washington, D.C., and its National Finance Center located in New Orleans, Louisiana. We also performed site visits to selected agencies' field offices.

Results in Brief

As discussed in Note 20 to the financial statements, USDA restated its fiscal year 2003 consolidated financial statements to correct errors disclosed during the fiscal year 2004 audit as follows:

- The Forest Service corrected errors totaling about \$383 million for alignment of budgetary and proprietary account relationships and posting errors; unsupported balances in various suspense and deposit clearing funds; Fund Balance with Treasury and associated custodial liability; and certain revenue transactions.
- The Food and Nutrition Service, Natural Resources Conservation Service, and Animal and Plant Health Inspection Service corrected errors totaling about \$4.7 billion, \$478 million, and \$311 million, respectively, for improper recognition of appropriations used.
- The Federal Crop Insurance Corporation corrected errors totaling about \$1.17 billion for obligations and obligated balances carried forward from fiscal year 2002. In addition, the Federal Crop Insurance Corporation changed its accounting policy for funds held in escrow for crop insurance losses.
- The Commodity Credit Corporation corrected errors of about \$188 million in amounts for intragovernmental costs previously recorded as costs with the public.

- The Department corrected about \$176 million of Non-USDA disbursements recorded on its fiscal year 2003 Statement of Budgetary Resources.

For fiscal year 2003, the correction of these errors increased the ending balance of Unexpended Appropriations by over \$5 billion and decreased the ending balance of Cumulative Results by over \$5 billion. Consequently, the beginning balances for these line items for fiscal year 2004 changed by the same amounts.

In our Report on Internal Control Over Financial Reporting, we reported that continued improvements are needed in financial management across USDA and continued improvements are needed in information technology security.

In our Report on Compliance with Laws and Regulations, we continued to note where further actions are necessary related to improving financial management systems.

Key

Recommendations

OCFO has immediate and long term plans to address most of the weaknesses in its financial management systems. For example, USDA recently implemented a Department-wide property system. The key recommendations in this report were limited to additional improvements in financial management and enhancing the reporting and tracking of weaknesses within financial management and information technology.

Agency Position

OCFO generally agreed with the findings and recommendations in this report except it did not concur with our conclusion that the Statement of Financing and Rural Development errors constituted material weaknesses. Additionally, OCFO did not agree with our conclusion that the extensive adjustments made after September 30 diminish the utility of financial data during the year.

OCFO Response to Adjustments:

We will continue to make process improvements to limit yearend adjustments. However, we do not concur that yearend adjustments result in diminishing the utility of financial data during the year to assist management in administering its programs and operations.

OCFO Response to SOF and Crosswalk issue:

Treasury's published crosswalks for the Statement of Financing for FY 2004 Reporting states the following: "IMPORTANT NOTE: ...the Statement of Financing requires a level of detail beyond that of the USSGL accounts." This is a government-wide issue. Other Federal Departments have similar

problems developing automated crosswalks for the SOF that are traceable to their general ledger. The Standard General Ledger crosswalks from Treasury have numerous scenarios that complicate automation using current financial management systems architecture. We solicit OIG assistance as we work with Treasury and the USSGL Board and the Office of Management and Budget (OMB) to develop SGL account structure and crosswalks that will eliminate the need for transactional analysis for certain line items on the SOF.

OCFO Response to RD credit reform related issue:

RD and the Department disagree that this credit reform related issue constitutes a material weakness. RD has internal controls in place. The finding represents a one-time download error from OMB's system, which cannot be duplicated. The error is an anomaly and does not represent a material internal control structure weakness. (Credit reform is considered a material weakness for Rural Development; however it is not considered a material weakness for the Department).

OIG Position

Based on the discussion included in Section 1 regarding the Statement of Financing, we continue to believe it constitutes a material weakness. We also continue to believe that Rural Development's multiple credit reform errors, which totaled over \$250 million, were not clerical in nature and are a material weakness. Furthermore, our conclusion remains that the adjustments made after yearend diminish the utility of financial data during the year when they are needed to assist managers in administering their programs and operations.

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UNITED STATES DEPARTMENT OF AGRICULTURE
OFFICE OF INSPECTOR GENERAL
Washington, D.C. 20250



Report of the Office of Inspector General

To: Patricia E. Healy
Acting Chief Financial Officer
Office of the Chief Financial Officer

We have audited the accompanying consolidated balance sheets of the U.S. Department of Agriculture (USDA) as of September 30, 2004 and 2003, and the related consolidated statements of net cost, changes in net position, and financing, and the combined statements of budgetary resources (hereinafter referred to as the "consolidated financial statements") for the fiscal years then ended. The consolidated financial statements are the responsibility of USDA's management. Our responsibility is to express an opinion on the consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 01-02, "Audit Requirements for Federal Financial Statements." Those standards and OMB Bulletin No. 01-02 require that we plan and perform the audits to obtain reasonable assurance that the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the USDA as of September 30, 2004 and 2003; and its net costs, changes in net position, reconciliation of net costs to budgetary obligations, and budgetary resources for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 20 to the financial statements, USDA restated its fiscal year 2003 consolidated financial statements to correct errors disclosed during the fiscal year 2004 audit as follows:

- The Forest Service corrected errors totaling about \$383 million for alignment of budgetary and proprietary account relationships and posting errors; unsupported balances in various suspense and deposit clearing funds; Fund Balance with Treasury and associated custodial liability; and certain revenue transactions.
- The Food and Nutrition Service, Natural Resources Conservation Service, and Animal and Plant Health Inspection Service corrected errors totaling about \$4.7 billion, \$478 million, and \$311 million, respectively, for improper recognition of appropriations used.

- The Federal Crop Insurance Corporation corrected errors totaling about \$1.17 billion for obligations and obligated balances carried forward from fiscal year 2002. In addition, the Federal Crop Insurance Corporation changed its accounting policy for funds held in escrow for crop insurance losses.
- The Commodity Credit Corporation corrected errors of about \$188 million in amounts for intragovernmental costs previously recorded as costs with the public.
- The Department corrected about \$176 million of Non-USDA disbursements recorded on its fiscal year 2003 Statement of Budgetary Resources.

For fiscal year 2003, the correction of these errors increased the ending balance of Unexpended Appropriations by over \$5 billion and decreased the ending balance of Cumulative Results by over \$5 billion. Consequently, the beginning balances for these line items for fiscal year 2004 changed by the same amounts.

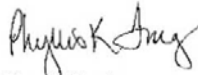
The information in the Performance and Accountability Report (see exhibit B) is not a required part of the consolidated financial statements, but is supplemental information required by accounting principles generally accepted in the United States of America or by OMB Bulletin No. 01-09, "Form and Content of Agency Financial Statements." We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. We did not audit this information and, accordingly, we express no opinion on it. However, as a result of such limited procedures, we believe that the Required Supplemental Stewardship Information and the Required Supplementary Information related to deferred maintenance for the Forest Service may not be reliable since preparation controls have not been effectively designed to ensure the existence, completeness, accuracy, and timeliness of the reported information.

We have also issued reports on our consideration of USDA's internal control over financial reporting and its compliance with certain provisions of laws and regulations. These reports are an integral part of an audit performed in accordance with Government Auditing Standards, and, in considering the results of the audit, these reports should be read in conjunction with this report. For internal controls over financial reporting, we identified three reportable conditions:

- Continued improvements are needed in financial management across USDA;
- Improvements are needed in IT weaknesses and controls; and
- Credit reform practices can be improved.

We believe the first two conditions are material weaknesses. Our report on compliance with laws and regulations discusses two instances of noncompliance relating to the Federal Financial Management Improvement Act and the accounting for user fees.

This report is intended solely for the information of the management of USDA, OMB, and Congress, and is not intended to be and should not be used by anyone other than these specified parties.



Phyllis K. Fong
Inspector General

November 12, 2004



UNITED STATES DEPARTMENT OF AGRICULTURE
OFFICE OF INSPECTOR GENERAL
Washington, D.C. 20250



Report of the Office of Inspector General on Internal Control Over Financial Reporting

To: Patricia E. Healy
Acting Chief Financial Officer
Office of the Chief Financial Officer

We have audited the accompanying consolidated balance sheets of the U.S. Department of Agriculture (USDA) as of September 30, 2004 and 2003, and the related consolidated statements of net cost, changes in net position, and financing, and the combined statements of budgetary resources (hereinafter referred to as the “consolidated financial statements”), and have issued our report thereon dated November 12, 2004. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 01-02, “Audit Requirements for Federal Financial Statements.”

In planning and performing our audits, we considered USDA’s internal control over financial reporting by obtaining an understanding of the internal controls, determining whether the internal controls had been placed in operation, assessing control risk, and performing tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 01-02 and Government Auditing Standards. We did not test all internal controls as defined by the Federal Managers’ Financial Integrity Act of 1982. The objective of our audit was not to provide assurance on USDA’s internal control. Consequently, we do not provide an opinion on internal control over financial reporting.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation that, in our judgment, could adversely affect the agency’s ability to record, process, summarize, and report financial data consistent with the assertions by management in the consolidated financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more internal control components do not reduce to a relatively low level the risk that misstatements, in amounts that would be material in relation to the consolidated financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected.

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We noted certain matters described in the "Findings and Recommendations," Sections 1 and 2 of this report involving the internal control over financial reporting and its operation that we consider to be reportable conditions:

- Continued improvements are needed in financial management across USDA (Section 1);
- improvements are needed in IT security and controls (Section 1); and
- credit reform practices can be improved (Section 2).

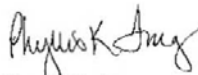
In addition, we believe that the reportable conditions in Section 1 are material weaknesses.

Additional Other Procedures

As required by OMB Bulletin No. 01-02, we considered USDA's internal control over Required Supplemental Stewardship Information (RSSI) by obtaining an understanding of the internal control, determining whether these internal controls had been placed in operation, assessing control risk, and performing tests of controls. Our procedures were not designed to provide assurance on internal control over such RSSI; accordingly, we do not provide an opinion on such controls.

As further required by OMB Bulletin No. 01-02, with respect to internal control related to performance measures determined by management to be key and reported in the Management's Discussion and Analysis section of the Performance and Accountability Report, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions. Our procedures were not designed to provide assurance on internal control over reported performance measures; accordingly, we do not provide an opinion on such controls.

This report is intended solely for the information and use of the management of USDA, OMB, and Congress, and is not intended to be and should not be used by anyone other than these specified parties.



Phyllis K. Fong
Inspector General

November 12, 2004



UNITED STATES DEPARTMENT OF AGRICULTURE
OFFICE OF INSPECTOR GENERAL
Washington, D.C. 20250



Report of the Office of Inspector General on Compliance with Laws and Regulations

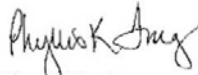
To: Patricia E. Healy
Acting Chief Financial Officer
Office of the Chief Financial Officer

We have audited the consolidated balance sheets of the U.S. Department of Agriculture (USDA) as of September 30, 2004 and 2003, and the related consolidated statements of net cost, changes in net position, and financing, and the combined statements of budgetary resources (hereinafter referred to as the “consolidated financial statements”), and have issued our report thereon dated November 12, 2004. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 01-02, “Audit Requirements for Federal Financial Statements.”

The management of USDA is responsible for complying with laws and regulations applicable to it. As part of obtaining reasonable assurance about whether the consolidated financial statements are free of material misstatement, we performed tests of USDA compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of the consolidated financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 01-02, including certain requirements referred to in the Federal Financial Management Improvement Act of 1996 (FFMIA). We limited our tests of compliance to the provisions described in the preceding sentence and did not test compliance with all laws and regulations applicable to USDA. However, providing an opinion on compliance with laws and regulations was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests of compliance disclosed one instance of noncompliance with other laws and regulations discussed in the second paragraph of this report, exclusive of FFMIA, that are required to be reported under Government Auditing Standards and OMB Bulletin No. 01-02. (See “Findings and Recommendations,” Section 3, “Compliance With Laws and Regulations.”)

This report is intended solely for the information and use of the management of USDA, OMB, and Congress, and is not intended to be and should not be used by anyone other than these specified parties.



Phyllis K. Fong
Inspector General

November 12, 2004

Findings and Recommendations

Section 1. Internal Control Over Financial Reporting – Material Weaknesses

Material weaknesses are reportable conditions in which the design or operation of one or more internal control components do not reduce to a relatively low level the risk that misstatements, in amounts that would be material in relation to the consolidated financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected. We believe that the findings discussed in this section are material internal control weaknesses.

Finding 1

Continued Improvements are Needed in Financial Management Across USDA

The U.S. Department of Agriculture (USDA) and its agencies operate at least 90 program and administrative financial management systems. The Office of Inspector General (OIG) and the Government Accountability Office (GAO), have reported that USDA's financial system of records presents a high risk to the Department. The longstanding and material problems were caused, primarily, by the absence of corporate level oversight and planning when these legacy systems were initially developed and upgraded. The Office of the Chief Financial Officer (OCFO) has taken action to address these problems and developed plans to review the legacy systems, and consolidate and update the systems, as appropriate, to meet present accounting standards and management needs. With assets totaling over \$120 billion and program costs in excess of \$76 billion, USDA must continue to take actions to fully resolve these problems.

During fiscal year 2004, the Department continued to make significant improvements in its overall financial management. However, we noted areas where further improvements are needed. For example:

- We noted that certain relationships should exist when sound financial management is practiced. The activity of certain proprietary general ledger accounts should be equal to that of certain budgetary general ledger accounts. For example, accounts receivable between budgetary and proprietary balances should be equal. Similar relationships between the Fund Balance with Treasury (FBWT) and other accounts should also exist. In addition, many accounts within a general ledger

normally have a debit or credit balance. When accounting relationships do not exist or abnormal balances are noted, immediate research should be performed to identify the cause and correct the condition. While this research improved during fiscal year 2004, much of the corrective action did not occur until after fiscal year end. As a result, while we expected minimal adjustments to be made after the close of agency fiscal month 12 ledgers, there were about 1,800 final closing adjustments made that totaled billions of dollars. Most of the adjustments we reviewed were necessary; however, this yearend activity diminishes the utility of financial data during the year when they are needed to assist managers in administering USDA programs and operations. Specifically, we noted the following:

- Adjustments were processed to correct prior adjustments made in error.
 - Adjustments were made to clean up activity that could have occurred throughout the year and did not need to be made after yearend. For example, while appropriations were recorded throughout the year, the funds were not allotted until after yearend close. This weakens the funds control mechanisms in the system.
 - Adjustments were processed to correct systemic errors.
 - Budgetary and proprietary accounts were forced to equal each other in order to pass FACTs II edits. These relationships should exist without being adjusted.
 - Abnormal balances continued to exist without being fully researched and corrected. As of fiscal yearend, we noted that 192 abnormal account balances existed totaling over \$837 million.
- The Foundation Financial Information System (FFIS) uses standard vouchers (SV) to process adjustments to the general ledgers. The SV uses predefined debits and credits based on business rules. We noted that 11 of 24 SVs reviewed were (1) not entered correctly, (2) not calculated/researched correctly, (3) required to correct a previous adjustment, and/or (4) caused by system weaknesses. The types of problems that we found could have been avoided had the agencies effectively implemented the controls outlined in FFIS Bulletin 02-06, "Internal Controls Over Standard Vouchers in the FFIS," which establishes overarching guidance for developing proper internal controls.
 - We continue to find inconsistent implementation of accounting processes in FFIS between agency applications. Table settings are used to set edits, interest rates, penalty amounts, etc. We found that field settings were inconsistent among the 15 agency applications we

tested. As a result, inconsistent accounting processes could materially impact the consolidated financial information.

- Accountants need to improve their knowledge of financial system and process operations. Additional training is needed for personnel responsible for posting accounting entries in accordance with the U.S. Government Standard General Ledger (SGL).
- We also noted the lack of financial management systems and processes that are capable of fully monitoring and controlling budgetary resources for all programs. This occurred, primarily, because the Commodity Credit Corporation (CCC) and the Forest Service (FS) do not yet have integrated financial systems to track and govern the status of obligations and administrative limitations established by legislation or agency policy and are dependent upon manual processes. This subjects overall funds control to significant risk. Funds control is a vital component of any Federal Government operation.
- OCFO uses its Financial Statement Data Warehouse (FSDW) to compile the basic financial statements. The FSDW receives its information from the Department's FFIS general ledger. USDA agencies using the Department's FFIS and FSDW are subject to the OCFO's crosswalks for compilation of the agency's basic financial statements, including the Statement of Financing (SOF).

We determined that the OCFO's crosswalk for the SOF was not developed to populate all SOF line items from supporting transactions and account balances in the FFIS general ledger. According to OCFO's crosswalk, five line items on the SOF are manually compiled by agencies. Furthermore, FS, the largest USDA agency that uses the FFIS and FSDW, manually compiles and adjusts four additional SOF line items. One of the manual adjustments made by FS was an unsupported adjustment to force its SOF to reconcile with its Statement of Net Cost. OCFO indicated that the manual procedures and adjustments are necessary due to the limitations of the SOF crosswalk, as currently defined in the FSDW. This brings into question the reliability of this statement. Furthermore, this manual process does not ensure a consistent and accurate compilation of the SOF among the agencies. The unsupported adjustments raise doubts about the accuracy of the compilation process of the Department's SOF crosswalk and also raise doubts about the controls that should be assuring proper entries to accounts when transactions occur. The practice of making unsupported adjustments to the SOF contributed to the need to restate prior years' financial statements for the Department and the Federal Crop Insurance Corporation (FCIC).

The SOF should be presented in a way that clarifies the relationship between the obligation basis of budgetary accounting and the accrual basis of financial (i.e., proprietary) accounting. By explaining this relationship through a reconciliation, the SOF provides information necessary to understand how the budgetary (and some nonbudgetary) resources finance the cost of operations and affect the assets and liabilities of the reporting entity.

- We identified deficiencies in Rural Development's credit reform processes related primarily to the changes made to use data prior to fiscal yearend and enhancements made to its cash flow models. Rural Development (1) computed its "approximated"¹ reestimates inaccurately, (2) did not properly address cash flow model changes for non-housing direct programs, and (3) provided inaccurate support and/or disclosure for two of the tables in the credit reform footnote. Furthermore, enhancements made by the contractor for the direct multi-family housing program resulted in overstated disbursements. The "approximated" errors occurred because Rural Development did not follow procedures to ensure the weighted average interest rate was correct and the second party review performed did not detect the errors. Furthermore, the changes made to the non-housing direct programs were not applied to all programs and were not applied consistently to all affected areas of the model used for those programs. The credit reform footnote errors occurred because the quality control review process did not identify the discrepancies in the footnote disclosure and the support documentation. Had the "approximated" errors not been identified by OIG and corrected by agency officials, Rural Development's "approximated" reestimates and ultimately its financial statements would have been misstated by approximately \$140 million.
- We also noted that FS and CCC yearend accrual processes need to be accurately calculated and posted prior to providing the financial statements for audit; subsidiary detail supporting material line items on the financial statements did not always exist; and additional supporting documentation needed to be provided in numerous instances in order to support the financial statements.

These conditions hinder the ability to make informed decisions, in a timely manner, when the need for such information is a crucial factor for sound financial management. We believe the Department must continue to move forward in developing plans to integrate its program and administrative financial management systems. OCFO's objective is for USDA financial systems to produce annual financial statements and other information needed

¹ In order to comply with accelerated financial reporting deadlines, Rural Development revised its approach to performing the reestimates earlier using data prior to fiscal yearend. This is referred to as the approximated reestimates.

to manage day-to-day operations dependably and routinely. Achieving the reforms required by financial management legislation is essential because the Department needs accurate financial information and appropriate internal controls to effectively manage its vast resources.

The OCFO has immediate and long-term plans to address the weaknesses in its and the agencies' financial management systems. These actions include working with the business process owners to address the problems with the legacy feeder systems, with the objective to provide an improved integration of the financial management architecture within the Department.

We are making no additional recommendations in this report for prior recommendations that have not been management decided and are still open.

Recommendation No. 1

Establish a process to identify and eliminate the conditions causing the extensive yearend adjustments so that corrections are made throughout the year, as appropriate.

Recommendation No. 2

Prepare a clear and comprehensible SOF crosswalk that is supported by transactions and account balances that are traceable to the general ledger.

Recommendation No. 3

Assess the overall process to compile the SOF in order to identify approaches and techniques that provide for a more efficient, accurate and consistent compilation process.

Finding 2

Improvements are Needed in Information Technology (IT) Security and Controls

Historically, USDA agencies and departmental staff offices have independently addressed their respective IT security and infrastructure needs. This resulted in a broad array of technical and physical solutions that did not provide assurance that Department-wide security was obtained. The efforts of the Office of the Chief Information Officer (OCIO) and OIG in the past few years have heightened program management's awareness of the need to plan and implement effective IT security. The Department and its agencies

should be commended for their efforts during the year toward completion of the certification and accreditation of its systems; however, we still found significant weaknesses in the Department's security program that can be attributed to management's lack of commitment to implementing an effective security program within their respective agencies. USDA management must remain involved and committed to implementing an effective security program within the Department. Both the OCIO and OIG reported the lack of agency management involvement as a material weakness in prior Federal Information Security Management Act (FISMA)² reports. This is the third year we have reported this issue as a material weakness. Agency managers are ultimately responsible and should be held accountable for committing the appropriate resources to ensure compliance.

The Department and its agencies have made progress in addressing the lack of compliance with the Office of Management and Budget (OMB) Circular A-130, Appendix III, but weaknesses continue to exist. Specifically, OIG found that (1) the Department was still unable to produce a reliable inventory of applications and general support systems,³ (2) not all documents produced through the agencies' certification and accreditation processes complied with OMB and other Federal requirements, and (3) a significant majority of the Department's applications were not certified until near the end of the fiscal year.

Despite the Department's site license for vulnerability scanning software and a formal scanning policy, the agencies have not timely identified and corrected known and exploitable vulnerabilities in their systems. The agencies we reviewed cited varying reasons for not performing vulnerability scans, including a lack of training and guidance on how to use the tools, and a lack of formal policies and procedures in place to periodically use the tools and mitigate the identified vulnerabilities. As a result, significant vulnerabilities go undetected and uncorrected, increasing the risk that attackers, both internal and external, could compromise mission-critical IT resources and data.

Further, we again identified access control weaknesses in the 12 agencies we reviewed during fiscal year 2004. This occurred because agencies did not have policies and procedures in place to (1) timely remove user accounts when no longer needed, (2) periodically reconcile user accounts to current employees and contractors, and (3) assign users only those permissions needed to perform their job responsibilities. We also found inadequate controls over the physical access to computer systems and critical network components in 6 of the 12 agencies reviewed. As a result, there is reduced

² FISMA superseded the Government Information Security Reform Act that expired in November 2002.

³ OCIO officials acknowledged that the Department's inventory of systems had evolved throughout the year and suggested that its current list of departmental systems represents an improvement over prior efforts.

assurance that agencies can effectively protect their mission-critical systems and data from unauthorized modification, disclosure, loss, or impairment.

Finally, in the past several years, OCIO has strengthened its oversight of agencies' security programs; however, improvements could be made which would significantly strengthen the Department's security posture. Specifically, OCIO needs to (1) formalize its tracking system for USDA cyber security incidents to ensure timely followup and resolution, and (2) increase the number and frequency of its agency reviews. Despite continual requests for additional resources, OCIO acknowledges that it has not had the significant resources it needs to increase its review and enforcement efforts over agencies' security programs.

We also performed IT general control reviews at two major USDA computing centers that provide services to all USDA agencies and staff offices. The reviews adhered to the GAO "Federal Information Systems Control Audit Manual" (FISCAM). Specifically, we noted the following.

OCIO/National Information Technology Center (NITC)

- While significant improvements have been made, OCIO/NITC was still not fully compliant with the requirements of OMB Circular A-130 and other Federal security guidance. Specifically, OCIO/NITC had not (1) finalized contingency planning, (2) conducted risk assessments consistent with Federal requirements, or (3) prepared security plans for each of its general support systems. OCIO/NITC officials informed us that meeting the requirements of OMB Circular A-130 and National Institute of Standards and Technology (NIST) security guidelines involves major efforts and requires time and resources to comply thoroughly. However, until these controls and documents are in place, OCIO/NITC cannot be assured of the confidentiality, integrity, and availability of its computer resources.
- OCIO/NITC had not ensured that all midrange server security settings were configured in accordance with departmental and NIST guidelines. Further, OCIO/NITC needed to improve management over the routers and firewalls in its general support system. This occurred because OCIO/NITC had not established a policy or implemented controls to require midrange systems and general support systems to follow OCIO or NIST configuration guidance; and OCIO/NITC security staff have not played a significant role in establishing or monitoring security over midrange and general support systems. As a result, data residing on these servers in the midrange environment could be compromised.
- OCIO/NITC has made significant improvements over logical access controls. However, further actions are needed to ensure the

confidentiality and integrity of its IT resources. Specifically, OCIO/NITC had not completed implementation of procedures to ensure (1) waivers were obtained for user accounts with non-expiring passwords, (2) policies and procedures outlining monitoring of security logs were implemented, (3) global system settings were fully documented, and (4) controls from the internet were properly secured. While OCIO/NITC has made significant progress to address these issues, not all of the necessary controls were in place throughout the year to ensure the confidentiality and integrity of its IT resources. Until stronger controls over access are in place, OCIO/NITC resources are vulnerable to potential fraud and misuse, inappropriate disclosure, and potential disruption.

OCFO/National Finance Center (NFC)

- OCFO/NFC has made significant improvements to ensure compliance with Federal regulations is achieved; however, we found that OCFO/NFC had not updated its directive and functional statements to clearly define security responsibilities after its 2002 reorganization. Further, OCFO/NFC had not completed all required background investigations for individuals in high-risk positions. OCFO/NFC has continued to make progress in these areas and completed its certification and accreditation by September 30, 2004, in accordance with departmental guidance. OCFO/NFC plans to initiate a review to evaluate security responsibilities, and continue obtaining security clearances as funds permit. Without clearly defined security responsibilities and adequate background investigations, OCFO/NFC will not be adequately assured that its security management structure is operating effectively; thus, putting its critical resources at increased risk of loss, misuse, and improper modification.
- We found OCFO/NFC personnel and some of its clients had access to critical payroll and personnel applications that exceeded what was required to perform their job functions. In some instances, the access provided also violated separation of duty controls. This occurred because OCFO/NFC had not adequately restricted access based on job responsibilities or complied with its prescribed guidance to monitor access for all its employees and external users. As a result, OCFO/NFC systems are at an increased risk of inadvertent or deliberate misuse without detection.
- We also found that OCFO/NFC had not ensured that modems on its network were adequately tracked or properly secured, that its firewall configurations were appropriately maintained, or that logs were periodically reviewed on its Web and Unix servers. This occurred because OCFO/NFC had not established adequate controls or complied

with its own guidelines to monitor and secure these critical network resources. As a result, OCFO/NFC's network is at unnecessary risk of intrusion and unauthorized access that may not be detected in a timely manner.

- Finally, despite prior recommendations, we found that OCFO/NFC needed to strengthen its controls over application changes. Although OCFO/NFC was documenting application software change requests and approvals, we found that OCFO/NFC needed to ensure that it (1) completes documentation of application change testing, (2) performs user acceptance testing on mandated application software changes, (3) obtains users' approval of application software requirements, and (4) notifies users of emergency changes for subsequent review. These occurred because OCFO/NFC was not adequately enforcing its established guidance. Until these issues are addressed, OCFO/NFC will face increased risk that application software changes may not meet user needs, not operate as intended, or cause unforeseen adverse impacts on the application.

While the Department and most of its agencies' security staffs have taken considerable actions in the past few years to improve the security over their IT resources, significant progress is still needed toward establishing an effective security program. However, departmental management needs to strengthen its oversight of component agencies' procedures for reporting material information security weaknesses in accordance with the requirements of the Federal Managers' Financial Integrity Act (FMFIA), the Federal Financial Management Improvement Act (FFMIA), and the more recent FISMA. We found that despite the extensive number of security weaknesses we have continued to report over the past several years, USDA component agencies' fiscal year 2004 FMFIA Statements of Assurance and FFMIA Remediation Plan submissions to the OCFO did not always include the wide-range of information security weaknesses identified in USDA's financial management systems.

The component agencies were not reporting these weaknesses under the FFMIA because it was not a requirement in the past, but they were also not reporting them under FMFIA because OCIO reports a Department-wide material information security weakness. In its fiscal year 2004 FMFIA Assurance Statement, OCIO reports an overarching information security deficiency in the Department's ability to protect its assets from fraud, misuse, disclosure, and disruption. OCIO states that "extensive and wide-ranging weaknesses" within USDA information security programs are present, and while much progress has been achieved, many problems remain. The remedies provided in the FMFIA Assurance Statement are high-level management actions and are not agency specific, identifying only the OCIO as the responsible action official, instead of each agency head that is

responsible for that specific agency's progress towards resolving their information security weaknesses.

We believe that improving the overall management and security of IT resources should be a top priority in the Department. However, we believe that agency managers are ultimately responsible and should also be held accountable for committing the appropriate resources to implement an effective security program within their agencies.

Recommendation No. 4

The OCIO and OCFO must ensure that reports required for FISMA, FMFIA, and FFMA are consistent and complete.

Section 2. Internal Control Over Financial Reporting – Reportable Condition

Reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation that, in our judgment, could adversely affect the agency's ability to record, process, summarize, and report financial data consistent with the assertions by management in the consolidated financial statements.

Finding 3 Credit Reform Processes and Practices Can Be Improved

In fiscal year 2001, the Department overcame longstanding problems in the processes and procedures used to estimate and re-estimate the costs of loan subsidies for loans made after fiscal year 1991. The Department's Credit Reform Task Force had worked diligently over 3 years to resolve the longstanding weaknesses. In fiscal year 1999, the OCFO formed a task force to resolve credit reform problems. This task force included representatives for the lending agencies (Farm Service Agency, Rural Development, and Commodity Credit Corporation) from both the financial and budget staff as well as representatives from OCFO, OIG, GAO, and OMB. Upon successfully overcoming the most serious weaknesses, the task force ceased meeting on a regular basis.

However, changes to the Department's credit reform practices and processes have continued to evolve since fiscal year 2001. In order to comply with accelerated financial reporting deadlines, the lending agencies revised their approaches to perform the re-estimates earlier using data prior to fiscal year end. Furthermore, the lending agencies worked to improve their cash flow models and/or processes for inputting data into those models. Additional, authoritative guidance continues to be issued as credit reform is a complex area.

For example, in January 2004, the Federal Accounting Standards Advisory Board issued Technical Release 6, "Preparing Estimates for Direct Loan and Loan Guarantee Under the Federal Credit Reform Act." The Department's lending agencies do not currently have a standardized, consistent approach for performing trend analyses of total credit subsidy expense and its major components, as required by the Technical Release.

In order to ensure full compliance with all guidance, address emerging issues, and promote consistency and standardization, OIG recommends that OCFO again provide leadership for the lending agencies and revive the USDA Credit Reform Task Force.

Recommendation No. 5

The OCFO should periodically reconvene the Department's Credit Reform Task Force as needed to ensure that its lending agencies continue to fully comply with financial reporting requirements for loans; and that where appropriate, the lending agencies' activities are consistent and standardized.

Section 3. Compliance with Laws and Regulations

The management of USDA is responsible for complying with laws and regulations applicable to it. As part of obtaining reasonable assurance about whether the consolidated financial statements are free of material misstatement, we performed tests of USDA compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of the consolidated financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 01-02, including certain requirements referred to in the FFMA.

Finding 4 Substantial Noncompliance with FFMA Requirements

FFMA builds on the foundation laid by the CFO Act by emphasizing the need for agencies to have systems that can generate reliable, useful, and timely information with which to make fully informed decisions and to ensure accountability on an ongoing basis. With such information, Government leaders will be better positioned to invest resources, reduce costs, oversee programs, and hold agency managers accountable for the way they run Government programs. For fiscal year 2004, we found USDA's financial management systems, as a whole, do not yet substantially comply with the requirements of the Act, and system security weaknesses continue to expose financial information to significant risk. We also found USDA management needs to strengthen Department-wide standards and procedures for reviewing, testing, and adequately documenting its financial systems' compliance with Joint Financial Management Improvement Program (JFMIP) Federal Financial Management System Requirements (FFMSR).

Under FFMA, agencies are required to annually assess whether their financial management systems comply substantially with (1) Federal financial management system requirements, (2) applicable Federal accounting standards, and (3) the SGL at the transaction level. In addition, FISMA requires each agency to report significant information security deficiencies, relating to financial management systems, as a lack of substantial compliance under FFMA. FFMA also requires auditors to report in their CFO Act financial statement audit reports whether the agencies' financial management systems substantially comply with FFMA's systems requirements.

OMB Circular A-127, "Financial Management Systems," which serves as the source for Federal system requirements, specifically provides that agency financial management systems shall conform to existing applicable functional

requirements as defined in the FFMSR series issued by the JFMIP. In order to support these requirements, each agency must have an ongoing financial systems improvement planning process and periodically evaluate how effectively and efficiently the financial management systems support the agency's changing business practices. Agencies are also expected to implement, expeditiously, new functional requirements as they are established and made effective through OMB Circulars and Bulletins and the Treasury Financial Manual.

Agencies whose systems do not comply with one or all of the FFMA requirements are considered in substantial noncompliance with the Act. Agencies that are not in substantial compliance with FFMA must develop a remediation plan that describes the findings or analysis of noncompliance and identifies the resources, remedies, and milestones for achieving substantial compliance. Agencies are also required to include their remediation plans in their annual Performance and Accountability Reports. Agencies are responsible for agency progress towards resolving identified deficiencies and such progress should be discussed in the agency's remediation plan; however, progress towards resolving the deficiencies should not be construed as compliance with FFMA.

For fiscal year 2004, our "standalone" audit agencies specifically reported the following significant system nonconformances with FFMA in their financial statement audit reports:

- Risk Management Agency (RMA)/FCIC financial auditors found deficiencies in management's policies and procedures to ensure its financial management systems comply with current FFMSR and in management's documentation to support conclusions reached regarding compliance with FFMA. The auditors also again reported significant IT security control weaknesses including (1) ineffective, inappropriate, inconsistent, and excessive user access controls; and (2) inadequate application program and database change controls which support specific application systems.
- Certification and accreditation of Rural Development's Rural Utilities Service legacy systems compliance with OMB Circular A-130 and compliance with FFMSR will not be completed until fiscal year 2005, although systems certifications and accreditations were completed on all other Rural Development financial systems in July 2004. Rural Development also continues to address material IT control weaknesses we identified during fiscal year 2004 including access controls, vulnerability identification and mitigation controls, application change controls, and ineffective field office security controls.

- Farm Service Agency (FSA)/CCC needs to improve its funds control and financial reporting processes to fully comply with OMB Circular A-127 and improve its financial systems and processes for posting budgetary transactions in accordance with the SGL at the transaction level. Additionally, FSA/CCC financial auditors again noted several areas where improvements are needed in establishing and maintaining sustainable and repeatable information security controls and contingency planning capabilities to be in compliance with OMB Circular A-130.
- Additionally, FS auditors reported noncompliance with multiple Federal accounting standards regarding (1) treatment of prior period adjustments and undetected variances in cumulative results of operations; (2) errors in accruals, unliquidated obligations, and recording timber and non-timber revenue; (3) stewardship reporting and various note disclosures; (4) accounting for leases and internal use software; and (5) not assessing the impact of remaining abnormal balances.

In addition to the noncompliance reported by the “standalone” audit agencies listed above, we noted other information security control weaknesses during our fiscal year 2004 FISCAM reviews that should have been reported as FFIA noncompliance by the Department and its component agencies. Those weaknesses are described in Finding No. 2 of this report.

The Department made notable progress during the year in meeting corrective action target dates and in completing system certification and accreditation for a large number of its systems applications, but much work remains. Currently, all scheduled completion dates are targeted for fiscal year 2005; however, issues regarding modernization of systems continue to be and will remain significant challenges in fiscal year 2005. These are complex areas and significant efforts will be needed to accomplish the target dates without, again, extending timeframes. We believe correcting these deficiencies should be a primary concern and priority for the Department during fiscal year 2005.

During fiscal year 2004, we also found the Department had not performed a documented review of its core financial management system’s compliance with JFMIP’s FFMSR since 2000. The OCFO had not performed a review because the system software⁴ was certified as JFMIP compliant, based on the 1999 requirements, at the time it was purchased and the certification did not expire until 2003. However, the JFMIP updated its Core Financial System Requirements⁵ in November 2001 to reflect changes in laws and regulations

⁴ American Management System Federal Financial System version 5.6.

⁵ “Federal Financial Management System Requirements” (JFMIP-SR-02-01, Nov. 2001) represents the latest update to the Core Financial System Requirements document first issued in January 1988.

and in Government-wide reporting systems and revised several Core Financial System Requirements in an addendum issued in March 2004. The Department did not perform a review based on the updated FFMSR because it believed the changes were not significant enough to warrant additional substantiating and there were no Department-wide procedures requiring periodic reviews and substantiation of financial systems' compliance with updated requirements.

Under OMB Circular A-127 provisions that each agency shall ensure appropriate reviews are conducted to determine whether its financial management systems continue to comply with the JFMIP's FFMSR, we believe USDA management should establish Department-wide standards and procedures for routinely reviewing, substantiating, and adequately documenting its financial systems' compliance with JFMIP FFMSR. Agencies must continue to improve their financial systems and implement new requirements as they are issued so that continuing efforts to standardize and upgrade data and reporting requirements, in accordance with OMB's Government-wide 5-year financial management plan, and more recently the President's Management Agenda, will be successful. Also, because the FFIA statute codifies the FFMSR as key requirements that agency systems must meet to be in substantial compliance with the provisions of the FFIA, as well as guidance for reviews of system compliance with the FFIA, we believe these instances of noncompliance and planned corrective actions should be reported by the Department in accordance with these laws.

From recent discussions, Department officials have agreed to perform a more thorough and documented review of its Core financial management system during fiscal year 2005 and to begin efforts to develop Department-wide standards and procedures for performing periodic reviews and substantiation of financial systems' compliance with current and updated financial management system requirements. Improving Federal financial management systems is critical to increasing the accountability of financial program managers, providing better information for decision-making, and increasing the efficiency and effectiveness of services provided by the Federal Government.

Recommendation No. 6

Department management should continue to work with component agencies to resolve the existing and newly-identified instances of FFIA noncompliance reported during the fiscal year 2004 financial statement audits and fully disclose these deficiencies, along with the agencies' corrective action plans in the Department's Performance and Accountability Report.

Recommendation No. 7

USDA management needs to strengthen Department-wide standards and procedures for routinely reviewing, substantiating, and adequately documenting its financial systems' compliance with JFMIP FFMSR and ensure deficiencies are reported in accordance with FMFIA and FFMA requirements.

Finding 5**User Fee Reporting Needs Improvement**

Our review disclosed errors and other deficiencies in the agencies' submissions to OCFO entitled "CFO Biennial Review of Charges for Things of Value." OMB Circular No. A-25, "User Charges," requires, in part, that user charges be assessed to each identifiable recipient for special benefits derived from Federal activities beyond those received by the general public. Further, the Circular requires that user charges be sufficient to recover the full cost of providing the special benefits incurred by the Federal Government. The CFO Act of 1990 (Public Law 101-576, Section 205) requires, in part, that the Chief Financial Officer "review, on a biennial basis, the fee, royalties, rents and other charges imposed by the agency for services and things of value it provides, and make recommendations on revising those charges to reflect costs incurred by it in providing those services and things of value." We determined that the agency submissions were inadequate because OCFO had not established a formal process to identify weaknesses in the agencies' reports. As a result, assurance was lacking that OCFO was in compliance with the Act and the agencies were in compliance with OMB Circular No. A-25.

We reviewed the 2004 user fee submissions of the Animal and Plant Health Inspection Service (APHIS), the Agricultural Marketing Service, and the Food Safety and Inspection Service to OCFO. We also reviewed the 2004 credit reform fee submissions of Rural Development and FSA to OCFO. We selected these agencies for review because of their extensive user fee activity. We also requested (and received) written confirmation from the Cooperative State Research, Education, and Extension Service and the Natural Resources Conservation Service that they had no programs for which user fees should be charged.

Department Regulation (DR) 2100-3 requires that the agencies analyze their financial activity and perform reviews to include, in part, an analysis of current charges for things of value. The DR also states that "OCFO will

review and consolidate the responses from the agency CFOs...,” and “OCFO may conduct examinations of the agencies’ reviews on a sample basis.” Our discussions with OCFO disclosed that the methodology to be employed in these reviews was not documented and, thus, we could not independently assess the adequacy of the control measures intended.

Our review of the agencies’ submissions identified issues which questioned the utility of the reports and the level of assurance that could be garnered that the requirements of the OMB Circular A-25 had been met. For example, the report submitted by APHIS showed the following for various user fee programs:

Program	Revenue	Expense
International Air Passenger	\$172,401,487	\$172,401,487
Commercial Truck	\$4,492,935	\$4,492,935
Commercial Vessel	\$23,840,488	\$23,840,488
Aircraft Clearance	\$27,226,568	\$27,226,568
Loaded Railcar	\$1,269,713	\$1,269,713
Solid Wood Packing Materials	\$15,189	\$15,189

When we discussed with agency officials the extraordinary accuracy with which the user fees had been established, they then acknowledged that the obligation data had been estimated to agree with actual revenues. They also acknowledged that the process needed to be strengthened. As a result, there was no assurance that full costs had been recouped, as required.

Further, the Food Safety and Inspection Service submission contained the following for the user fee “Laboratory Accreditation Program:”

Total Revenue during fiscal year 2003 = \$193,585

Total Full Cost during fiscal year 2003 = \$697,124

When we inquired of agency officials why the deficit had occurred (i.e., why fees had not been increased to cover full costs) we were told that the fee level in prior years had been set too high, thus generating a sizeable surplus. As a result, the agency reduced the fee to bring the fund closer to the required break-even level. This means, however, that users in prior years were overcharged and current years’ users have been provided an unwarranted subsidy because of the inadequate rate-setting processes.

In addition, agencies which have credit reform programs are required by DR 2100-3 to submit their fee data annually in a specialized format. OMB Circular No. A-129, “Managing Federal Credit Programs,” requires that reviews of credit program fees be performed annually. Statement of Federal Financial Accounting Standards No. 2 states, “the present value of fees and

other collections is recognized as a deduction from subsidy costs.” The Federal Credit Reform Act of 1990 defines cost as “the estimated long-term cost to the Government of a direct loan or loan guarantee, calculated on a net present value basis, excluding administrative costs.” Fees are collected to offset subsidy costs.

We reviewed the credit reform fee submissions to OCFO from FSA and the Rural Development mission area. We noted that frequently the fees charged were insufficient to cover the subsidy costs of the programs. The “Justification for Not Covering the Subsidy Cost of the Program” provided in the agencies’ submissions appeared to be based on anecdotal, and not documentary, evidence. For FSA’s Agricultural Credit Insurance Fund (ACIF) program, for example, the justification reported as follows:

“It is our belief that raising user fees to cover the direct or full cost of the program would prevent FSA from successfully providing assistance to those who need it most and meeting the mission of FSA Farm loans administered through the ACIF program.”

The (unrecouped) subsidy for this program was reported to be \$81.6 million.

Rural Development’s submission contains several such “justifications.” For example, one of the Rural Housing Insurance Fund programs submission stated “Since the direct loan programs target rural families in the lowest possible income brackets, requiring additional fees that would directly or indirectly cost the targeted participants would impede the accessibility of the programs.”

The subsidy for the Single Family Housing Loan program was \$125.2 million.

Agency officials did not have documentation or analysis to support the justifications for not covering the full cost of the direct and guaranteed loan programs. Net program costs need to be minimized to comply with legal and administrative requirements. Although the agencies’ views may be valid, they should have documentation to support the level at which fees can be set for direct and guaranteed loan programs to offset the subsidy and still retain the required functionality of the programs.

Recommendation No. 8

Prescribe a documented methodology for reviewing the reasonableness of agency fee submissions and formalize a review schedule.

Recommendation No. 9

Require Rural Development and FSA to document their justifications for not recouping the full costs of their programs.

Exhibit A – Audit Reports Related to the Fiscal Year 2004 Financial Statements

AUDIT NUMBER	AUDIT TITLE	RELEASE DATE
50501-1-FM	Fiscal Year 2004 Federal Information Security Management Act Report	October 2004
88501-1-FM	National Information Technology Center General Controls Review-Fiscal Year 2004	September 2004
05401-13-FM	Federal Crop Insurance Corporation/Risk Management Agency's Financial Statements for Fiscal Years 2004 and 2003	November 2004
06401-17-FM	Commodity Credit Corporation's Financial Statements for Fiscal Years 2004 and 2003	November 2004
08401-4-FM	Forest Service's Financial Statement Audit for Fiscal Years 2004 and 2003	November 2004
11401-20-FM	Fiscal Year 2004 Review of the National Finance Center General Controls	October 2004
15401-5-FM	Rural Telephone Bank's Financial Statements for Fiscal Years 2004 and 2003	November 2004
85401-11-FM	Rural Development's Financial Statements for Fiscal Years 2004 & 2003	November 2004

VI. APPENDICES

APPENDIX A—MANAGEMENT CHALLENGES



UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington D.C. 20250



MEMORANDUM FOR THE SECRETARY

FROM: Phyllis K. Fong [original signed August 30, 2004]
Inspector General

SUBJECT: Management Challenges

The Reports Consolidation Act of 2000 requires the Department of Agriculture (USDA), Office of Inspector General (OIG) to identify and report annually the most serious management challenges the Department and its agencies face. Overall, OIG has identified 10 Department-wide and 2 agency-specific challenges we believe are the most significant management issues facing USDA.

To identify these management challenges, we (1) examined previously issued audit reports where corrective actions have not been implemented, (2) assessed ongoing audit and investigative work to identify issues where significant vulnerabilities have been identified, and (3) analyzed new programs and activities, which could pose significant challenges due to their breadth and complexity. We discussed these challenges with USDA officials to obtain their input.

This year, we have again summarized USDA's most serious management challenges by issue area, rather than by mission. USDA's major management challenges frequently cross organizational lines within the Department and should be dealt with on a coordinated basis. While progress has been made in each challenge facing USDA, more can be done to strengthen management controls, ensure USDA benefits go to those intended, and protect the integrity of USDA's programs and activities. We have removed the implementation of the 2002 Farm Bill from our challenge list. Over the approximately 2 years since the 2002 Farm Bill was signed, we have been monitoring the Department's implementation of the Bill and, based on these efforts, have concluded that the Department has made significant progress in implementing many of the provisions of the Bill. However, we have added a new challenge to better coordinate the development and implementation of a program integration process where common information is shared by agencies in the course of administering their programs.

While the Department has set in motion actions to address these challenges, OIG audits and investigations have shown that additional actions are necessary. We look forward to working with the Department to evaluate actions taken to address these issues and will make recommendations, where necessary, for further improvements.

If you have any questions or would like to discuss these management challenges, please contact me at 720-8001, or have a member of your staff contact Robert W. Young, Assistant Inspector General for Audit, at 720-6945.

Attachment

cc:
Deputy Secretary
Secretary's Subcabinet
Chief Financial Officer
Agency Administrators

**OFFICE OF INSPECTOR GENERAL
MAJOR USDA MANAGEMENT CHALLENGES
(August 2004)**

DEPARTMENT-WIDE CHALLENGES

1. Homeland Security Considerations Should be Incorporated Into Program Design and Implementation
2. Increased Oversight and Monitoring of Food Safety Inspection Systems Are Needed
3. Risk Must be Examined and Improper Payments Minimized Within USDA
4. Financial Management – Improvements Made but Additional Actions Still Needed
5. Information Technology Security – Much Accomplished, More Needed
6. Controls Over Germplasm Storage Material and Genetically Engineered Organism Field Testing Are Critical to U.S. Markets
7. Civil Rights Complaints Processing Still a Concern at USDA
8. Research Misconduct Policy Not Consistently Implemented
9. Agencies Need to Better Coordinate Program Delivery and Control – *New Challenge*
10. Integrity of the Federal Crop Insurance Programs Must be Strengthened Through Improved Quality Control Systems and IT Processing

AGENCY-SPECIFIC CHALLENGES

11. A Strong Internal Control Structure is Paramount to the Delivery of Forest Service Programs
12. Improvements and Safeguards Needed for the Rural Multi-Family Housing Program

**OFFICE OF INSPECTOR GENERAL
MAJOR USDA MANAGEMENT CHALLENGES
(August 2004)**

DEPARTMENT-WIDE CHALLENGES

**CHALLENGE: HOMELAND SECURITY CONSIDERATIONS SHOULD BE
INCORPORATED INTO PROGRAM DESIGN AND
IMPLEMENTATION**

DETAILS: The events of September 11, 2001, and subsequent heightened concern about potential terrorist attacks and threats have added a new dimension to the Department's missions and priorities. At issue are USDA's missions to ensure the safety and abundance of the Nation's food supply, from the farm to the table, and to protect the health of American agriculture from the introduction of foreign animal and plant pests and diseases. With renewed urgency, USDA must identify its assets, thorough security risk assessments, and establish appropriate safeguards to prevent or deter deliberate acts to contaminate the food supply, disrupt or destroy American agriculture, or harm U.S. citizens. At the same time, USDA and the Department of Homeland Security (DHS) must also ensure that the current inspection and safeguard processes for the unintentional introduction of pests, diseases, and contaminants on imported products are not overlooked. While the Department has been both proactive and responsive to specific vulnerabilities identified by OIG, it faces ongoing and future challenges in its efforts to shift from a focus on safety goals to both safety and security in each of its mission areas; foster effective coordination and communication across jurisdictional lines to better define roles and responsibilities; and increase Departmental oversight of, and accountability by, USDA agencies. In response to such vulnerabilities, the Department has participated in or implemented a number of initiatives, such as the National Animal and Plant Health Laboratory Networks and the National Interagency Incident Management System.

Coordination and communication across not only USDA agencies but across the Federal departments and State and local entities is critical if Homeland Security Presidential Directive 9 (HSPD-9) is to be effectively implemented. Issued on January 30, 2004, HSPD-9 established a comprehensive national policy to defend the agriculture and food system against terrorist attack, major disasters, and other emergencies. With DHS as the lead Federal agency, HSPD-9 prescribed USDA, the Department of Health and Human Services (HHS), the Environmental Protection Agency, and the Attorney General to develop and implement systems and networks in the following areas: awareness and warning, vulnerability assessments, mitigation strategies, and response planning and recovery. For example, USDA working with these agencies needs to develop a coordinated agriculture and food-specific standardized response plan integration into the National Response Plan and a National Veterinary Stockpile.

OIG AUDIT/INVESTIGATION ACTIONS: In our review of Homeland Security issues for USDA commodity inventories, OIG found that the Farm Service Agency (FSA) needs to conduct vulnerability and risk assessments to determine the appropriate levels of protection for these agricultural commodities, and that FSA needs to formulate clear directions on food safety and security over commodities that it manages, handles, transports, stores, and distributes.

OIG audits conducted prior to the transfer of inspection duties to DHS disclosed serious control weaknesses involving inspection activities at the borders or ports of entry for agriculture and other food products.

We recently initiated a review to evaluate the Department's coordination and memorandum of agreement (MOA) with DHS to implement effective control systems to ensure the safety and security of agriculture and food crops entering the country. We also plan to start in the near future a review evaluating the Department's role and coordination with other Federal departments in implementing the provisions of the Public Health Security and Bioterrorism Preparedness and Response Act of 2002.

Recently, the Government Accountability Office (GAO) provided in testimony an overview of the potential vulnerabilities of the food supply and agriculture sector to deliberate contamination. In its testimony, GAO referred to four recent GAO reports that identified problems with Federal oversight over the Nation's agriculture and food supply. Problems in several of these reports overlap with the specific issues included in the above-cited OIG reports. For example, GAO found that (1) border inspection controls needed to be strengthened by providing adequate guidance to border inspectors for foot-and-mouth disease detection and prevention and (2) inspection resources could not handle the magnitude of international passengers and cargo. In another report, GAO found that Federal overseers did not have clear authority to impose requirements on food processors to ensure secure facilities. GAO recommended that both HHS and USDA study and identify what additional authorities they need with respect to ensuring security at these food-processing facilities.

In addition, OIG investigations continue to uncover illegal smuggling of plant and animal products that may threaten American agriculture by introducing foreign pests and diseases. OIG agents cooperate with USDA agencies and other law enforcement agencies on all levels to pursue leads into possible threats to American agriculture and the American food supply.

ACTION NEEDED TO ADDRESS THE CHALLENGE: HSPD-9 specifically directed USDA, HHS, and DHS to expand and continue vulnerability assessments of the agriculture and food sectors, and to develop mitigation strategies to reduce vulnerable critical nodes of food production or processing. In our review of Homeland Security issues for USDA commodity inventories, we recommended that FSA work with the Department's Homeland Security Office to conduct vulnerability or risk assessments of its agricultural commodity and inventory operations and related programs. We also recommended that FSA, in collaboration with the Food and Drug Administration and Department's Homeland Security Office, establish and implement measures to mitigate these vulnerabilities.

HSPD-9 also called for USDA, HHS, and DHS to build on their existing efforts to expand development of common screening and inspection procedures for agriculture and food items entering the United States. In March 2003 there was a significant transfer of responsibilities and personnel from USDA to DHS. A major challenge now faced by USDA is timely and effective coordination and communication, not only within USDA, but also with DHS.

DEPARTMENTAL/AGENCY ACCOMPLISHMENTS/PLANS: In response to our review of Homeland Security issues pertaining to USDA commodity inventories, FSA generally agreed with our recommendations and agreed to work with USDA's Office of Homeland Security to complete risk and vulnerability assessments and to develop appropriate guidelines and procedures. Further emphasis is needed to ensure timely implementation of these measures.

The Animal and Plant Health Inspection Service (APHIS) generally agreed with the recommendations OIG made on safeguards to prevent the entry of prohibited animal and plant diseases and pests and has taken, or is in the process of taking, corrective actions for those functions remaining in USDA. The inspection function at borders and ports of entry was transferred to DHS, while APHIS retained functions such as quarantine, risk analysis, destruction and reexportation, user fees, and adjudication of violations. USDA entered into a MOA with DHS to address how the Departments will coordinate. Individual appendices have or are being written to address issues such as training and transfer of funds; functions and employees transferred to DHS; and regulations, policies and procedures. Appendices for training, policy development, and communication have not been finalized.

CHALLENGE: INCREASED OVERSIGHT AND MONITORING OF FOOD SAFETY INSPECTION SYSTEMS ARE NEEDED

DETAILS: In response to prior OIG audits and known problems, the Food Safety and Inspection Service (FSIS) has issued directives to address specific weaknesses and to clarify existing policies, and has provided training to inspectors. However, FSIS still faces a significant challenge to: (1) ensure that plants and FSIS effectively fulfill their responsibilities under the Hazard Analysis and Critical Control Point (HACCP) system, (2) improve controls over the recall process, and (3) complete an in-depth assessment of the organizational and control structure involving the imported meat and poultry process. OIG considers this a management challenge because of the risk to the public's health should adulterated meat and poultry products be permitted to enter the food supply. Key to addressing this challenge is establishing an ongoing management control structure to know how well directives and policies are being implemented and carried out by plants and inspectors, and whether problems are promptly addressed as they become known.

OIG AUDIT/INVESTIGATION ACTIONS: In 1998, the Department, through FSIS, implemented a major change to its food safety system and created a new regulatory system for meat and poultry plants it regulates. The Pathogen Reduction and HACCP rule is the centerpiece of the new regulatory approach because it mandates HACCP, sets certain food safety performance standards, establishes testing programs to ensure those standards are met, and assigns new tasks to inspectors to enable them to ensure regulatory performance standards are met. In 2000, OIG reported on FSIS's implementation of HACCP, concluding that while FSIS had taken positive steps in its implementation of the science-based HACCP system, HACCP plans were not always complete; FSIS needed to place greater emphasis on pathogen testing; and it needed to define its oversight role in the HACCP system and hold plants accountable for noncompliance.

During 2002, USDA experienced some of the largest recalls in its history. OIG's reviews of two of these recalls in the past year indicate that FSIS still faces significant challenges to ensure that plants and FSIS effectively fulfill their responsibilities under HACCP. Most critical to this process are FSIS's assessment of plant HACCP plans and resolution of any deficiencies; establishment of management controls to accumulate and analyze data to monitor and assess the adequacy of food safety systems; establishment of criteria to initiate enforcement actions; baseline studies to define the goals, objectives, and performance measurements for pathogen testing programs; and better supervision and oversight of field inspection processes. Also, FSIS must reassess its recall process, including traceback policies, to identify the product source, and improve monitoring to ensure timely notification of the recall and maximum recovery of the product. Further, FSIS needs to implement controls to ensure that it adequately supports its conclusion regarding future recalls. Finally, FSIS needs to implement a process for selecting customers for effectiveness checks and establish timeframes for completing and reviewing the effectiveness checks. While FSIS has generally been responsive to these issues and has made some changes to its inspection policies and procedures, corrective actions are ongoing.

OIG's investigations continue to identify some unscrupulous plant operators and others who work in the meat and poultry industry that place profit or other motives ahead of public safety and knowingly introduce adulterated meat and poultry into the Nation's food supply. Gathering evidence necessary to bring these individuals to justice is paramount for protecting public health and safety.

An additional challenge for FSIS is to complete its proposed actions in response to OIG's prior audit of the imported meat and inspection process. OIG's followup review reinforced the need for FSIS to revise its in-depth assessment of its organizational structure and establish a system of control objectives and processes to ensure the goals of the import inspection process are achieved.

GAO has also issued a number of reports in 2001 and 2002 concerning food safety in general, because three Federal departments have responsibility for inspection activities depending on the type of food, and specifically concerning FSIS's HACCP system. GAO, in its January 2003, report on "Major Management Challenges and Program Risks, Department of Agriculture" reported "Enhancing the Safety of the Nation's Food Supply" as a management challenge facing USDA. While the challenge was seen as extending beyond FSIS' jurisdiction, because of the fragmented nature of the food safety regulatory system, it noted problems in the effective implementation of FSIS's HACCP system as a challenge specifically for USDA.

BSE – An Emerging Issue: With the discovery of a BSE-infected cow in Washington State in December 2003, the Department faces another challenge in food safety, as well as the related impact on the health of the U.S. cattle population. OIG recently completed audit and investigative reviews focusing on the BSE surveillance program's purposes, objectives, policies, procedures, and related management controls. During the audit we found the following challenges in identifying, obtaining, and testing cattle in the high-risk population: cattle condemned at slaughter were not always tested for BSE; there was no formal process for testing rabies-negative samples for BSE; a process for obtaining samples from animals that "died on the farm" has not been developed; and confusion may arise regarding non-standardized age requirements for BSE.

Our investigation of the BSE-positive cow in Washington State did reveal procedural errors and inconsistent descriptions that gave rise to some of the public concerns that the identification of the BSE-positive cow may have been mishandled. We also investigated the cow identified as having Central Nervous System (CNS) symptoms by an FSIS veterinarian in Texas that was not tested for BSE after it had been slaughtered. Evidence shows that at the time of this incident, communication problems occurred between the APHIS and FSIS employees involved. Taken together, the statements of both APHIS and FSIS personnel and other evidence indicate inconsistencies in their understanding of procedures for BSE tissue sampling of CNS suspect cattle in certain circumstances, and the handling of the carcass pending test results.

ACTION NEEDED TO ADDRESS THE CHALLENGE: FSIS needs to identify management controls for all levels of the organization in monitoring HACCP, improving recall activities, and completing an in-depth assessment of the organizational and control structure over the imported meat and poultry process. FSIS has issued new or updated directives, which will provide enhancements; however, the directives have not always been responsive to specific OIG recommendations or provided enough detail for OIG to determine what will actually be implemented.

For BSE, the Department needs to have a supportable methodology for assessing the effectiveness of its overall surveillance program. A supportable methodology is essential to provide credibility for any USDA assertion regarding the prevalence of BSE in the United States. Also, performance measures and continuous risk analyses are needed to better target limited resources and assess whether all program participants are fulfilling their respective roles and responsibilities.

DEPARTMENTAL/AGENCY ACCOMPLISHMENTS/PLANS: FSIS has addressed some of the *e. coli*-related OIG recommendations with the updating of Directive 10.010.1, Microbial Testing Program for *Escherichia Coli* O157:H7 in Raw Ground Beef. The Centers for Disease Control and Prevention, in its annual report on the incidence of infections from foodborne pathogens, noted significant declines from 1996 to 2003 in illnesses caused by *E. coli* O157:H7 (42 percent), Salmonella (17 percent) Campylobacter (28 percent) and *Yersinia* (49 percent). Between 2002 and 2003, illnesses caused by *E. coli* O157:H7, typically associated with ground beef, dropped by 36 percent. However, other *e. coli*-related issues including defining the goals, objectives, and methods of testing remain to be addressed. Training has been provided to inspectors through the new Food Safety Regulatory Essentials curriculum, with emphasis on inspectors' assignments. Training has also been provided to compliance and consumer safety officers. FSIS has revised the handbook on verifying an establishment's food safety system and recently reissued Directive 8080.1, Recall of Meat and Poultry Products.

USDA began its enhanced BSE surveillance program June 1, 2004. In addition to expanding the numbers of cattle to be tested, USDA is providing comprehensive training on USDA BSE sampling collection protocols to APHIS and FSIS employees, State veterinarians, accredited veterinarians, and participating veterinary technicians. USDA has planned to evaluate the program's effectiveness, periodically analyze data to determine if mid-course corrections are warranted, and has arranged with the Agricultural Marketing Service to perform quality assurance reviews.

CHALLENGE: RISK MUST BE EXAMINED AND IMPROPER PAYMENTS MINIMIZED WITHIN USDA

DETAILS: The Federal Government faces a major challenge in implementing the Improper Payments Information Act of 2002. The Act requires agency heads to annually review all programs and activities that they administer, identify those that may be susceptible to significant improper payments, and estimate the annual amount of the improper payments. If the estimate exceeds \$10 million, agencies are to report the causes of the improper payments and corrective actions taken. OIG considers this to be a major challenge because of the number and complexity of USDA programs and activities which fulfill the Act's criteria. The methodology to be employed to identify improper payments consists of a detailed risk assessment of programs' internal controls, a highly complex undertaking. The degree of the challenge is further heightened because reporting is due in the Department's September 30, 2004, Report on Performance and Accountability (PAR). The impact of the challenge cannot yet be forecast but the Office of Management and Budget (OMB) has estimated improper payments of about \$35 billion, an amount widely viewed as understated, Governmentwide. To varying degrees, all of USDA's outlays of over \$112 billion in FY 2003 were vulnerable to being improperly paid.

OIG AUDIT/INVESTIGATION ACTIONS: OIG audits frequently include the objective of evaluating the propriety of the use of agency funds, thus effectively testing for improper payments. For example, prior audits reported that \$285 million in Rural Rental Housing loans and \$287 million in associated interest credit payments would not have been made over a 3-year period, had the loan making criteria not been lax. In addition, previous audits found 16 sponsors in the Child and Adult Care Food Program, who received almost \$35 million annually, had misdirected Federal funds to such an extent that they were eventually terminated from the program. In another audit, we found that the controls were so weak over investments made by the Alternative Agricultural Research and Commercialization Corporation that the great majority of its \$27 million portfolio was at risk. In response to our audit, Congress eliminated the program in its entirety. OIG recently reviewed the Food and Nutrition Service's (FNS) action to implement the Improper Payments Information Act and previous OMB-directed budget statements and is concerned that FNS will not be able to report improper payment information in the FY 2004 PAR for any of its major programs, other than the Food Stamp Program (FSP). We have recommended that FNS develop benchmarks that can be used in these programs until improper payments can be reported. While FNS has obtained funding and has initiated efforts to obtain benchmark information on improper payments for the National School Lunch (NSLP) and School Breakfast (SBP) Programs and the Special Supplemental Food Program for Women, Infants, and Children (WIC), the agency will not be reporting information from these studies before FY 2007. Further, we are currently reviewing the implementation of the Department's guidance by four other agencies. We anticipate expanding our coverage in this area during FY 2005.

OIG investigations have identified millions of dollars of benefits obtained fraudulently in some of the Department's largest programs, including FSP, crop insurance, and FSA loan programs. From FY 1999 through the first half of FY 2004, OIG investigations revealed total monetary results of \$493 million, of which \$250 million was restitution ordered by courts to repay the amount of losses directly due to criminal activity. The focus of investigations is on specific subjects and specific allegations of criminal violations, and generally the results achieved in individual investigations pertain directly to individuals, rather than identifying broad agency-wide problems in benefit delivery. However, investigative findings can help identify problem areas, such as common schemes used to obtain undeserved payments, and can assist in other ways as well. For example, building on analytical tools developed to identify suspicious patterns of activity in food stamp electronic benefit transfer investigations, FNS now routinely disqualifies retailers based on electronic benefit redemption data that evidences fraud, thus stopping the misuse of food stamp benefits by certain authorized retailers far more quickly than would have been possible in the past.

ACTION NEEDED TO ADDRESS THE CHALLENGE: USDA agencies need to aggressively implement the requirements of the law and OMB's related direction. An analysis of the internal control structure of all major programs must be performed, weaknesses which could create vulnerabilities to improper payments need to be identified, and remediation plans developed.

DEPARTMENTAL/AGENCY ACCOMPLISHMENTS/PLANS: The Office of the Chief Financial Officer has published guidance to the individual agencies on how to implement the Improper Payments Information Act. In addition, FNS has been reporting the status of its improper payments identification and reduction efforts in the FSP, NSLP, SBP, and WIC Programs, as has FSA, in the Commodity Loan Program, pursuant to OMB requirements. With the exception of the FSP, however, the information reported to date has been limited because, per the agencies, funding to support these initiatives has been lacking.

CHALLENGE: FINANCIAL MANAGEMENT – IMPROVEMENTS MADE BUT ADDITIONAL ACTIONS STILL NEEDED

DETAILS: The Department has made significant improvements, culminating in two consecutive unqualified audit opinions on its financial statements; however, the adequacy of Forest Service's financial management processes remains a particular concern. Errors disclosed subsequent to the release of the fiscal year (FY) 2002 financial statements required their restatement. In addition, extraordinary efforts were required to correct significant deficiencies in the agency's FY 2003 financial statements after the fiscal year but before the issuance of the statements. OIG considers this to be a major challenge because of the number and extent of material internal control weaknesses still resident in the Forest Service's financial management systems, the extent and complexity of the undertaking to remediate them, and the impact of the accelerated timeframe for the issuance of the FY 2004 statements. In addition, the Commodity Credit Corporation (CCC) needs to improve its ability to fully monitor, control, and report budgetary resources for all of its programs. Inadequate financial management processes can have a pervasive effect on agency operations, to include impaired service, reduced effectiveness and efficiency, and unreliable decision making.

OIG AUDIT/INVESTIGATION ACTIONS: OIG'S prior audits, and those more recently performed by certified public accounting (CPA) firms with OIG's monitoring, have disclosed weaknesses which have affected the accuracy of the Department's financial management data. In addition, GAO has continually reported the Forest Service's financial management systems to be high risk. The FY 2004 audit will be performed by CPA firms of selected individual agencies (to include the Forest Service) with OIG's oversight. OIG will perform audits of FNS, Rural Development, and the Department as a whole (the consolidated audit).

ACTION NEEDED TO ADDRESS THE CHALLENGE: The Department, specifically the Forest Service and CCC, needs to establish financial management systems and processes, including a reliable system of controls, which will generate reliable and timely financial data.

DEPARTMENTAL/AGENCY ACCOMPLISHMENTS/PLANS: The Forest Service, with the Department's assistance and guidance, has developed an extensive "Financial Management Improvement Plan" for the purpose of sustaining an unqualified audit opinion and building a highly reliable and cost effective financial management organization. The plan contains immediate, short-term, and long-term actions to address and rectify the longstanding weaknesses. Among the long-term actions is the initiative to centralize financial management operations. Although these actions are much needed in that they should significantly strengthen internal controls, timely completion of the plan will be difficult in that its implementation will require a complete revamping of the agency's operations and even the agency's culture.

CHALLENGE: INFORMATION TECHNOLOGY SECURITY – MUCH ACCOMPLISHED, MORE NEEDED

DETAILS: USDA depends on information technology (IT) to efficiently and effectively deliver its programs and provide meaningful and reliable financial reporting. One of the most significant dangers USDA faces is a cyber attack on its IT infrastructure, whether by terrorists seeking to destroy unique databases, criminals seeking economic gain, or disgruntled internal staff members. OIG considers this to be a major challenge because of the extraordinary risk incumbent in the Department's automated data systems, expressed in terms of billions of dollars in payments flowing through them, the untold disruption which could occur in the world's financial and agricultural markets, and the potential negative impact on the health and safety of the world's population.

OIG AUDIT/INVESTIGATION ACTIONS: OIG has had an extensive IT security audit program in place for several years which has enabled us to provide coverage to virtually every agency in the Department. Our audits have found that despite strong guidance provided by the Office of the Chief Information Officer (OCIO), agency implementation of IT security requirements has been inadequate. These material weaknesses stem from lack of compliance with OMB Circular A-130 provisions such as the development of security plans, the performance of risk assessments, the preparation of disaster recovery plans, the completion of security awareness training, and the performance of system certification and accreditation plans. In addition, our annual audits of general controls at the National Finance Center (NFC) and National Information Technology Center (NITC) have disclosed security weaknesses which could jeopardize the confidentiality, integrity, and availability of the data the Centers process. OIG is currently evaluating controls over selected agency application systems, which are the methods and measures that ensure that individual automated systems process data as intended. In addition, we plan to followup at several agencies to assess their progress implementing IT security, and conduct our annual audits of NFC and NITC.

On the investigative side, OIG established in 1987 a Computer Forensics Unit (CFU) which was expanded in 2001 to include three computer specialists. These specialists are uniquely trained to detect high-tech criminal activity, collect and analyze digital evidence, and preserve it for use in court. The computer specialists are on call at all times and prepared to travel to any location in the country to provide computer support in criminal investigations. Additionally, we plan to expand the CFU's responsibility in order to provide USDA agencies' forensics units with support, training, and advice on evidence collection and analysis.

ACTION NEEDED TO ADDRESS THE CHALLENGE: USDA agencies need to aggressively implement IT security requirements to reduce the level of vulnerability. Plans, assessments, and controls need to be performed and/or established as required.

DEPARTMENTAL/AGENCY ACCOMPLISHMENTS/PLANS: OCIO has worked diligently to facilitate and assist the agencies to achieve conformance with security mandates. Significantly, OCIO created a framework to contract for the certification and accreditation of

application and general support systems by fiscal 2004 year end. The majority of the systems are currently under review and most of the reviews should be completed by fiscal year end. The certification and accreditation process should address the preponderance of the IT security weaknesses identified. Further, OCIO has taken action to become actively involved in the budget process to ensure, among other initiatives, that cyber security and the Federal Information Security Management Act requirements are addressed in IT acquisitions. We view these as extremely positive steps to reduce the challenges ahead.

CHALLENGE: CONTROLS OVER GERmplasm STORAGE MATERIAL AND GENETICALLY ENGINEERED ORGANISM FIELD TESTING ARE CRITICAL TO U.S. MARKETS

DETAILS: The use of biotechnology-derived or genetically engineered crops has grown significantly over the past decade, particularly in the United States. In 2001, approximately 88 million acres of such crops were planted in the United States. For the 2004 crop year, as much as 86 percent of the planned 75.4 million acres of soybeans, approximately 46 percent of the planned 79 million acres of corn, and approximately 76 percent of the 14.4 million acres of cotton were planted with genetically engineered seeds; in total, approximately 112 million acres are planned or planted for such crops. These crops constitute a major portion of American exports of agricultural production. The acceptance of genetically engineered crops in the world market, however, is mixed. The loss of major export markets could seriously impact the American agricultural economy. Recently, the Food and Agriculture Organization of the United Nations issued a report supporting the benefits of genetically engineered crops: boosting yields; lowering costs; reducing pesticide use; and making crops more resistant to disease, pests, and drought.

USDA plays a major role in regulating and monitoring genetically engineered crops – from the storing of germplasm used to produce seeds for such crops, to approving field testing of genetically engineered crops, to monitoring the interstate shipment and import of these crops, to providing assistance for export of American agricultural production. The Department must balance the goals of (1) maintaining adequate accountability and integrity of genetically engineered versus non-genetically engineered seeds and crops, (2) ensuring the health and safety of the American food supply, and (3) maintaining the export levels of American agricultural production against the added costs to implement such controls and the uncertainty of the effects of genetically engineered crops. The integrity of the Department's germplasm storage system is critical in responding to a major catastrophe or major infestation. As described in the recently issued HSPD-9, the Department's germplasm storage system will be the primary source of genetic resources for re-building agriculture production in the event of a national or regional agricultural disaster.

OIG AUDIT/INVESTIGATION ACTIONS: In our recent review of the Department's germplasm storage system, we found the need for and recommended increased accountability and tracking controls over genetically engineered germplasm if USDA is to provide assurance to other markets. Specifically, the Department needed to strengthen controls over the identification, shipment, inventory, and disposal of genetically engineered organisms (GEO).

In our ongoing review of the Department's accountability and monitoring of field testing of genetically engineered crops, we evaluated the Department's controls over issuance of GEO release notifications and permits. We found insufficient or inadequate controls over the complete process, from the initial applications for such notifications and permits through devitalization of the crops under the approved notifications and permits.

We are planning an audit to evaluate the Department's controls over genetically engineered food crops once in the American food process.

ACTION NEEDED TO ADDRESS THE CHALLENGE: In our review of the germplasm storage system, we recommended that the Department establish proper identification and documentation procedures for GEOs entering the germplasm storage system and routine physical inventory procedures for such storage facilities.

We are also making recommendations to the Department to strengthen the field-testing application process by developing a standard review guide for such applications and by requiring specific standards for field-testing and more detailed information from applicants. To adequately account for such field-testing, the Department needs to maintain an updated comprehensive inventory of approved field-testing and movement applications. Without strengthening these upfront controls, effective monitoring and oversight by the Department is hampered and there is less assurance that proper surveillance is in place to preclude such crops from entering the human food process. We are recommending that the Department strengthen its monitoring of field-testing by clearly defining line authority over the field inspectors, developing standard reviews, and providing consistent training to field inspectors. Our report will be issued in October 2004.

DEPARTMENTAL/AGENCY ACCOMPLISHMENTS/PLANS: In its response to our draft report, the Department generally agreed with the findings and stated that the affected agencies within the Department will be collaborating and coordinating to draft policy guidelines to address the issues at the Department level.

We have additional GEO audit work currently underway and more is planned for the coming year. To date, OIG and the Department have worked to craft meaningful recommendations which the Department has aggressively implemented. There is still much to be done in the GEO area. We anticipate our strong working relationship with the Department to continue through the completion of our GEO audit work.

CHALLENGE: CIVIL RIGHTS COMPLAINTS PROCESSING STILL A CONCERN AT USDA

DETAILS: Based on a series of audits, OIG recommended that the Office of Civil Rights (CR) implement a management plan that would address effective leadership, change the organizational culture, focus on customers, and reengineer its processes. While the plan has been developed, until it is fully implemented, timely resolution of civil rights complaints will remain a management challenge at USDA. OIG considers civil rights to be a management challenge because of the risk to program participants' and employees' rights, which could reduce the public's confidence in USDA's ability to administer and address civil rights activities.

OIG AUDIT/INVESTIGATION ACTIONS: From February 1997 through March 2000, OIG issued a series of audit reports dealing with CR's handling of program-related civil rights complaints and one audit report on employment civil rights complaints. In March 2000, OIG reported that minimal progress had been made in overcoming inefficiencies in processing civil rights program and employment complaints. Deficiencies reported in OIG's prior audit reports had not been corrected. The March 2000 report noted that CR did not reengineer its complaint resolution process, its database and file room remained poorly managed, and a large backlog of cases was stalled in the "intend-to-file" category and/or may not have received due care. Based on the conditions found, OIG recommended that CR develop a management plan that would address effective leadership, change organizational culture, focus on customers, and reengineer its processing of complaints.

In September 2002, GAO reported that the processing of program complaints continued to exceed required timeframes. Based on its report and those of OIG, GAO, in its January 2003 report entitled "Major Management Challenges and Program Risks, Department of Agriculture," cited that "...the resolution of discrimination complaints continues to be a serious management challenge at USDA."

ACTION NEEDED TO ADDRESS THE CHALLENGE: Following the appointment of the Assistant Secretary for Civil Rights on April 1, 2003, management developed a set of 13 initiatives, one of which specifically addresses complaint processing. There are still eight recommendations from the prior audit reports that have not reached management decision. These concern such items as completing employment case file reviews and finalizing procedures on settlement of program cases and performance of agency civil rights evaluations.

DEPARTMENTAL/AGENCY ACCOMPLISHMENTS/PLANS: USDA has demonstrated the importance it places on civil rights when the first Assistant Secretary for Civil Rights was sworn into office in April 2003. There has also been progress in developing action plans and timeframes to implement previous OIG recommendations in that 88 of the 96 recommendations have reached management decision; many of the recommended actions, however, have not been fully implemented. The U.S. Commission on Civil Rights issued a report on June 12, 2003, evaluating the extent to which USDA and three other Departments have implemented the Commission's 1996 recommendations made in *Federal Title VI Enforcement to Ensure*

Nondiscrimination in Federally Assisted Programs. Overall the Commission found that the Department had not made significant strides to address the 1996 recommendations or improve civil rights enforcement. One of the Commission's conclusions was that while ensuring consistency in complaint processing, CR must reduce the backlog and shorten and accurately track the average processing time.

CHALLENGE: RESEARCH MISCONDUCT POLICY NOT CONSISTENTLY IMPLEMENTED

DETAILS: USDA plays a major role in U.S. agricultural research activities, expending over \$2 billion in FY 2003 for research to increase American agriculture production and to protect and treat American agricultural crops against foreign plants and animal pests and diseases. Research integrity is critical to the mission of USDA. In December 2000, the President's Office of Science and Technology Policy (OSTP) issued a Federal policy to establish uniformity among Federal agency definitions and treatment of research misconduct involving any federally funded research. OSTP defines research misconduct and establishes basic guidelines for conducting fair and timely investigations of alleged or suspected infractions. This Government-wide policy required Federal agencies to implement their individual research requirements, either by regulations or administrative mechanisms.

OIG AUDIT/INVESTIGATION ACTIONS: In our audit report on research misconduct, we noted that USDA has not implemented a coordinated Department-wide policy or procedure for the treatment of research misconduct; responsibility for implementing the Federal policy was delegated to each agency within USDA. We found that most USDA agencies have not implemented any research misconduct policies and procedures. In those agencies (including the Agricultural Research Service (ARS)) that had implemented a policy, procedures were inconsistent; for example, in the monitoring of research activities under extramural agreements, these agencies had disparate approaches. These agencies also relied primarily on in-house resources to review allegations of research misconduct. In the absence of consistent policies, USDA has no assurance that potential research misconduct involving USDA funds is being timely referred, independently adjudicated, and appropriately resolved, including determining whether criminal investigation is warranted. Also, one of our investigations uncovered research misconduct in USDA-funded research into a swine pneumonia vaccine by a graduate student who attempted to hide his misconduct by staging a laboratory break-in. The student has been sentenced to 10 months in prison and ordered to pay \$70,000 in restitution. The agency's administrative action is still pending. A consistent Department-wide policy on handling research misconduct would ensure that such matters are concluded appropriately.

ACTION NEEDED TO ADDRESS THE CHALLENGE: In order to ensure compliance and consistency across USDA, the Department needs a coordinated, Department-wide initiative and Department-wide policy and procedures.

DEPARTMENTAL/AGENCY ACCOMPLISHMENTS/PLANS: In USDA's 2003 Report on Performance and Accountability, the Department cited that ARS worked closely with OSTP in drafting the Federal policy and had updated in June 2003 the agency's policy to ensure compliance with Federal policy.

CHALLENGE: AGENCIES NEED TO BETTER COORDINATE PROGRAM DELIVERY AND CONTROL – NEW CHALLENGE¹

DETAILS: USDA’s work crosses jurisdictional lines within the Department, most notably between the Risk Management Agency (RMA) and the Farm Service Agency (FSA) and FSA and the Natural Resources Conservation Service (NRCS) in the conduct of USDA’s crop insurance, crop disaster, and conservation programs. USDA’s challenge is to develop and implement a comprehensive program integration process whereby information is shared by USDA agencies in the course of administering the programs. Such information sharing will reduce duplication of information collection from program participants, will increase the utility of information collected from customers, and will increase the utility of information developed by the agencies through internal and external reviews, etc., thus streamlining operations, reducing expenditures, and improving program efficiency, compliance, and integrity. Although the Department has made some progress in adopting such an integrated approach to its programs, we have found much additional work remains to be done.

OIG AUDIT/INVESTIGATION ACTIONS: Participation in FSA’s 1998-2002 crop disaster programs was predicated on crop production data managed by RMA. The Agricultural Risk Protection Act of 2000 (ARPA), enacted in part to improve the efficiency and integrity of the Federal crop insurance program, requires RMA and FSA, beginning with the 2000 crop year, to annually reconcile data received by the agencies from producers. However, OIG’s reviews of the crop disaster programs and ARPA implementation have shown that such data sharing and data reconciliation efforts are hindered by the lack of common data standards and common program and data definitions. Differences in the definitions of “producer” versus “insured,” “farm” versus “unit,” and in the numbers of decimal places to which a percentage crop share is carried, for example, hamper data reconciliation as well as data sharing. To date RMA has been unable to satisfactorily complete the legislatively mandated data reconciliation for a single year, and FSA finds itself in many cases unable to use the data downloaded from RMA for the disaster programs.

Under the Wetlands Reserve Program (WRP) administered by NRCS, the law requires that the owners and operators of land subject to WRP easements agree to the permanent retirement of any existing cropland bases for such land under any USDA program. In our ongoing review of WRP we noted specifically that NRCS is not consistently coordinating with FSA to ensure such bases are permanently reduced (retired) for farm program purposes. As a result, in some cases USDA is both compensating the producers for the value of the base acres under WRP, and issuing farm program payments on the base acres to the producers under the farm programs.

¹ Last year’s challenge, “USDA Faces Major Challenges in Implementing the 2002 Farm Bill and Disaster Assistance Legislation,” was removed from this year’s top challenges facing the Department. Over the approximately 2 years since the 2002 Farm Bill was signed, we have been monitoring the Department’s implementation of the Bill and, based on these efforts, have concluded that the Department has made significant progress in implementing many of the provisions of the Bill.

ACTION NEEDED TO ADDRESS THE CHALLENGE: Comprehensive program integration necessitates collaboration among the agencies. In order to implement a fully integrated program system, USDA must coordinate its programs at the Department level to identify information common to the agencies' programs and to create common data standards and definitions across the Department to enable sharing and re-use of such information. Moreover, the Department must foster an information-sharing environment so information collected or developed by one agency can be leveraged to enhance program efficiency, compliance, and integrity across other USDA programs.

DEPARTMENTAL/AGENCY ACCOMPLISHMENTS/PLANS: The Department has made progress in implementing the eGovernment initiative of USDA Enterprise Architecture, including developing a comprehensive implementation plan. With respect to databases, the Department has established a number of guidelines in this enterprise: data will be shared to provide new and/or enhanced services, when applicable, and USDA will strive to create common data standards across the enterprise. Common data standards will facilitate sharing, including compliance, and re-use of such user-provided information will cut integration and consolidation costs. In response to our report on the implementation of the ARPA provision, the Department stated that it had established an interagency task force to develop such common data standards. RMA and FSA are actively working on the Common Information Management System (CIMS) that was mandated in the 2002 legislation. CIMS will allow RMA, FSA, other USDA agencies, and insurance providers to share and report on common information that producers must report. Also, in response to GAO's report on electronic filing in USDA, the Department responded that it had assigned a Department-level official to oversee its Department-wide initiative and to develop a comprehensive plan for this effort. Many of these efforts have been geared to enhancing public use of and access to the Department's programs. However, the Department must also foster the integration and coordination of the common information to enhance program compliance and integrity across USDA programs and agencies. These efforts will also facilitate achieving compliance with the Improper Payments Information Act.

CHALLENGE: INTEGRITY OF THE FEDERAL CROP INSURANCE PROGRAMS MUST BE STRENGTHENED THROUGH IMPROVED QUALITY CONTROL SYSTEMS AND IT PROCESSING

DETAILS: The Federal crop insurance programs, administered by the Federal Crop Insurance Corporation (FCIC) in conjunction with RMA, have become American agricultural producers' primary "safety net." Over the years, as Congress mandated changes to the programs, the Federal crop insurance programs have grown significantly, particularly after the passage of the Agricultural Risk Protection Act (ARPA). Under ARPA, Congress encouraged participation by American agricultural producers by increasing the level of subsidized premiums. By crop year 2003, crop insurance coverage increased to 217 million acres with a total Government insurance liability of over \$40 billion. However, indemnity payments and subsidy reimbursements have also increased: for the 2003 crop year, indemnity payments totaled approximately \$3.2 billion, while the Government's subsidized share of the insurance premium totaled approximately \$2 billion. To ensure quality assurance and integrity in its programs, RMA relies on a number of complementary and/or independent control systems; these include quality control reviews (QCR) by the reinsured companies and compliance activities by its own staff.

In March 2002, we addressed RMA's continuing problems in implementing an effective and reliable QCR system capable of evaluating the private sector's delivery of Federal crop insurance. We recommended that a standard QCR system be established by regulation rather than through inclusion in the Standard Reinsurance Agreement (SRA), which is a negotiated document with the insurance companies. As part of the QCR system, we recommended that RMA define what constitutes an error and provide consistent and comprehensive review procedures for all reinsured companies. Such a QCR system would also provide RMA with the information needed to comply with the mandated improper payment requirements.

OIG AUDIT/INVESTIGATION ACTIONS: Our past audits have reported the need for RMA to strengthen its quality assurance and compliance activities to ensure compliance with program requirements. In our audit of the Department's implementation of ARPA, we found that RMA took the lead in performing the required data reconciliation for crop year 2001. However, this reconciliation was not completed, and data reconciliations for the following crop years have not been performed. We also found from our earlier audit of the QCR system that RMA had not ensured that QCRs conducted by the reinsured companies were being effectively and adequately performed. We are currently in the process of evaluating RMA's overall compliance activities. OIG investigators working jointly with RMA program investigators have found significant fraud in the Federal crop insurance program, which also indicates the need for an effective quality control system.

ACTION NEEDED TO ADDRESS THE CHALLENGE: To adequately address this management challenge, RMA needs to (1) continue its effort with FSA to develop a common information system to facilitate common data collection and usage by combining RMA and FSA data; (2) establish a consistent and comprehensive QCR process for all reinsured companies, including a system to evaluate the overall effectiveness and reliability of QCRs performed by the companies; (3) move the procedural requirements for the QCR process from the SRA to Federal regulations; (4) establish a statistical sampling plan that will provide an overall error rate that will improve compliance with improper payment legislation and help to evaluate reinsured company performance; and (5) establish an acceptable base line error rate to measure reinsured company performance for delivering and servicing insurance programs.

DEPARTMENTAL/AGENCY ACCOMPLISHMENTS/PLANS: Initially, RMA planned to contract with a private consultant group to develop a QCR system, which would be incorporated by regulation. However, RMA for the near term has opted to keep the QCR system as part of Appendix IV of the SRA, which RMA recently renegotiated with the reinsured companies. Although the QCR system in Appendix IV of the SRA appears to include improvements, we believe that the QCR system will result in many of the same weaknesses previously reported. Each reinsured company will submit its own QCR program, resulting, we believe, in inconsistent results. There is no requirement for a statistically valid sample review. As a result, RMA will not be able to determine an overall error for the Federal crop insurance program and will not be able to comply with the improper payment requirements.

We have also been informed that RMA intends to develop a random-sampling-of-claims plan for each company program review that will be conducted by RMA employees as a means to develop an overall program error rate. However, only a limited number of program reviews will be completed each year and the complete process will be staggered over several years. It also plans on developing standard performance and reporting procedures to be followed by the companies when performing required QCRs under the SRA. RMA has also started working with FSA to develop a common reporting system which RMA believes will eliminate the need for the required data reconciliation between RMA and FSA data. However, all this is a long-range plan and RMA does not have reasonable alternatives for the interim. For example, RMA officials have stated it does not have the resources to perform both a statistical sample review for improper payment purposes and the data reconciliation required by ARPA.

We have met with RMA officials to discuss and to provide our feedback to their proposed corrective actions. We informed them that we would need a formal response documenting their corrective actions; the document should include specific details of their corrective actions and a timetable for implementing the corrective actions.

AGENCY-SPECIFIC CHALLENGES**CHALLENGE: A STRONG INTERNAL CONTROL STRUCTURE IS
PARAMOUNT TO THE DELIVERY OF FOREST SERVICE
PROGRAMS**

DETAILS: The Forest Service (FS) needs to continue to enhance and improve its system of internal controls to ensure the agency is accountable for the efficient and effective delivery of its programs. FS has the responsibility for providing leadership in the protection, management, and use of the Nation's grasslands and aquatic ecosystems on public and private lands. The National Forest System covers 191.8 million acres of forest, grass, and shrub lands. FS also cooperates with State and local governments and private landowners in the management of forest resources, and provides leadership in forest and rangeland research. The decentralized organizational structure of the agency makes it imperative that a well-defined system of controls be in place and effectively operating. Historically, audits have disclosed weaknesses in the agency's internal control systems. OIG and GAO audits have found that policies and procedures provided to field units through the FS directive system are inadequate to ensure programs are implemented in accordance with applicable laws and regulations. Additionally, the agency's internal review process has not provided the necessary feedback to agency managers regarding how its programs are being delivered to the public.

OIG AUDIT/INVESTIGATION ACTIONS: OIG and GAO audits and investigations have disclosed significant issues related to the weaknesses in FS's internal controls, including the agency's financial operations (see management challenge on financial management). Our recent audits of FS's implementation of the National Fire Plan found that controls were not adequate to ensure that funds were spent as intended. We found that funds designated for rehabilitation of areas destroyed by wildfires were not being spent in accordance with agency guidelines. We also found budget estimates provided by FS for the implementation of the fire plan did not accurately reflect all agency needs and therefore were understated. Our audit of the FS procurement of aircraft for its fire program disclosed that controls over the procurement process were not adequate to ensure the agency would acquire aircraft that would best meet its needs. Additionally, we found that the number of aircraft FS had proposed acquiring was not supported by mission requirements and was thus overstated. We made recommendations and FS concurred to change the acquisition procedures to ensure it acquired the aircraft that best meet its requirements and to reevaluate the number of aircraft it planned to acquire. We currently have audit work underway within the FS looking at internal controls concerning the fire safety program, contracting for equipment used in fire suppression activities, FS implementation of the Government Performance Result Act (GPRA) requirements, and FS use of collaborative ventures and partnerships. Each of these audits will focus on the controls related to these programs to determine if they are adequate and functioning as designed.

OIG is mandated by Public Law 107-203 to investigate any FS employee death related to wildland fire burnover or entrapment. Our Office of Investigations has ongoing work resulting from the 2003 Cramer Fire in Idaho. The investigation seeks to determine the cause of the fatalities and contributing factors and to determine if applicable FS regulations, policies, and procedures are appropriate and were followed by those involved in fighting the Cramer Fire.

In addition, GAO has completed a number of recent reviews that have identified internal control weaknesses as a significant problem for the agency. GAO reported the FS had made little progress implementing requirements under GPRA (GAO-03-503, released May 2003). GPRA is a primary internal control mechanism for measuring and reporting an agency's performance and progress towards its goals and objectives. According to GAO, the FS still does not have an internal control process to ensure the accurate, timely, and reliable reporting of its performance. GAO's review of FS's use of purchase cards identified weakness in the internal controls that left the agency vulnerable to improper, wasteful, and questionable purchases (GAO-03-786, released August 2003). In its review of Wildland Fire Management (GAO-03-35, released August 2003) GAO found there were not sufficient controls to ensure that lands were properly identified and prioritized for fuels reduction programs.

ACTION NEEDED TO ADDRESS THE CHALLENGE: FS needs to follow through on its plans to initiate improvements to its overall internal control structure. Two of the major activities they plan are an assessment of high-risk processes within the agency and strengthening of the agency's internal review process. FS has stated these actions are being implemented over a 2-year period and are scheduled for completion by the end of FY 2005. We believe that if FS completes these actions and effectively implements GPRA, the agency will have made significant progress in addressing this management challenge.

DEPARTMENTAL/AGENCY ACCOMPLISHMENTS/PLANS: FS responded in USDA's 2003 Report on Performance and Accountability that it planned to address its internal control weaknesses by conducting a risk assessment to determine the high-risk processes within the agency. FS also stated that it was planning on reaffirming its internal review process to ensure its effectiveness.

CHALLENGE: IMPROVEMENTS AND SAFEGUARDS NEEDED FOR THE RURAL MULTI-FAMILY HOUSING PROGRAM

DETAILS: The Rural Housing Service (RHS) faces several challenges in the management of its direct Multi-Family Housing (MFH) program. Substantial numbers of RHS's Rural Rental Housing (RRH) properties are over 20 years old. Our past audits have disclosed significant physical deterioration of projects that threaten the health and safety of rural residents. Our past audits have also reported the diversion or theft of millions of dollars of RRH project funds to non-project purposes (equity skimming). These conditions have persisted and have been reported as a material internal control weakness by RHS in the Federal Manager's Financial Integrity Act (FMFIA) since 1996. We are currently working with RHS to ensure that their proposed re-write and consolidation of a substantial portion of its regulations is sufficient to resolve the material weakness. In 1999 and 2003, we also reported significant amounts of excessive rental assistance payments resulting from RHS's inability to detect residents that do not report their full incomes. Many properties are also eligible to leave the program by prepaying their loans, possibly resulting in the loss of housing to thousands of rural residents.

OIG AUDIT/INVESTIGATION ACTIONS: Audits dating back to at least 1994 have reported equity skimming, physical deterioration of RRH projects, and excessive rental assistance payments. In March 1999, we issued a report of our combined RHS and OIG nationwide review of RRH projects that found 18 owners and management companies had stolen over \$4.2 million of project funds while neglecting the physical condition of their properties. Our current audit to determine the status of corrective actions found that RHS has not implemented all corrective actions agreed upon at that time to effectively resolve these long reported deficiencies. Investigations, including some stemming from this review, have also confirmed equity skimming and embezzlement by owners and management companies. One such case in Louisiana resulted in a prison sentence of 5 years for a major real estate developer, who was also ordered to pay fines and restitution of \$3.7 million, as well as fines and restitution of another \$700,000 and sentences ranging from probation to 5 months in prison for several associates.

OIG is also conducting a followup audit to our 1999 nationwide report that had disclosed excessive rental assistance payments. Our current review has found that RHS has failed to take effective corrective actions to resolve the excessive rental assistance. RHS needs to seek legislation that would allow it to actively pursue securing wage and income information of RRH tenants for use by RRH owners and management companies that are responsible for verifying tenant incomes.

ACTION NEEDED TO ADDRESS THE CHALLENGE: RHS needs to compare the benefits of repairing existing projects to constructing new projects; inspect and repair its aging projects to ensure safe, decent, and affordable housing for low to moderate-income rural residents; implement procedures to detect and prevent equity skimming, including the use of CPA engagements focused to uncover equity skimming; develop wage and benefit matching authority to identify and recover excessive rental assistance costs; and properly use equity or other

incentives to keep RRH projects in the program. RHS could address many of these challenges by implementing the corrective actions recommended in our two nationwide audits issued in 1999.

DEPARTMENTAL/AGENCY ACCOMPLISHMENTS/PLANS: RHS has initiated an inspection program for a statistical sample of its RRH projects. However, our current review has found the current inspection process to be ineffective, generally consisting of only an exterior “walk about” of the RRH projects. RHS has taken steps, in consultation with OIG, to re-write their proposed regulations to better prevent equity skimming of project funds and to resolve past audit recommendations, including the long-standing, FMFIA material weakness. OIG is writing the Rural Development audit program to assist CPAs (hired by borrowers) in focusing on and detecting project account transactions that are highly susceptible to equity skimming. RHS plans to require the use of the audit program and to incorporate it into its regulations. RHS stated that they have also undertaken innovations to collaborate with States to improve wage and benefit matching programs to detect unreported tenant incomes and reduce excessive rental assistance. At the same time, RHS is addressing related concerns raised on the rental assistance program by a recent GAO report. RHS also stated that they have taken several steps to keep properties in the RRH program, such as equity loans, increasing rental assistance, increasing returns on investment for owners, releasing excess reserve account funds, and reducing loan interest rates through interest credit provisions.

APPENDIX B—ERRONEOUS PAYMENTS AND RECOVERY AUDITING DETAILS

Since 2000, agencies have reported efforts to reduce erroneous payments through the Office of Management and Budget's (OMB) Circular A-11, "Preparation, Submission and Execution of the Budget." This document provides guidance on preparing the FY 2006 budget submission, including instructions on budget execution. Section 57 of A-11 lists approximately 40 Government programs on which agencies were required to report (e.g., the Food Stamp Program, the National School Lunch Program, Medicaid, Medicare).

Under the Improper Payments Information Act (IPIA), executive agencies must identify any of its programs that may be susceptible to significant improper payments. IPIA also calls for agencies to estimate the annual amount of improper payments and submit those estimates to Congress. Section 831 of the Defense Authorization Act of 2002 requires recovery auditing. In this process, agencies that enter into contracts worth more than \$500 million in a fiscal year must execute a cost-effective program for identifying errors made in paying contractors and recovering amounts erroneously paid to the contractors. FY 2004 marked the first full year of implementation for both IPIA and recovery auditing.

USDA is taking steps to implement IPIA. The Department worked to ensure that all programs were identified and risk assessments completed to identify those considered high-risk. However, risk assessments of the Farm Service Agency programs were not fully completed in FY 2004. Developing a good risk-assessment process in the first year also will assist in meeting the annual requirement. USDA is working with OMB to determine how best to complete statistical samples of the programs identified as high risk. Due to budget and program constraints, this can be a complicated and expensive process. For the programs that cannot become fully compliant with IPIA in FY 2005, USDA is working with OMB to develop interim methods to establish and track erroneous payment percentages. The Department plans to have all high-risk programs either fully compliant or interim methods for FY 2005 reporting. These methodologies include aging analysis of available data to determine erroneous payment trends, and performing component studies. The specific sampling methodologies used for the high-risk programs and plans to become fully compliant are discussed fully in sections III-V below.

Additionally, USDA is taking steps to implement recovery auditing. Most USDA agencies implemented in-house auditing of a limited number of contracts. Two agencies, Forest Service and Departmental Administration, agreed to use a recovery auditing contractor as a USDA pilot. Most audits will be completed during the first half of FY 2005. Then USDA will determine the best methodology to be used for a cost-effective recovery auditing program. As this is the first year of recovery auditing, it is expected that future administrative costs of the program will be lower as USDA gains proficiency.

USDA completed the following OMB-provided template for IPIA reporting:

I. Describe your agency’s risk assessment premise(s) and process(es) that you performed subsequent to compiling your full program inventory. List the risk-susceptible programs identified through your risk assessments. Include the programs previously identified in the former Section 57 of OMB Circular A-11.

USDA agencies evaluated all program activities using the OMB guidance definition for high-risk (>2.5 percent and \$10 million). The information used to assess risk included:

- Management information, such as program-evaluation reviews, surveys and studies of specific programs, and administrative data collected through routine reporting;
- Office of Inspector General (OIG) & Government Accountability Office reports, including audits, inspections, reviews and investigations;
- Internal reviews of the existing processes and controls; and
- Management knowledge of daily program and financial operations.

After risk assessments were completed, OIG audited a sample of them to determine if improvements could be implemented.

Selection Methodology	Agency	Program
Section 57 of OMB Circular A-11	Farm Service Agency (FSA), Commodity Credit Corporation (CCC)	Marketing Assistance Loan Program
	Food Nutrition Service (FNS)	Food Stamp Program
		School Programs
		Special Supplemental Nutrition Program for Woman, Infants and Children
USDA Identified as Risk-Susceptible	Food Nutrition Service (FNS)	Child and Adult Care Food Program
	Forest Service (FS)	Wildland Fire Suppression Management
	Rural Development (RD)	Rental Assistance Program
	Risk Management Agency (RMA)	Federal Crop Insurance Corporation Program Fund
	Natural Resources Conservation Service (NRCS)	Farm Security and Rural Investment Programs

II. Describe the statistical sampling process conducted to estimate the improper payment rate for each program identified.

Agency	Program	Sampling Process
FSA/CCC	Marketing Assistance Loan Program (MAL)	FSA hired a contractor to develop an approach for completing the statistical-sampling process. The contractor is collecting data from the field offices where it originates to improve the quality of the sampling and review process, and obtain MAL application information unavailable in the Kansas City or the Washington offices. The sampling process begins with data provided by the producer and ends with disbursement. The sampling work and related analysis are projected for completion by December 2004.
FNS	Food Stamp Program (FSP)	The FSP payment-error rate is developed from a long-standing program integrity process called Quality Control (QC). The QC system reviews and measures the accuracy of household certifications using a statistical-sampling process initially established in 1970. The system is mandated by the Food Stamp Act and further defined in program regulations and agency guidance. Specific procedures are established in three handbooks: <i>Sampling Methodology</i> , <i>State Review Procedures</i> and <i>Federal Validation Reviews</i> . This well-designed and controlled process yields quality data with a confidence level for accuracy that complies with IPIA.

Agency	Program	Sampling Process
FNS	FSP (cont'd)	<p>During the process:</p> <ul style="list-style-type: none"> ■ States select a statistical sample from all participating households. This occurs after the monthly issuance amount for households has been determined. It follows the Federally pre-approved sampling plan devised for that fiscal year; ■ State personnel conduct QC reviews on the cases selected; ■ States report the findings of all QC reviews to FNS; ■ FNS conducts validation reviews of a statistical sample of the completed State reviews; ■ The results of the Federal validation and State findings are used to calculate a final error rate for each State agency. These individual rates have been used previously to assess penalties against States with high rates and award incentives to those with low rates; and ■ Official State error rates are weighted annually to determine a national average error rate for the Food Stamp Program.
FNS	School Programs	<p>"School Programs" includes three components: National School Lunch Program (NSLP), School Breakfast Program (SBP) and Special Milk Program. School Programs were unable to estimate an improper payment rate for FY 2004. Section IV discusses the difficulties in estimating a rate and includes detailed plans to calculate the rate in the future.</p>
FNS	Woman, Infants and Children (WIC)	<p>WIC was unable to estimate an improper payment rate for FY 2004. Section IV discusses the difficulties in estimating a rate and includes detailed plans to calculate the rate in the future.</p>
FNS	Child and Adult Care Food Program (CACFP)	<p>CACFP was unable to estimate an improper payment rate for FY 2004. Section IV discusses the difficulties in estimating a rate and includes detailed plans to calculate the rate in the future.</p>
FS	Wildland Fire Suppression Management	<p>FS entered into a contract with a recovery audit contractor. This will result in fulfilling the requirements of both IPIA and the recovery audit initiative. The risk for erroneous payments in the Wildland Fire Suppression Management program is through the procurement contracts. The recovery auditors also will have access to disbursement data in FS to find possible disbursing errors in addition to the procurement contracts. The number of erroneous payments detected through the recovery audit work will determine the erroneous-payment rate for this program. The FS will work with OMB and OCFO to ensure that the program is tested fully and meets the goals of IPIA.</p>
RD	Rental Assistance Program	<p>The statistical sample for this review was based on the universe of multifamily properties in the Rural Housing Service multifamily portfolio that receive rental assistance. From the universe of properties that receive rental assistance (13,186), a statistically valid sample of 2 percent of the properties was selected to achieve a 95-percent confidence level. RD conducted the audit program in July and collected and analyzed data from the field in August and September.</p>
RMA	Federal Crop Insurance Corporation Program Fund	<p>Under the terms of the Standard Reinsurance Agreement, the companies are provided a random sample of indemnity payments to review at the completion of each crop year. RMA selects the policies from the entire population of indemnities paid. The companies then are required to complete a full review of the payments, correct errors according to procedure and report the results to RMA. For the current cycle, the companies reviewed 1,575 policies with \$44,346,567 in indemnities. RMA will use this interim process for the 2003 and 2004 reinsurance year. Starting with the 2005 reinsurance year, RMA will begin using random policy selections from company operations reviews to develop a rolling Program Error Rate. RMA will complete a review of all participating companies once every three years. Accordingly, the first full review cycle will be complete by the end of 2007.</p>
NRCS	Farm Security and Rural Investment Programs	<p>NRCS is developing plans to perform the first statistical sample in FY 2005. The sample may be performed in house or by a contractor. Potential areas of risk for erroneous payments include ineligible participants receiving benefits, a participant exceeding program limits for total assistance and errors in cost-sharing calculations. In coordination with OCFO and OMB, NRCS will develop an action plan to achieve IPIA compliance by November 30, 2004. The plan will include a timeline and be structured to meet the goals of the new President's Management Agenda criteria.</p>

III. Explain the corrective action plan(s) your agency plans to implement to reduce the estimated rate of improper payments. Include in this discussion what is seen as the cause(s) of errors and the corresponding steps necessary to prevent future occurrences. If efforts are already underway, and/or have been ongoing for some length of time, it is appropriate to include that information in this section.

Agency	Program	Corrective Actions Planned
FSA	Marketing Assistance Loan Program (MAL)	<p>FSA has completed its risk assessment of MAL and, while it was determined that the program has a low risk for improper payments, the statistical-sampling process will confirm the actual level of erroneous payments. The sampling contractor also has been requested to provide information concerning the cause of erroneous payments and recommendations on how Commodity Credit Corporation (CCC) can reduce or eliminate those causes. The primary source for errors that result in erroneous payments relate to the information that is provided by the producer concerning the collateral being offered for the loan. CCC has introduced new technology to assist in the confirmation of the type of commodities grown by the producer and assist in determining whether the quantity being offered is reasonable.</p>
FNS	Food Stamp Program (FSP)	<p>Program regulations require State agencies to analyze data to develop corrective-action plans to reduce or eliminate program deficiencies. A State must develop a QC corrective-action plan addressing the causes of errors detected through the original process. This plan should be in place when the State's combined payment-error rate is, equals or exceeds 6 percent, or its negative-case error rate is more than 1 percent. Corrective action also is required whenever underpayments result from State agency rules, practices or procedures. Most States have developed corrective actions to address deficiencies revealed in their FY 2002 QC data.</p> <p>FNS regional offices work directly with States to assist them in developing effective corrective-action strategies to reduce payment errors. Regional offices provide many forms of technical assistance to States, such as:</p> <ul style="list-style-type: none"> ▪ Analyzing data; ▪ Reviewing and monitoring corrective-action plans; ▪ Developing strategies for error reduction and corrective action; ▪ Participating on boards and in work groups; and ▪ Hosting, attending and supporting payment-accuracy conferences. <p>FNS also administers a State Exchange Program whereby funds are provided to States to facilitate travel to obtain, observe and share information on best practices and most effective techniques for error reduction. Coalitions have been formed among States to promote partnerships, information exchange and collaborative efforts, which address mutual concerns and support development of effective corrective action.</p> <p>While the above strategies are designed to help States stop erroneous payments, a claims-collection process to recover overpayments also is an important mechanism for correcting errors. Although FSP regulations provide States with flexibility in their claims operation, one of the requirements is that a claim be pursued if an overpayment is discovered during a QC review.</p> <p>The above activities have been determined to be both cost efficient and effective toward reducing FSP payment errors. The FSP will continue to build upon and refine its activities in small increments absent a significant increase in funding for payment accuracy.</p>
FNS	School Programs	<p>In the NSLP and SBP, erroneous payments potentially can occur when ineligible households misreport income at application, are approved for free or reduced-price meals, and then receive them. Such payments also can occur when a school incorrectly certifies a student as eligible for meal benefits, or submits inaccurate claims for meals that were misclassified, not served or failed to meet program requirements.</p>

Agency	Program	Corrective Actions Planned
FNS	School Programs (cont'd)	<p>In recent years, there has been growing evidence of errors in certifying students for subsidized school meals. While certification errors alone do not result in a loss to the Government – loss occurs when ineligible students actually receive meals – these errors represent a significant risk for erroneous payments. In response, FNS has taken such actions as participating in several demonstration projects to understand the extent and nature of the problem better. FNS also is working with program partners to improve certification in the context of current regulations, and exploring alternatives to and/or improvements in the process.</p> <p>One such effort is the collection of data on eligibility determination and verification efforts at the school food authority (SFA) level. States will be expected to identify and resolve problems with the certification and verification processes based on these data. A number of key data elements also will be reported to FNS. These elements include certification type (direct certification or application), verifications conducted and their results. These will be used over time to explore regulatory, policy and training efforts to improve the accuracy and reliability of the income eligibility-determination process. Initial reporting for School Year 2003-04 is optional. Reports from all SFAs are required first on School Year 2004-05 and due to FNS in March 2005.</p> <p>Planned Actions to Measure Erroneous Payments: FNS has secured resources and entered into a contract in September to conduct a nationally representative study of the NSLP eligibility determination process and establish the first erroneous-payments rate. FNS currently projects completion of an erroneous payments rate for School Year 2005-2006 in FY 2007. Because of the scope and cost of this study, it is more prudent to repeat it on a multi-year cycle. With appropriate funding approval, FNS will repeat this type of study and produce an erroneous payment measurement every five years. Also, as part of the current project, FNS intends to develop a methodology that uses data available from other sources to measure erroneous payments on a component of the NSLP on an annual basis.</p> <p>In the interim (before the nationally representative erroneous payments rate is available in FY 2007), FNS is planning to monitor/assess two components of the program:</p> <ul style="list-style-type: none"> ■ Conducting annual on-site reviews focused on the certification and verification process. One important source of certification error that FNS has identified is SFA errors in certifying and verifying applications. In 2002, FNS conducted on-site reviews at 14 SFAs. It determined that 6 percent of the SFAs' eligibility determinations were incorrect due to administrative errors. Training and technical assistance is being developed to help SFAs improve the accuracy of these processes. FNS plans to repeat this review process annually using a statistical sample of SFA eligibility determinations. It will be used to measure changes in administrative error rates. Beginning in 2007, this component also will be associated with an estimate of dollars in error. This will allow FNS to assess the impact of its corrective action, and target and focus future activities; and ■ Comparing annual demographic data on the number of children eligible for school meals with the number of children actually certified. One of the sources of data originally used to assess the extent of the problem of certification error was a comparison of national survey data on household income with administrative data on NSLP certification. FNS plans to resume the use and publication of this analysis annually. Data from the Survey on Income and Program Participation (SIPP) will be compared with State-reported administrative data on the number of free and reduced price certifications. SIPP is administered by the U.S. Census Bureau. While this comparison has some methodological weaknesses and cannot substitute for the payment error estimate required under IPIA, the comparison does provide an annual error indicator that will help gauge changes in the rate of certification error. It also will determine the effectiveness of administrative initiatives intended to improve certification accuracy. Reporting of this data will resume in 2006 using FY 2005 data.

Agency	Program	Corrective Actions Planned
FNS	Woman, Infants and Children (WIC)	<p>Erroneous WIC payments potentially can occur at the participant level (ineligible persons receive benefits) and/or the vendor level (WIC food instruments redeemed for foods not received, provided at excess prices or for unauthorized items). FNS periodically has constructed estimates relating to these types of errors:</p> <ul style="list-style-type: none"> ▪ Certification error: The 1988 WIC Income Verification Study found that 5.7 percent of program participants actually were income ineligible. The 1998 National Survey of WIC Participants yielded an estimate of 4.5 percent. The estimate was lower – 2.9 percent – in the subset of States that had income-documentation requirements at application (Both estimates only considered income eligibility. Although nutritional risk also is required to be eligible for WIC, a recent review by the National Academies’ Institute of Medicine found that the great majority of those otherwise eligible for WIC also have one or more nutritional risks); ▪ Vendor error: The 1998 WIC Vendor Management Study estimates that vendor overcharges represent between 0.9 and 1.6 percent of total program payments. Undercharges are estimated at between 0.4 and 0.6 percent. These rates are very similar to those found in a 1988 study. <p>Recent studies show that both participant and vendor error in the WIC Program have remained fairly stable despite major program growth from 1988-1998. Further, since these most recent measurements were made, FNS has taken substantial actions to reduce error, including:</p> <ul style="list-style-type: none"> ▪ Changing program rules so that WIC applicants now are required to document income; ▪ Publishing a final rule in December 2000 on food-delivery systems that strengthened retail vendor management by establishing mandatory vendor-selection criteria, vendor-training requirements, criteria to be used to identify high-risk vendors and such vendor-monitoring requirements as compliance investigations; and ▪ Supporting the development of WIC electronic benefit transfer (EBT) systems. EBT is an electronic system that allows a recipient to authorize the transfer of his or Government benefits from a Federal account to a retailer account to pay for products received. Because these systems require a personal identification number entry prior to retail transactions and the validation of WIC-authorized foods by Universal Product Codes, participant and vendor error should be minimized. An evaluation of operational WIC EBT systems thus far indicates that participant and vendor error related to the retail transaction process is virtually eliminated. <p>Planned Actions to Measure Erroneous Payments: FNS plans to continue periodic examinations of certification and vendor error in WIC.</p> <p>Certification Error: The next decennial national study to measure certification error in the WIC Program is scheduled for 2008. This study will include a first measurement of the amount of erroneous payments associated with certification error. While previous studies did not include any determination of erroneous payments, FNS has collected and continues to collect selected demographic, income and other characteristics on a near census of WIC program participants every two years. From this, data that most strongly correlate with error, along with other administrative data and data from the 1998 study were used to develop aged estimates of the WIC certification error rate since 1998. When the data from the 1998 decennial study is applied to the demographic, it provides a trend in the error rate over a six-year period. This error rate remains constant at 2.6-percent. A similar method or an improved alternative (conditional upon funding for its development) will be used to develop estimates for the years following the 2008 study.</p>

Agency	Program	Corrective Actions Planned
FNS	WIC (cont'd)	<p>Vendor Error: The vendor-management study currently underway will provide a national erroneous payments estimate of vendor charges. This information, for FY 2005 activity, will be available in 2006. Subsequently, FNS will generate an annual update for the improper payment measurement of this vendor component using statistical techniques. FNS is exploring options for aging this estimate for the years following this study using existing administrative data. Although FNS has not determined a specific approach, the agency is continuing to explore other options. These options include focusing on information on high-risk vendors and information from States which might serve as "sentinel sites." If an acceptable method for aging cannot be developed using existing data, FNS could develop a regulatory proposal requiring limited new data collection and reporting by the States on not more than 1 percent of WIC vendors.</p>
FNS	Child and Adult Care Food Program (CACFP)	<p>Because payments and claim information must be transferred between FNS, State agencies, program sponsors and program sites, and requirements vary between different types of program sponsors and sites, a full and rigorous assessment of the rate of erroneous payments in CACFP is extremely complex. Despite this, FNS has undertaken significant action recently to improve program management in an effort to reduce erroneous payment risks.</p> <p>Based on recommendations from FNS, USDA's Office of the Inspector General (OIG) initiated a series of audits beginning in 1996 of CACFP's family daycare home (FDCH) component—a part of the program that is particularly vulnerable to erroneous payment risks. Problems which resulted in erroneous payments were areas attributed to:</p> <ul style="list-style-type: none"> ▪ A lack of operational record keeping; ▪ Unsupported claims; ▪ The claiming of unallowable costs; ▪ A lack of the required provider training and monitoring; ▪ Health and safety violations; and ▪ Money laundering. <p>Because of the program's structure, claiming unallowable costs and money laundering only occurred at the sponsoring organization level, while health and safety violations were limited to the daycare homes level. The remaining errors occurred at both the sponsoring organization and the daycare homes. Some of these errors were attributed to a lack of effective oversight by the sponsoring organization.</p> <p>As these problems were identified, FNS initiated a series of actions to address the problems, including:</p> <ul style="list-style-type: none"> ▪ Working with Congress to enact legislation to improve CACFP oversight and accountability. Interim regulations implementing these laws have been published; ▪ Developing new management-improvement guidance for program cooperators; ▪ Training all State agencies on implementing statutory and regulatory changes and providing new management-improvement guidance materials; ▪ Proposing additional discretionary changes designed to improve management and accountability. An interim rule implementing changes is planned for 2004; ▪ Revising monitoring tools to evaluate State agencies' and institutions' implementation of CACFP better and support State agency oversight efforts; and ▪ Initiating an FY 2005 budget request to fund the development of methods and data to produce a measure of erroneous payments in CACFP and other programs. The request ultimately was not included in the President's Budget. <p>Planned Actions to Measure Erroneous Payments: As noted above, FNS does not have the resources to develop a measurement approach for erroneous payments in CACFP. FNS will renew a request for resources in the FY 2006 budget process. This will enable FNS to pursue the development of a measurement methodology that would yield the nationally representative estimate required under the Improper Payments Information Act (IPIA). FNS projects that a measurement for FY 2009 would be available in 2010. In the interim, FNS has designed two activities to improve the integrity of CACFP family daycare homes.</p>

Agency	Program	Corrective Actions Planned
FNS	CACFP (cont'd)	<ul style="list-style-type: none"> ▪ Tiering Error—Beginning in 2005 and implemented annually thereafter, FNS will measure the level of erroneous payments due to sponsor error in the classification of FDCHs for Tier 1 or Tier 2 program reimbursement. Tiering determination error can result in both over and underpayments. An annual review of a statistical sample of sponsor tiering determinations will be used along with payment records to determine the percent and amount of error for this component. ▪ Child Care Assessment Project—Currently, FNS measures the effectiveness of the series of actions mentioned above. Over a four-year period, starting in the spring of 2004, FNS will conduct comprehensive on-site assessments of a sample of participating family day care home sponsors. These assessments are designed to analyze the effectiveness of FNS regulatory and policy initiatives on program performance in the areas of vulnerability identified by OIG. Key program elements that will be reviewed include: <ul style="list-style-type: none"> – Compliance with record keeping requirements; – Supportability of claims for meal reimbursement at FDCH, including: – Claiming meals not served; – Claiming meals served to ineligible participants; – Claiming meals to nonparticipants; – Claiming meals not meeting meal pattern requirements; – Claiming meals to absent, but eligible, participants; and – Claiming meals in excess of per participant per day maximum. ▪ Unsupported claims for meal reimbursement by sponsoring organization, including: <ul style="list-style-type: none"> – Incorrect consolidation of FDCH meal counts; – Misclassification of meals by eligibility category; and – Inadequate editing of FDCH meal claims (i.e., failure to identify ineligible meal claims by FDCHs). <p>Data on these elements will be collected from a selected number of program sponsors annually. Review and collection of data on the prevalence of these program problems will help FNS assess which aspects of its management-improvement efforts are most effective and which areas require additional attention or focus. It also will offer additional insights on the control points in the claiming and reimbursement process that cause or contribute to improper payments most frequently. This information also will help to support the effort to develop measurement strategies to estimate CACFP erroneous payments pursuant to IPIA.</p>
FS	Wildland Fire Suppression Management	The recovery auditing contract includes recommendations for control improvements to mitigate future overpayments. Management improvement plans will be developed based on the type and number of erroneous payments found and the control improvements recommended by the recovery auditor. Data-mining activity is expected to begin in November with preliminary results available by December 31, 2004. The first recoveries are expected to occur in the second quarter of FY 2005.
RD	Rental Assistance Program	RD began the study in July. It collected and analyzed the data in August and September. Final results of the study, with findings and recommendations for corrective action, will be available for publication in December.
RMA	Federal Crop Insurance Corporation Program Fund	RMA is implementing revised procedures to determine the program error rate in the future. OIG has questioned the results of the current process. Thus, RMA has renegotiated a new standard reinsurance agreement that will redirect company reviews to targeted anomalous policies. The agency has completed the first of the company program reviews that include its staff reviewing a random sample of policies. RMA then will compile the results of these reviews on an ongoing basis to identify the program-error rate in the future. Current plans call for the review cycle to be completed at least triennially.
NRCS	Farm Security and Rural Investment Programs	The statistical sampling planned for FY 2005 will determine the exact causes and rates of erroneous payments. NRCS will use the results of the sample to develop a corrective action plan. Potential areas of risk for erroneous payments include ineligible participants receiving benefits, a participant exceeding program limits for total assistance and errors in cost-sharing calculations.

IV. The table below is required for each reporting agency:

Improper Payment Reduction Outlook FY 2003 – FY 2007

Based on the rate(s) obtained in Step III, set annual improvement targets through FY 2007.

Currently, the Food Stamp Program (FSP) is the only USDA high-risk program that can calculate over and underpayments. Additionally, several programs have yet to calculate a baseline erroneous-payment rate. Below is a detailed table for the FSP and a summary-level table for all high-risk programs. When a number cannot be provided, it is noted when the agency plans to provide.

Food Stamp Program (\$ in millions)									
	2002 Actual		2003 Actual		2004 Actual		2005 Target	2006 Target	2007 Target
	Dollars	Rate	Dollars	Rate	Dollars	Rate	Rate	Rate	Rate
Total Payments	\$18.244		\$21.371		\$24.298				
Underpayments		2.10%		1.59%		Note #1	1.88%	1.88%	1.88%
Overpayments		6.16%		5.05%		Note #1	5.52%	5.52%	5.52%

Summary of High-Risk Programs (\$ in millions)						
Program	FY 04 Outlays	IP%	IP \$	IP % Target 2005	IP % Target 2006	IP % Target 2007
Marketing Assistance Loan Program, CCC	8,768	Note #2	Note #2	Note #2	Note #2	Note #2
Food Stamp Program, FNS	24,298	Note #1	Note #1	7.4%	7.4%	7.4%
School Programs, FNS	8,390	Note #3	Note #3	Note #3	Note #3	Note #3
Women, Infants and Children, FNS	4,764	Note #3	Note #3	Note #3	Note #3	Note #3
Child and Adult Care Food Program, FNS	1,989	Note #3	Note #3	Note #3	Note #3	Note #3
Wildland Fire Suppression Management, FS	625	Note #4	Note #4	Note #4	Note #4	Note #4
Rental Assistance Program, RD	710	Note #5	Note #5	Note #5	Note #5	Note #5
Federal Crop Insurance Corporation Program Fund, RMA (Note #7)	2,500	5.0	125	4.9	4.8	4.7
Farm Security and Rural Investment Programs, NRCS	1,027	Note #6	Note #6	Note #6	Note #6	Note #6

Note #1 Actual figures will be available June 2005. The latest error rate of 6.64 percent was calculated in June 2004 for FY 2003 activity. Based on USDA exceeding expected performance in reducing errors in the Food Stamp Program, USDA is working to update future year improper payment estimates as new information becomes available.

Note #2 FY 2004 statistical testing will be completed in March 2005. Target rates then will be established once the baseline is calculated.

Note #3 FNS has worked with OCFO and OMB to develop plans to calculate an error rate fully compliant with IPIA. Currently, it is estimated that FNS will be able to calculate these errors rate in FY 2007 for School Programs, FY 2008 for WIC and FY 2010 for CACFP. Starting in FY 2005, FNS will be reporting interim error rates using the methodologies described in Section IV of this report.

Note #4 This number will be the result of the recovery auditing efforts. The contract results will be available for the FY 2005 PAR.

Note #5 RD's results and recommendations were finalized after this report was published.

Note #6 The first statistical sample is planned to be for FY 2005. Improper payment target rates will be developed in coordination with OMB after the sample has been completed, the causes of improper payments identified and a corrective action plan developed.

Note #7 Improper payment amounts are based on the FY 2003 crop year (February 2003 through January 2004). The results presented in this report will not be comparable to the results presented in future reports due to substantial changes and improvements planned for the sampling methodology.

V. Discuss your Agency's Recovery Auditing effort, if applicable, including the amount of recoveries expected, the actions taken to recover them, and the business process changes and internal controls instituted and/or strengthened to prevent further occurrences. (This reporting replaces the original legislative requirement for reporting not later than 12/31/04.)

Description and Evaluation of the Recovery Auditing Program

USDA has implemented its recovery auditing program at the agency level. Eight Departmental components with more than \$25 million in contracts developed their own recovery auditing programs. These agencies reviewed their contracts, determined which should be exempted and performed recovery audits with agency staff. These eight agencies are:

- Agriculture Marketing Service (AMS);
- Animal and Plant Health Inspection Service (APHIS);
- Agriculture Research Service (ARS);
- Food and Nutrition Service (FNS);
- Farm Service Agency (FSA);
- Food Safety and Inspection Service (FSIS);
- Natural Resources Conservation Service (NRCS); and
- Rural Development (RD).

The other two departmental components, Forest Service (FS) and Departmental Administration (DA), contracted with a recovery auditing firm. In July, USDA awarded a contracted to a recovery audit firm. Most of the work will be performed during the first two quarters of 2005. The contractors also will review 2004 contracts for 2005 reporting during this period.

To date, FY 2004 recovery auditing program costs greatly exceed the value of the total errors identified. While most agency programs still are auditing their contracts and have not finalized their results, the end resulting recoveries likely will not equal the costs.

In FY 2005, OCFO will assist DA and FS with their recovery auditing contracts. OCFO then will evaluate the success of the contracts. If successful, all agencies will be added to the Departmental recovery auditing contract.

Classes of Contracts Excluded from Recovery Auditing Program

USDA established basic criteria for exemptions. These exemptions included:

- All purchase card transactions because they are tracked and reconciled by cardholders nationwide through USDA's Purchase Card Management System;
- Simplified-acquisition actions less than \$100,000; and
- Agencies that do not contract for more than \$25 million a year.

In developing their recovery auditing programs, some agencies further restricted the number of contracts audited.

- **APHIS**—Sampled 20 contracts out of 161.
- **ARS**—All contracts were exempted due to the extensive reviews already performed.

- **FNS**—All contracts were exempted due to the extensive reviews already performed.
- **FSA**—Contracts funded via interim contract payments based on performance, milestone payments based upon the completion of tasks and contracts with review processes independent of the procurement office.
- **FSIS**—Firm fixed-price contracts were exempted.
- **NRCS**—Selected a 10-percent sample of contracts meeting the basic USDA criteria listed above.

Total Cost of Recovery Auditing Program

Cost Item (shown in dollars)	Direct Cost	Contractor Cost	Total Cost
Administration of Recovery Audit Program	27,206	0	27,206
Recovery Auditing	12,366	0	12,366
Recovery of Funds	90	0	90
Management Improvement Plan	70	0	70
Total Cost:	39,732	0	39,732

Total Errors Identified

Collection Status	Dollars
Payment errors deemed not collectable	0
Total errors recovered	0
Total errors pending final Resolution	2,249
Total Payment Errors Identified:	2,249

Management Improvement Plan

Type of Payment Error (shown in dollars)	Number	Dollars
Contractor overpaid in the base years (Incorrect unit prices)	7	2,248
Incorrect amount listed on the contractor's invoice amount	1	1

The errors identified will be offset against contractors' invoices submitted at the end of the fourth quarter. Identifying the cause of errors and developing recommendations to prevent future errors is part of the recovery auditing contract. This process will assist USDA in developing management improvement plans.

VI. Describe of the steps (including time line) the agency has taken and plans to take to ensure that agency managers (including the agency head) are held accountable for reducing and recovering improper payments.

FARM SERVICE AGENCY (FSA)

FSA has developed a Strategic Plan Framework, which is the foundation for the development of the Agency's FY 2005 – 2010 Strategic Plan. The framework is designed to link FSA's budget with its performance measures. It also will strengthen the agency's performance-oriented business decisions.

Incorporated within this framework is a set of major management-crosscutting areas. These areas include a performance measure for reducing improper payments. FSA managers' (i.e., grades 14, 15 and Senior Executives) performance plans were linked to the framework in June.

FOOD AND NUTRITION SERVICE (FNS)

FNS already has a corporate priority to improve stewardship of Federal funds. Within this priority are specific goals applicable to programs at high risk for erroneous payments. The goals are:

- To continue reducing the FSP error rate;
- To improve the accuracy of National School Lunch Program (NSLP) certifications; and
- To continue Child and Adult Care Food Program management improvements.

The agency goals and priorities are incorporated into each manager's performance plan.

RISK MANAGEMENT AGENCY (RMA)

RMA has added a performance element to management's standards that ties performance to the agency's strategic objectives. Strategic objective 4 is "program integrity." This holds managers accountable for reducing program fraud, waste and abuse.

RURAL DEVELOPMENT (RD)

Within the Multifamily Program, the national office establishes and ensures implementation of policy, which includes loan-servicing goals. The State offices oversee area offices, which monitor the performance of the multifamily portfolio. Area office staff makes property inspections, performs supervisory-site visits, approves the amount of subsidy or rental assistance requests and generally oversees all the activity at these properties. The servicing goals have been modified to include a State office goal to reduce the error rate by property managers in the calculation and documentation support of rental assistance. Servicing goal achievement is monitored quarterly and reported back to the States, the Rural Housing Service Administrator and the Under Secretary for Rural Development.

NATURAL RESOURCES CONSERVATION SERVICE (NRCS)

After the statistical sample determines the rate of erroneous payments, NRCS will develop a corrective-action plan. The plan will be completed by May 31, 2005, and include steps to ensure that NRCS managers reduce any erroneous payments.

VII. A. A statement of whether the agency has the information systems and other infrastructure it needs in order to reduce improper payments to the levels the agency has targeted.

USDA has identified nine high-risk programs in six of its agencies. The issues of information systems and other infrastructure are determined at the agency level. USDA is working to complete statistical analyses of many high-risk programs. After baseline rates are established and the causes of erroneous payments are identified fully, more system and infrastructure needs may be developed. Currently, two agencies have identified information and infrastructure improvements needed to reduce improper payments.

FOOD AND NUTRITION SERVICE (FNS)

While the infrastructure already exists for the Food Stamp Program, there is nothing in place for the other FNS programs. Until such time as baseline erroneous payment estimates are produced for School Programs, WIC and Adult Care Food Programs, reduction targets cannot be established.

RISK MANAGEMENT AGENCY (RMA)

RMA has targeted replacement of the current information technology (IT) infrastructure to address identified payment vulnerabilities better. Improved automated processes can limit these vulnerabilities. Under existing and anticipated budget allocations, RMA believes it will be difficult to obtain the funds necessary to improve the program-accounting systems. The agency will continue to maintain and improve the existing system as much as possible pending additional funding to replace the IT infrastructure.

VII. B. If the agency does not have such systems and infrastructure, a description of the resources the agency has requested in its most recent budget submission to Congress to obtain the necessary information systems and infrastructure.

FOOD AND NUTRITION SERVICE (FNS)

As a part of its FY 2005 budget submission, FNS sought resources to enhance integrity in the Food Stamp and Child Nutrition Programs, and implement the President's Management Agenda.

An annual increase of \$7 million and 77 staff years was requested to enable FNS to augment technical assistance and training to States. FNS would provide increased assistance to States to foster significant improvements in program operations. Such improvements would include:

- Better identification of Federal and State cost-saving opportunities;
- Increased accuracy and delivery of program benefits;
- More accurate eligibility determinations; and
- Enhanced State accounting and financial management practices.

An increase in staffing levels also would allow FNS to address criticism aimed at the management of the nutrition-assistance programs better. A number of Government Accountability Office and Office of Inspector General audit reports have indicated that FNS has inadequate staff resources to correct certain key deficiencies. Likewise, the need for oversight has increased only with the attention placed on financial accountability. The move resulted in Federal agency goals for reducing erroneous payments and meeting management challenges. Increased staffing capacity will enable FNS to provide this critical oversight in the effort to reduce erroneous payments.

Risk Management Agency (RMA)

RMA has requested funds to replace its IT systems and add staff to implement company program reviews fully. These funds were requested for FY 2005.

VIII. A description of any statutory or regulatory barriers, which may limit the agencies' corrective actions in reducing improper payments

Farm Service Agency (FSA)—The Department of Agriculture Reorganization Act of 1994, Section 281, provides that, "Each decision of a State, county or area committee or an employee of such a committee..., made in good faith in the absence of misrepresentation, false statement, fraud or willful misconduct shall be final not later than 90 calendar days after the date of filing of the application for benefits, [and] ...no action may be taken...to recover amounts found to have been disbursed as a result of the decision in error unless the participant had reason to believe that the decision was erroneous." This restriction places a constraint on FSA that does not exist in other programs or for other agencies.

Food and Nutrition Service (FNS)—Recent Child Nutrition reauthorization legislation includes some of the changes requested by the Administration to improve accountability, it also limits the agency's ability to act in this area because of concerns about potential barriers to participation by eligible people.

Risk Management Agency (RMA)—The Federal Crop Insurance Act contains a three-year statutory limitation on identifying and collecting improper payments from crop insurance providers, except for improper payments where intentional fraud or other criminal conduct is involved. This restriction places constraints on RMA that may not exist in other programs.

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APPENDIX D—ACRONYMS

ADR	Alternative Dispute Resolution	EIP	Emergency Infections Programs
AHMS	Animal Health Monitoring and Surveillance	EITC	Earned Income Tax Credit
AMS	Agricultural Marketing Service	e-LDP	Electronic Loan Deficiency Payment
APHIS	Animal and Plant Health Inspection Service	END	Exotic Newcastle Disease
ARS	Agricultural Research Service	EONR	Economic Optimal Nitrogen Fertilizer Rate
ASFSA	American School Food Service Association	EPA	United States Environmental Protection Agency
ASTM	American Society of Testing Materials	EQIP	Environmental Quality Incentives Program
AWA	Animal Welfare Act	ERS	Economic Research Service
B&F	Budget and Finance	FAS	Foreign Agricultural Service
B&I	Business and Industry Guaranteed Loan Program	FB4P	Federal Biobased Product Preferred Procurement Program
BP	United States Border Patrol	FBCI	Faith-Based and Communities Initiative
BPI	Budget and Performance Integration	FCIC	Federal Crop Insurance Corporation
BPMS	Budget and Performance Management System	FDA	United States Food and Drug Administration
BSE	Bovine Spongiform Encephalopathy	FDCH	Family Daycare Home
C&A	Certification and Accreditation	FFAS	Farm and Foreign Agricultural Services
CACFP	Child and Adult Care Food Program	FFE	Food For Education
CAFTA	Central American Free Trade Agreement	FFIS	Foundation Financial Information Systems
CAP	Combined Application Project	FFMIA	Federal Financial Management Improvement Act
CBP	United States Bureau of Customs and Border Protection	FISMA	Federal Information Security Management Act
CCC	Commodity Credit Corporation	FMD	Foot-and-Mouth Disease
CDC	United States Centers for Disease Control and Prevention	FMFIA	Federal Managers' Financial Integrity Act
CEAP	Conservation Effects Assessment Project	FNS	Food and Nutrition Service
CERC	Coordinated Economic Relief Center	FNP	Family Nutrition Program
CIO	Chief Information Officer	FS	Forest Service
CNPP	Center for Nutrition Policy and Promotion	FSA	Farm Service Agency
CORE	Commodity Credit Corporation's Core Accounting System	FSIS	Food Safety and Inspection Service
CPAP	Community Programs Application Processing	FSP	Food Stamp Program
CRP	Conservation Reserve Program	FSRIA	Farm Security and Rural Investment Act of 2002
CTA	Conversation Technical Assistance Program	FSRIO	Food Safety Research Information Office
CWPP	Community Wildfire Protection Plans	FTA	Free Trade Agreement
DA	Departmental Administration	FTBU	Funds To Be Put To Better Use
DC	Disallowed Costs	FY	Fiscal Year
DCIA	Debt Collection Improvement Act	GAO	Government Accountability Office
DHS	United States Department of Homeland Security	GEO	Genetically Engineered Organism
DNA	Deoxyribonucleic Acid	GIPSA	Grain Inspection, Packers and Stockyards Administration
DOC	United States Department of Commerce	GIS	Geographic Information Systems
DOI	United States Department of the Interior	GL	General Ledger
DWPT	Department-wide Planning Team	GPEA	Government Paperwork Elimination Act of 1998
EA	Enterprise Architecture	GPRA	Government Performance and Results Act of 1993
EBT	Electronic Benefit Transfer	HACCP	Hazard Analysis and Critical Control Point
EEO	Equal Employment Opportunity	HCC	Hazards Control Coefficient
eGovernment	Electronic Government	HEI	Healthy Eating Index
EIAO	Enforcement Investigations Analysis Officer	HFI	Healthy Forest Initiative

HFRA	Healthy Forest Restoration Act	PAR	Performance and Accountability Report
HHS	United States Department of Health and Human Services	PART	Program Assessment Rating Tool
HUD	United States Department of Housing and Urban Development	PDA	Personal Digital Assistant
IOP	Integrated Organic Program	PEIS	Program Elimination and Improvement Staff
IPAT	Interactive Physical Activity Tool	PMA	President's Management Agenda
IPIA	Improper Payments Information Act	PP&E	Property, Plant and Equipment
ISO	International Standards Organization	PREP	Pathogen Reduction Enforcement System
IT	Information Technology	PRS	Performance Results System
LARIS	Licensing and Registration Information System	QC	Quality Control
LDP	Loan Deficiency Payment	RD	Rural Development
MAL	Marketing Assistance Loan Program	REE	Research, Education and Economics
MCR	Management Control Review	RHS	Rural Housing Service
MFR	Minority Farm Registry	RMA	Risk Management Agency
MIDAS	Modernize and Innovate the Delivery of Agricultural System	RRH	Rural Rental Housing
MYA	Marketing Year Average	RSI	Required Supplementary Information
NACMCF	National Advisory Committee on Microbiological Criteria for Foods	RTE	Ready-to-Eat
NADN	National Animal Diagnostic Network	RULSS	Rural Utilities Loan Servicing System
NAFTA	North American Free Trade Agreement	SBP	School Breakfast Program
NAHMS	National Animal Health Monitoring System	SDLC	System Development Lifecycle
NAHRS	National Animal Health Reporting System	SES	Senior Executive Service Candidate Program
NAIS	National Animal Identification System	SFA	School Food Authority
NASDA	National Association of State Departments of Agriculture	SFMNP	Senior Farmers' Market Nutrition Program
NASF	National Association of State Foresters	SIPP	Survey on Income and Program Participation
NCES	National Center for Educational Statistics	SIR	State Internal Review
NCIE	National Center for Import and Export	SMR	Suppressed Mite Reproduction
NDB	National Data Bank	SNAP	State Nutrition Action Plans
NFP	National Fire Plan	SOD	Sudden Oak Death
NFPORS	National Fire Plan Operations and Reporting System	SPS	Sanitary and Phytosanitary
NFSMI	National Food Service Management Institute	SRA	Standard Reinsurance Agreement
NHANES	National Health and Nutrition Examination Survey	SSA	Social Security Administration
NPDN	National Plant Diagnostic Network	SSI	Supplemental Security Income
NPGS	National Plant Germplasm System	SSOP	Sanitation Standard Operating Procedures
NRCS	Natural Resources Conservation Service	TSP	Technical Service Provider
NRE	Natural Resources and Environment	USDA	United States Department of Agriculture
NSLP	National School Lunch Program	USTR	United States Trade Representative
NVSL	National Veterinary Services Laboratories	WEP	Water and Environmental Program
OBPA	Office of Budget and Program Analysis	WFP	World Food Programme
OCFO	Office of the Chief Financial Officer	WIC	Special Supplemental Nutrition Program for Women, Infants and Children
OCIO	Office of the Chief Information Officer	WRP	Wetlands Reserve Program
OEPNU	Office of Energy Policy and New Uses	WTO	World Trade Organization
OIG	Office of Inspector General	WUI	Wildlife Urban Interface
OMB	Office of Management and Budget		